



FOCUS: BUSINESS / STRATEGY

The Consolidation Conundrum: *Strategic Thinking for the Future*

Over the course of the past twenty years, our industry has been one of consolidation. And in the agriculture industry, innovation, market presence and customer relationships have been developed through a variety of consolidating moves. Our consolidation history has been horizontal - seed companies buy seed companies, crop protection companies obtain technologies to supply to customers, but it has been within the same value chain. Consolidation will continue, but will take some new steps in the next few years.

In the future, Context fully expects more vertical integration in the industry. There are several reasons for this shift; namely, value will be more difficult for companies to capture without vertically integrating through distribution and through relationships with farmers. Vertical integration for goods and services will be the new deliverables for these new technologies coming to market.

The consolidator and consumer will reap the benefit. In contrast to today's traditional horizontal consolidation model, where players in the value chain extract values as the values become smaller, vertically integrated firms will enable consumers to access technology that is truly value-sharing. The relationships will be nearly symbiotic between suppliers and their customers.

Seed companies offer an example for consideration; their relationships with their tech suppliers and distribution agreements have been needed in the past, but it will be crucial for the future. In addition, companies' competition for the relationship with the farmer will change more in the future because of the linkages in a vertical integration model.

Large companies will have a greater ability to have a relationship with the farmer, as there is value there. But, as new technologies and products come to the market, delivering products in the high value niche markets becomes difficult with an extended value chain. Ultimately, there will be more direct links between technology and product providers than exist in the industry today.

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This vertical integration shift has begun occurring worldwide and throughout our industry. The oil industry in the U.S. over the past 30 years may provide a precursor to what we are about to experience in agriculture. The U.S. machinery market offers another example. Thirty years ago, there were several farm equipment dealerships in a town. They were owned by local people and specific to a “branded” supplier. Today, the machinery market's model has developed into having regional supplier-owned stores that carry multiple brands under a single dealership. The same will occur in grain handling, in supplying chemistries, in seed, etc.

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There are two levels of knowledge; data and information. Data becomes the formation of the questions and information is the

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Context
Partner,
Steve
Hawkins

deliverable of the solution. The ability to shorten that link between the people with the data and the people who make decisions through the influence of the consumer is good for all. Long-term, the consumer wins. They will have a better relationship with the supplier. The flow of information – not just data will allow better decisions, better risk assessment for all parties in the benefit of the bargain. For more information, contact Steve Hawkins at steve.hawkins@contextnet.com.

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The Context Network provides business management and strategy consulting services to the world's leading agriculture, biotechnology and food companies and government agencies and institutions. Major areas of expertise include strategy, merger and acquisition support, valuation of new technologies, formation of alliances, and market research. The West Des Moines-based firm is composed of a core of professional consultants that is complemented by a network of more than 100 industry and subject-area experts.