

FOCUS: BUSINESS / STRATEGY

Manage the challenges of virtual space...*it's about space, capabilities, process*

My Space will soon have the attention of every major entity in the grain industry. We're not talking about the Internet phenomena where personalities are virtually shared. Rather, My Space is how this market segment refers to the **virtual space** required to effectively manage grain and capture value. Along with that, new processes and specific capabilities will be required for success.



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In this example, we consider the key players in the grain industry to include technology development companies, the farm gate, elevators and processors. Two key shifts are

unfolding in the grain industry simultaneously:

- 1) Technology companies are introducing scores of technologies that require a soft or hard Identity Preserved (IP) process. Just a few years ago, these were high lysine corn, food corn, high oil corn, specialty soybeans, etc. Today, game-changing technologies in both corn and soybeans are being introduced faster than the farm gate, elevators and processors can adapt.
- 2) Major breeding companies aim to double average U.S. corn yields from ~150 bushels per acre to ~300 b/a by 2030. The doubling of average yields means there will be twice as much grain to handle – adding to the complexity at both the farm gate and at elevators.

As the new technology moves to the marketplace, new *capabilities* will be required. Each player within the channel will need to understand the associated metrics and economics of the entire process for success in each area. They will need to recognize incentives that must be in place to signal a fair return for investment.



Traditionally, the signal to plant the crop has been positioned through the use of premiums being paid at the farm gate to encourage identity preserved handling, and delivering the crop as needed. But as competition for space and for return per acre intensifies at the farm gate and processor levels, new *processes* will be required – thinking that is in balance with the changing market conditions and performance requirements at the farm gate.

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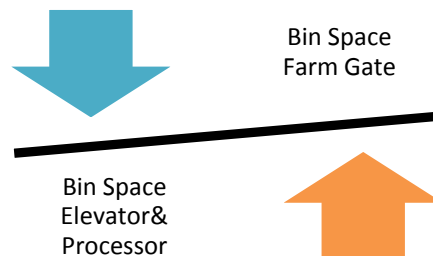
In the past, identifying the key drivers in the system, understanding metrics and cost benefits have been difficult for each individual segment of the market to assess. Many of the processes are still in a learning curve. The driving signal has been the premium paid at the farm gate to contract acres as required. As there is new technology on the way, new metrics will need to be applied and translated in a signal to the farm gate. New processes and capabilities will be required to address the space challenges and to balance the benefits and returns to all segments of the process. Solving the space issues in new innovative ways will be vital to the success of the technology itself, and to each tier of the channel.

Space will be at a premium

In the past, marketing agreements were used as a form of virtual space –grain was moved to free space and was priced later. Today, elevators and processors use the buyer call process to move and receive grain when needed. For the future, space and capabilities will be at a premium. Competitive firms will need to consider ways to create “virtual space” along with actual space at the farm gate, the elevator and the processor levels.

Only then will we be able to capture the value created with introductions of new technology that require an IP process in competition with higher crop yields. Innovative executives who understand and develop strategies to address these challenges will win the battle for market share and earnings.

Value capture opportunities change and migrate through time. With more technology offerings in corn and beans upon us, alongside prospects of doubled production, firms with an eye on effectively managing their virtual storage space through from the technology provider, through the channel all the way through to the consumer have the best opportunities for success. Context Network is positioned well to assist in developing strategies and the metrics to assist customers in these new areas. For more information, contact Dave Westphal at dave.westphal@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.