

The Structure and Outlook for the Domestic Farm Supply Industry

A Multi-Client Study

February 2010

Introduction

Fast-paced change is not new to the agriculture and food industry. The products, markets, production processes and structures are changing in every industry segment, driven by powerful and dynamic forces of consumer demand, globalization and technology, among other factors.

Although much public attention often focuses on retail and processing, nowhere is the change likely to be more widespread or have more significant business and policy implications than in the farm supply/service sector. There, a vast complex of local dealer networks, farm supply coops, financial institutions and specialized markets has evolved over the years to service this \$300+ billion market. But, many forces are making much of that complex redundant, causing some products and services to become obsolete, and fundamentally reshaping the competitive profile of the industry--and all in the face of a rapidly evolving customer base.

This rapid change prompts several key questions:

- *What is the future of the farm supply/service industry? How will it respond to the powerful new forces? How and where will purchases be made? Who will the new competitors be?*
- *What will become of the traditional dealer service networks—for seeds, pesticides, fertilizer, machinery, capital and credit? What alliances are being formed across firms and industries, and what are the implications for the competitive arena and the products and services offered?*
- *Is there a future for many of the local farm supply/marketing coops?*
- *What is the profile of the farm customer base—how is it changing, and how do the product and service requirements differ across sub-segments?*

The Key Drivers

The farm supply/service industry, like the rest of the food system, faces a combination of powerful change agents, any one of which would require serious adjustment. Collectively, they promise to fundamentally restructure the system that has evolved over several decades. Consider just some of the forces:

The customer base continues to evolve

After decades of steady decline, the number of farms in the United States appears to have leveled-off in recent years at just around 2 million, but powerful forces continue to shape the structural distribution of the farms that remain:

- **The number of small farms is expanding:**

More than 83% of farms in the United States have annual sales of less than \$100,000, but these entities combine to account for less than 7% of total agricultural sales, and a significant share of these entities rely on off-farm income to generate most of their household wealth. Nevertheless, in total these small farms purchase more than \$30 billion in agricultural inputs annually, and are often willing to spend in excess of the farm revenue they generate.

- **While big farms continue to consolidate:**

Fewer than 33,000 US farms today generate more than 50% of the total value of US agricultural sales, averaging more than \$4.5 million in annual sales per farm

The continuing growth at both ends of the farm size spectrum creates challenges for some suppliers and opportunities for others because of the widely divergent needs, expectations and negotiating strength of these different types of operations.

Food market trends are changing input use patterns

Given decades of technological progress and investment, the US agriculture system is the world leader in providing an abundant and low-cost food supply. But consumers today are increasingly interested not only in food availability and prices, but in the *way their food is produced*. In recent years, sales of organic, natural, “free range,” “cage free,” non-bST, and other socially-driven food product categories have exploded to become mainstream in most grocery outlets.

The implications for input suppliers are not well-understood, but it is clear that there are consequences for livestock feed markets, the demand for synthetic and non-synthetic pesticides and fertilizers, and the types and level of service required by the farmers that serve these markets.

Technology continues to accelerate

Advanced technology is reaching into every aspect of farming, and redefining the way crops and livestock are produced and information is shared across the sector. Biotechnology has been

widely embraced and is creating seed traits that reduce input use, improve yields and minimize risk. Communications technologies that not long ago were cost prohibitive or used only in classified government settings are now ubiquitous, ranging from Global Positioning Systems and remote sensing technologies that facilitate precision input use to 3G mobile broadband services that allow farmers to remain instantly connected to news, market and weather developments worldwide. These and other developments are reducing production costs, supporting more efficient use of inputs, and enhancing competition in the input and product markets. They are also changing the type and level of services needed by farmers and removing traditional geographic barriers to markets.

Technological advancement will continue to create new product and service markets for input suppliers, and reduce or eliminate others. It puts pressure on the entire supply chain to remain price competitive, forward-looking in the products and services offered, and vigilant of new competitors that can arise in the virtual world.

Government policies are creating new market opportunities and limiting others

Over the past quarter-century, agricultural policy has shifted from a supply-management mentality toward a focus on market growth and production, and the result has been a massive increase in agricultural resource use and intensity. Use mandates and public support for biofuels have reshaped the agricultural landscape in recent years, supporting prices across all commodities and leading to acreage shifts across the United States. Public policy will continue to play a central role in agricultural production patterns and input use in the years to come, and the implications could be profound:

- Tightening environmental regulations will continue to affect the location and intensity of livestock production and will have implications for feed formulations, the demand for environmental services, and the type of equipment and supplies needed to implement best management practices
- Non-point source (TMDL) environmental controls can have major implications for fertilizer use, intensity and application technology.
- Production of cellulosic and other alternative biofuels could mean entire new markets for input suppliers in providing the specialized equipment, services, seeds and other products necessary to build this industry from the ground up.
- Climate policy and other efforts to control greenhouse gasses could lead to a fundamental restructuring of the production landscape, possibly leading to massive acreage shifts out of agricultural production, or at least to significant changes in input use and intensity as the entire supply chain adapts to the new cost structure associated with efforts to reduce carbon intensity.
- A renewed focus on anti-trust and competition policy is emerging, and could target selected input industry sectors and firms directly, including cooperatives.

Even though agriculture policy is far more market-oriented today than at any time in the last 75 years, policy and regulatory forces are intensifying to reflect global concerns about resource use, the environment, and business practices. The agricultural input supply chain will face both benefit and burden from these efforts.

Where Will It Lead?

This combination of forces is presenting unique challenges to the farm supply/service sector, and portends fundamental change in both the industry structure and the business practices employed by the firms that remain. The increasing diversity of the farm sector makes it ever-more important for suppliers to tailor their product and service offerings to the segments they are best positioned to serve and to anticipate how continuing changes to the competitive environment will support or undermine their strategies. In the years to come, the product and services mix and supply channels undoubtedly will be entirely transformed. The implications are tremendous for all suppliers including tractor and other machinery dealer systems, seed, pesticide and fertilizer distributors, farm supply/marketing cooperatives, feed manufacturers and distributors, bankers and the farm credit system, and many others. All face significant adjustment in the very near future.

Who Will Be Affected?

Every segment of the farm supply/service industry:

- Crop Protection
- Seed
- Feed
- Fertilizer
- Machinery
- Farm Supply Cooperatives
- Farm Lenders
- Input Financing Institutions
- Private Equity
- Logistics Firms
- Equity Analysts
- Service Providers
- Others

Key questions include:

- What is the future role for farm supply/marketing coops? How may they be forced to restructure? How many will be needed? Where?
- Traditional dealer distribution networks - national, regional, local - will these disappear for producer sales - what about parts/service? What services, and what levels of service will make these firms competitive?
- Who will supply the commercial farm sector? How do their needs differ from the growing number of small, “lifestyle” and retirement farms? Can any firms reasonably serve all customer segments or do the product/service needs differ so greatly as to make a “one-size fits all” approach counter-productive?
- What will the farm sector customer base look like in five years, in 10 years? How big will it be? How homogenous will it be? What will the special requirements be?
- How will capital requirements change? Who will be best positioned to supply it? How will it be sourced? By whom?

- How are vertical arrangements in the food system affecting the purchasing decisions by farmers and the competitive access by suppliers?

The proposed study will specifically address these and other questions – a detailed outline is shown below. And, using the Census of Agriculture, Informa analysts have the ability to extract and analyze market characteristics for small geographic areas—states and in some cases counties—providing a rich level of detail on market areas that may be of interest to client participants (please see note below on “Special Study Feature”).

Preliminary Study Outline

The Structure and Outlook for the Domestic Farm Supply Industry

I. Background

- This section will describe the need for the study, and introduce new developments now occurring all across the food system and especially affecting the inputs industry.
 - Why the study / why now?
 - Brief review of developments now occurring in the farm sector and across the farm supply/service sector.

II. Farm Supply/Service Sector Profile

- This section will present a profile of the farm supply/service sector as it exists today. Each major segment of the industry will be described, a statistical profile prepared, and an evaluation of how and why each segment has evolved as it has will be developed, as well.

III. The Key Sector Drivers

- This section will identify and examine the major forces that are precipitating fundamental changes in structure and practices.
 - **Business Practices and Market Forces** - The collection of new competitive forces that reflect a changing consumer base in the United State and worldwide, including globalization of agricultural, input and capital markets; the growth of niche markets such as organics, local foods, and a host of other “social attributes” that are becoming increasingly mainstream; vertical coordination through contracts and other business arrangements that can influence access to some farmers and affect the products and services they require...etc. How are these forces bringing change, and where are they leading? Specifically, how do they affect the farm supply/service industry and the opportunities for growth and profitability?

- **Technology** – An extremely powerful force having several significant impacts. This section will include a review of the developments in biotechnology, information technology and agricultural production systems that are underway and that are expected to reshape product and service markets in the years to come, by:
 - Changing the farm input mix and the production process itself
 - Facilitating the production of value-enhanced products that might require new production and IP systems and marketing requirements
 - Increasing the efficiency of input use through precision application and monitoring
 - Reshaping the competitive environment by eliminating geography, shortening supply chains, lowering transaction time and cost, and altering the number and relationships of the existing participants
 - Forcing new business relationships (alliances, joint ventures, etc.) and new procurement and marketing arrangements (contracting, etc.)

- **Government Policies and Regulation** – A review and outlook for “game changing” policy developments in areas such as energy policy, biofuels, environmental regulations and competition policy that could dramatically reduce some inputs markets, and create new opportunities in others

- **Changing Structure/Characteristics of the Farm Sector** - The decades-long restructuring of the farm sector is continuing, characterized by fewer and larger farms responsible for an ever-greater share of agricultural production and inputs purchases. But in recent years, there has also been a surprising increase in small farms, motivated by a “back to the land” mentality and supported by off-farm income and various niche marketing opportunities. Understanding the needs and opportunities across the increasingly diverse agriculture production base is critical to support the long-term strategic planning objectives for inputs suppliers. Ownership, operation, management, capital requirements, production practices, input mixes, and capital needs can differ greatly across the various farm segments, are all changing, and all can affect the entire customer focus for input suppliers. At client request, detailed farm structure information could be provided for particular US market areas.

IV. Implications for the Farm Supply/Service Sector

- This section will assess the expected impacts of the key drivers on each major segment of the farm input sector:
 - Crop protection
 - Seed
 - Feed
 - Fertilizer
 - Machinery
 - Financial
 - Services

- This section also will examine and develop the broad implications for the traditional key players.
 - Farmer-owned cooperative system
 - Major product dealer distribution networks
 - Farm credit systems and private sector capital providers

V. **Findings and Conclusions/Strategic Considerations**

- This section will draw together the foregoing analysis and principal findings and suggest how the farm supply/service system will evolve and will identify key considerations in strategic positioning for the future.

VI. **Appendices**

- All supporting statistics and other information will be presented in appendices.

A Special State-by-State Analysis

A special feature of this study is that each participating client will be provided a detailed state-by-state evaluation of farm structure adjustments based on the Agricultural Census and supplemental data. These state assessments will enable each client to analyze their specific marketing regions and business footprint with respect to the evolution and future prospects of large commercial farms, transition farms and lifestyle farms. In short, the database utilized to provide the state-by-state analyses will serve as a useful input to on-going market analyses for select inputs. This special study feature is unique and will provide agricultural input manufacturers, distributors and retailers a spreadsheet-formatted database for on-going evaluations.

Study Products

The project will involve several specific products for participating clients including:

- **Pre-Study Conference Call.** A call-in meeting of participating clients and Informa study staff will be held to review the detailed plans for the study and to *identify particular areas and issues that clients want to receive special attention*. This conference call will address the major study topics and enable specific client comments and interests relating to each to be noted.
- **Comprehensive Study Report and Presentation Materials.** All participating clients will receive *The Structure and Outlook for the Domestic Farm Supply Industry*, the fully documented study report containing all description, background statistics, analysis and evaluations, empirical projections and supporting detail developed during the study. Clients also will receive copies of all PowerPoint presentation materials used in reporting study results. (All materials will be provided electronically)

- **State-by-State Database of Farm Structure Adjustments.** Detailed information on farm typology, demographics and structural adjustments provided for key states (states determined by client participants) based on the Census of Agriculture and supplemental data. Data will be fully documented and provided in Excel format.
- **Post-Study Seminar or Web-Based Conference.** A concluding day-long seminar will be held for all clients as a group to participate with study staff and consultants in fully reviewing the findings and implications. (Depending on client interest, this seminar may be conducted over the internet)
- **Final Report Presentation at Clients' Offices.** Informa staff will travel to client offices to present the final report and conduct in-house seminars, as requested. These seminars are tailored to each client's individual needs and interests. Informa staff will present these findings at the clients' offices for only out-of-pocket expenses.

Project Schedule

(Dates are preliminary and will be finalized based on timing of sign-ups)

March 2010	Pre-study conference and study begins
April — September	Study completed – final report sent to clients
September	Client seminar to review report
October — December	Individual presentations at client offices

Study Staff and Review Team

Dr. Mark D. Jekanowski, Senior Vice President and head of Informa's Washington, DC office will coordinate the overall project. Other Informa staff with directly relevant experience will actively participate in conducting the study including Dr. Bruce A. Scherr, Mr. Joseph Somers, Dr. William C. Motes, Mr. Tom Scott, Mr. Scott Richman and others.

- **Dr. Mark Jekanowski, Senior Vice-President.** Dr. Jekanowski is head of Informa's Washington, D.C., office and is primarily responsible for economic analyses and agricultural policy research. He has worked closely with a wide range of FAS cooperators and has participated in projects in Egypt, Ukraine and Macedonia. Prior to joining the company, Dr. Jekanowski was an agricultural economist in the Food Markets Branch of USDA's Economic Research Service where his research focused on the changing structure of the food manufacturing and retailing industries as well as trends in consumer demand. Dr. Jekanowski was raised on a family owned tobacco and vegetable farm in Massachusetts. He received his bachelor's degree in resource economics from the University of Massachusetts at Amherst and his master's and doctorate degrees in agricultural economics from Purdue University.
- **Bruce A. Scherr, Chairman of the Board and Chief Executive Officer.** Dr. Scherr has been with Informa Economics, Inc. (formerly Sparks Companies, Inc.) since 1987 in several executive capacities including President and CEO. In addition, he is an Advisor for Metalmark Capital LLC, a private equity fund. Formerly he was president of Sparks, Jacobs, Scherr, Inc. (SJS), a sister company to Sparks, and president of Agri-Commodities, Inc., an agriculture consulting firm based in Andover, Massachusetts, which was acquired by SJS. Prior to forming

Agri-Commodities, Dr. Scherr was a divisional vice president at Data Resources, Inc., where he developed and utilized for the public and private sectors the first commercially available econometric model for US agriculture. Dr. Scherr received his bachelor's degree from Rutgers University and his master's and doctorate degrees from Purdue University, all in agricultural economics. Currently, he is a member of the Board of Trustees of the North American Electric Reliability Corporation, E. Ritter & Company, and he serves as a member of the Global Strategy Institute Advisory Council of the Center for Strategic and International Studies. He served as a member of the Board of Directors for Desert STAR Inc., an electrical transmission Independent System Operator for the Desert Southwest from January 2000 through February 2002. In addition, Dr. Scherr has served as a member of The University of Tennessee's (UT) Institute of Agriculture Agricultural Development Board and UT's Committee for the Future. He was named a 2007 Distinguished Agriculture Alumni from Purdue University and he is a member of several honorary research and agricultural societies, a member of the National FFA Foundation Sponsors' Board 2000 through 2001 and a former advisor to the President's Council of Economic Advisers and National Aeronautics and Space Administration.

- **Thomas P. Scott, President and Chief Operating Officer.** Mr. Scott has been with Informa since 1989 with the majority of that time being the head of the Informa Economics Memphis-based Project Consulting Group. Mr. Scott's specialized work has included business strategy, agribusiness economic development, feasibility and site selection work, as well as various market analyses. In addition to his work in North America, Mr. Scott has extensive experience in the agribusiness sectors of Central Europe, Southeast Asia and South America. He has been involved in many training programs developed and delivered by Informa Economics. Prior to joining the company, he had various assignments in management, trading, logistics and merchandising with Continental Grain Company. He received his bachelor's degree in agricultural economics and business from Cornell University and a master's degree in business administration from the Amos Tuck School of Business Administration at Dartmouth College where he was an Amos Tuck Scholar.
- **Joe F. Somers, Senior Consultant.** Mr. Somers is responsible for economic analysis and agricultural policy consultant work out of the Informa Economics Washington, D.C., office. He came to the company with 27+ years experience with USDA's Foreign Agricultural Service as a Foreign Service officer and as a private sector consultant. While at FAS, he served in Brazil and Argentina and extensively traveled on FAS overseas fact-finding trips. In Washington, D.C., he was Situation and Outlook Leader in the Horticultural & Tropical Products Division for 10 years and supervised and conducted world supply/demand and trade policy analyses for a wide range of horticultural and tropical products including tree nuts and managed publication of the Division analytic circular. He also was director of research and marketing for the GIC Group, Alexandria, Virginia, where he was responsible for business development and economic and market analyses. He received his bachelor's degree in political science from Northeastern University, Boston, and master's in agricultural economics from the University of Massachusetts, Amherst.
- **Dr. William C. Motes, Chief Economist.** Dr. Motes is primarily responsible for consulting with international commercial clients and development projects. Formerly, he was a principal member of Economic Perspectives, Inc. and served as director of policy analysis for the Secretary of Agriculture (1979-81). Dr. Motes has more than 40 years experience in the evaluation of agricultural and trade policies with Informa Economics, USDA, as a Senate staffer, as a Division Director in USDA's Economic Research Service, and as Director of

policy analysis for US Secretary of Agriculture Bob Bergland. He was associate director of USDA's Budget and Program Evaluation Office and also was legislative assistant for agriculture for US Senator Dick Clark. He holds degrees in agricultural economics from Kansas State University and received his doctorate in agricultural economics from Iowa State University.

- **Scott A. Richman, Senior Vice President.** With Informa Economics since 1991, Mr. Richman is the leader of Informa's Commercial Consulting. Among Mr. Richman's responsibilities for services to commercial clients, he directly manages the ethanol and biotechnology consulting practice areas. Mr. Richman has extensive experience conducting financial feasibility studies, preparing business plans, directing economic impact studies, constructing market forecasts and advising companies on the positioning of products within specialized markets. In addition to work throughout the United States and Canada, he has participated in consulting projects in Western Europe and Poland. Mr. Richman serves on the advisory committee to the Southern Growth Policies Board regarding the creation of a Southern Common Market for Alternative Fuels. He also was selected to serve on the panel developing the North America and Europe assessment for the International Assessment of Agricultural Science and Technology for Development (IAASTD), an intergovernmental effort cosponsored by the World Bank and other international institutions. He received his bachelor's degree in economics from Vanderbilt University and his master's degree in international affairs at Columbia University, where he specialized in international business and was an Honorary International Fellow.
- **Juan E. Sacoto, Senior Vice President.** With Informa Economics since 1997, Mr. Sacoto is the leader of Informa's Financial Consulting and heads the Biodiesel Consulting practice with his primary responsibility including research and analyses for international and domestic consulting clients. His work often involves market assessment, financial and competitive analyses, economic modeling, business strategy, international economic development, economic impact, risk management, and acquisition/investment due-diligence studies. Mr. Sacoto has extensive knowledge and experience analyzing most agricultural, food and related markets, including grains and oilseeds, feed ingredients, livestock and meat, vegetable oils, fisheries, fertilizers, fruits and vegetables, grain storage, and farm equipment as well as the renewable fuels industry, particularly biodiesel. He also has extensive practical experience evaluating agribusiness and renewable fuel projects across several regions, including Latin America, Europe and Africa. He is fluent in Spanish and has broad cross-cultural training. Prior to joining the company, he worked as a financial and equity analyst. He received his bachelor's degree in finance from Jacksonville State University and his master's in international business administration from The University of Memphis.

Study Fees

The fees for participating in the study are \$18,500 for Informa Economics clients and \$22,000 for non-clients. The fees include the pre-study conference, the client group review seminar, and a presentation at client's offices by Informa Economics' staff (as requested). Cost of company representatives' travel to the conference and seminar, and expenses for Informa Economics' staff travel to companies' offices for the presentation are not included.

About Informa Economics

Informa Economics, Inc. (formerly known as Sparks Companies, Inc.) is a world leader in broad-based domestic and international agricultural and commodity/product market research, analysis, evaluation and consulting. The company was founded in 1977 and, in 2003, was acquired by Informa plc ("Informa"). Informa Economics, Inc. serves hundreds of firms, institutions and trade organizations worldwide from our headquarters in Memphis, Tennessee. Informa Economics has a European division Agra CEAS in London and Brussels and a South America division FNP in Sao Paulo as well as an energy policy consulting division Washington Policy Associates.

Our Mission:

"To be a Vital Force in the Success of Agriculture, Food, Energy and Transportation Interests Around the World."

The company's professional depth and experience allow us to provide a wide range of services related to the economic and management concerns of clients. Underpinning these services, our principal strengths lie in an expansive information base and a professional and experienced staff. Employees are well-trained and seasoned researchers and consultants with extensive backgrounds in business and government; most hold advanced degrees in agriculture or related fields. The Informa Economics team has extensive experience in worldwide agribusiness and agricultural policy decision-making. Many Informa Economics employees have gained insights from past government service in senior policy, analysis and advisory positions; from major trade associations; from land grant universities; and as senior officials of leading agribusiness companies.

In its role as a world leader in comprehensive commodity, food industry and agribusiness research and consulting, Informa Economics offers several broad categories of services:

- Research/Analysis/Evaluation
- Business Consulting
- Education/Training
- News/Communication
- Energy

About our Parent Company

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ENROLLMENT FORM

- Yes, I want to participate in the special multi-client study, entitled “*The Structure and Outlook for the Domestic Farm Supply Industry.*” The cost of the study for current Informa Economics’ clients is \$18,500 and \$22,000 for non-clients. One half will be billed upon initiation of the study and the remaining one half upon my receipt of the final written report.

Return Form to Informa Economics, Inc.
Via Fax to (901) 766-4471 or (703) 893-1065

- Please have someone contact me to provide further information.

Name: _____ Signature: _____

Title: _____

Company: _____

Street Address: _____

City, State, ZIP: _____

Telephone: _____ Fax: _____

E-mail Address: _____

Please feel free to contact us with questions:

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