



A MULTI-CLIENT STUDY PROPOSAL

Contract Production of Major Crops: Status and Prospects for the Future

October 2004

Situation Analysis

Contract grain production is an important source of “raw materials” for food and beverage companies, processors, seed companies and grain merchandisers for both domestic consumption and export. Examples of contracted production include seed; non-GMO grain; organic grain; and grain with specialty traits such as blue corn, high extractable starch corn or low linolenic acid soybeans. Contracting will become even more important as the US increases its focus on value-added output traits for foods, feeds and renewable fuels.

Several buyers of contracted crops have anecdotally reported a lack of information on the size and mechanics of the market for contract row-crop production in the U.S. In addition, qualitative research from Purdue University’s 2003 Commercial Producer Project reveals an unexplained conundrum; nearly 60% of crop producers “agree or strongly agree that more agricultural products will be produced to specification under contracts,” but less than one-third of the same producers indicate they will produce more under contract in the future.

Both contracting companies and mega-producers have indicated interest in exploring options for executing contracts as well as understanding those methods most likely to yield success from other companies’ perspectives. This audience admittedly suffers from a lack of concrete information. Yet given the time commitment, difficulty, expense and critical nature of contracted supply, they have economic and strategic imperatives to maximize performance.

This unique multi-client study will provide its participants background information, fact-based strategic criteria for related decision making and alternative decision scenarios that are likely to shape North American agriculture’s contracting future.

STUDY CONTENT

This special multi-client study will provide its participants with a detailed overview of the status of producer/commercial grain contracting activities from the viewpoint of both the producer and contracting segments (including input providers, bulk processors, livestock interests, manufacturing and consumer contact segments). From the producers' standpoint, contracting activities represent a "high cost and lengthy learning curve" combined with a premium lifecycle that is perceived as too short. This study will address how they can become more of a partner in such agreements. From the standpoint of the contracting commercial entities, there are questions about the extent to which contracting will result in a dichotomy of agriculture/food arrangements that are analogous to "Wal-Marting" the value chain versus more focused "niche" strategies. Each producer and commercial contractor will need to address which strategy or strategies best suit them and make such decisions based on fact and "solid" analyses.

Today's farmer generally receives a "premium" for contracted production. Healthy skepticism, on the part of the farmer, results in his concern about what he is giving up for the "premium." He perceives a loss of independence or self control and in some cases he cannot adequately judge the tradeoff. Additionally, the yield performance of certain crops with output traits does not match the yields available from conventional varieties, and producers seek to be compensated for such "yield drag." Both the farmer and the commercial contractor need to better understand these tradeoffs to facilitate and eventually insure long term, workable partnerships.

Briefly, the study will include:

- Drivers of contract production and direction of those drivers in the future
- An outline of current contracting practices
 - Scope of contract production
 - Role of various players/influencers
 - Review of various options/methods and details (i.e., acre v. bushel contracts, incentives, lack of market transparency)
 - Advantages/disadvantages of each method for the contractor and the contractee
- An analysis of future prospects, including contractor needs (including global participants' learnings from other regions)
- An exploration of producer psyches toward contracting
 - Identification of key drivers and thresholds in the contracting process
 - Views of current contracting options
 - Key factors that convince top producers to enter into contract production
 - Reasons that top producers are unwilling to share crop production information

As additional incentives to participate in this study, the study team will address the following topics as part of the study:

- global/trade implications
- energy/renewable fuels industry implications

- biotech versus non-biotech seed/production developments
- segmentation and tracing issues and
- other topics as suggested by participants during the pre-study kick-off meeting.

METHODOLOGY

The study will be developed by combining appropriate desk research and unique, primary data collected via interviews with a number of thought leaders and marketing participants representing top and mid-sized producers. Moreover, the study team will interview and gain insights from “key” industry participants representing commercial interests and approaches to contracting at all segments of the value chain. In addition, Informa Economics recently has completed a multi-client study regarding farm structure and related implications for large and small producers and the value chain, in general. This study will draw on that research, as well as, Informa Economics’ extensive and intensive research with the latest census data. The integration of primary data/analyses (collected via interviews) and related analysis of the sector’s contracting activities and performance will result in a very unique end product that will support participant contracting evaluations, strategies and decisions.

WHO SHOULD PARTICIPATE IN THIS STUDY?

This study will appeal to all segments of the agriculture and food value chain. In addition to food companies, ingredient suppliers, industrial users, grain merchandisers, processors, seed producers, certifying agencies, large growers, livestock interests and others typically involved in contract production, this study should appeal to insurance and finance companies as contracting affects grower risk and profitability, as well as transportation, logistics and storage providers who play an important role in the delivery of contracted crops. Clearly, this study will benefit all segments of the value chain.

STUDY DELIVERABLES

Deliverables

Each participating organization will be provided a comprehensive report as described above. In addition, the study will commence with a special kick-off meeting designed to gain participant inputs about the study’s work plan. This meeting will also include a special round table discussion regarding contracting status and prospects, lead by an industry specialist on the topic, (please see section on “Special Kick-off Meeting”). Upon the study’s completion, each participating organization will be invited to attend a presentation of the study’s results, implications and general recommendations. If desired, each participating organization may request a “tailored” on-site presentation with focused implications and recommendations. The study team will provide all participants with notes from all meetings and related presentation materials to supplement the final report.

The Study's Schedule

December 13, 2004	Kick-off Meeting
April 2005	Study Complete
May 2005	Study Presentation

SPECIAL KICK-OFF MEETING

The study will commence with a kick-off meeting on December 13, 2004 at Informa Economics' office in Memphis. The kick-off meeting is designed to review the study's work plan with appropriate revisions determined and tailored to the participants' interests. In addition, the Informa Economics and Entira team will provide initial insights about the topic and expected study methodology. The multi-client study kick-off meeting activities will be supplemented with a special presentation and ensuing group discussion led by Andrew Hebard, President and CEO of Technology Crops International, a global leader in the contracting and supply of specialty crops. Mr. Hebard will discuss the issues, opportunities and challenges facing contract production today and into the future. This "hands on" presentation and related round table discussion will serve as a unique, fact-based start for the study. Mr. Hebard's brief biography is listed below.

Andrew Hebard, President and CEO, Technology Crops International. Technology Crops International is a leading business in the development of contract production and supply chain management of specialty crops for food, industrial chemical, pharmaceutical and personal care markets. Previously, Mr. Hebard worked with the UK Ministry of Agriculture, Fisheries and Food; Allied Grain Ltd; and Kings Ltd.

STUDY FEES

The fees for participating in the study are US\$12,500. The study fees will be billed US\$6,250 upon the study's initiation (December 13, 2004) and US\$6,250 upon delivery in May 2005. Tailored presentations at a client's offices, by staff from Informa Economics and/or Entira are available, for the cost of the related travel expenses, billed during the month of the presentation.

STUDY TEAM

For Informa Economics, Dr. Bruce A. Scherr, President and CEO, will coordinate the project along with Thomas P. Scott, Senior Vice President, and Scott Richman, Vice President. Other professionals with directly relevant experience will actively participate including: Joy Parr Drach, Entira Senior Partner; Mike Karst, Entira Senior Partner; Dr. Donald G. Frahm, Informa Economics, Senior Vice President and Dr. William Motes, Informa Economics, Senior Vice President. In addition, consultants with extensive experience evaluating various aspects of the industry will work on the study. Brief biographies on the lead analysts follow as well as background on Informa Economics and Entira.

Bruce A. Scherr, President and Chief Executive Officer. Dr. Scherr has been with Informa Economics, Inc. (formerly Sparks Companies, Inc.) since 1987 and has worked extensively with companies to develop improved price risk management procedures, to organize and manage purchasing and merchandising programs, and to assist agribusinesses and public sector institutions in strategic and tactical planning. 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 North American Electric Reliability Council (NERC). 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 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, Senior Vice President. Mr. Scott is head of the Informa Economics Memphis-based Project Consulting Group. Specialized work has included business strategy, agribusiness economic development, feasibility and site selection work, and various market analyses. In addition to 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.

Joy Parr Drach, Entira Senior Partner. Joy's experience spans strategic planning, marketing and branding across food and agribusiness sectors. She has led the strategic planning process for everything from the launch of new businesses to the revitalization of mature products. Joy has successfully launched more than 20 new products ranging from herbicides to equipment to food products. This work included product development, pricing strategies, distribution plans, sales training and marketing/promotion planning and execution. She received her bachelor's degree in agricultural communications from the University of Illinois and a master's in business administration from the University of Chicago.

Mike Karst, Entira Senior Partner. Mike's perspective on the future of food and agriculture comes from a vantage point few possess. Since the mid-1980s, he's designed strategies for incorporating new technologies in agribusiness involving all aspects of the farm-to-consumer value chain. In recent strategic planning positions, Mike has been privy to some of the most intimate details about the future of agriculture, as articulated by scores of companies from the top players in the industry to the up-and-coming technological innovators. Mike has previously held positions in retail farm supply management and global marketing, e-commerce and strategy for agrochemical companies.

William C. Motes, Senior Vice President. Located in the Informa Economics Washington, D.C., office, Dr. Motes has primary responsibilities that include client consulting for 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 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.

Donald G. Frahm, Senior Vice President. Dr. Frahm has been with Informa Economics (formerly Sparks Companies, Inc.) since 1980 where his primary responsibilities are acreage and production research, client service and consulting as well as long-term forecasting and planning. Prior to joining the company, Dr. Frahm worked with two grain merchandising and brokerage companies and as a senior economist with the American Soybean Association. Earlier, he held positions at the University of Nebraska and Purdue University. He received his bachelor's degree at The Ohio State University and his master's and doctorate degrees from Purdue University, all in agricultural economics.

Scott A. Richman, Vice President. Mr. Richman heads the Informa Economics renewable fuels and biotechnology consulting practice areas, and he provides feasibility studies and other management consulting services to a range of agribusinesses, food companies and related associations. Mr. Richman also has extensive experience in business/marketing plan preparation, economic impact studies, advising companies on the positioning of products within specialized markets, and constructing market forecasts. Mr. Richman has worked extensively with the agricultural biotechnology, grain processing, and meat packing industries on such projects as an analysis of the economic impact of herbicide resistant crops, long-term forecasts of the ethanol market, and the formation of cooperatives for a range of processing activities. In addition to work in North America, he has participated in business planning efforts in Poland. 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.

About Informa Economics

Informa Economics, Inc. (formerly Sparks Companies, Inc.) is a private food and agriculture consulting firm with a highly capable staff, a very comprehensive data/information system, and close association with major private agribusinesses worldwide. Informa Economics is an operating company of T&F Informa, a UK firm and part of T&F Informa's Agra Group, including such sister firms as Agra CEAS, F.O. Licht, among others. Informa Economics is a world leader in the collection, analysis, and dissemination of agriculture and food information. Headquartered in Memphis, Tennessee, Informa Economics also has offices in Washington, D.C., St. Paul, Minnesota, and Winnipeg, Canada. In operation since 1977, Informa Economics, Inc. has hundreds of commercial clients, farmers and ranchers, government agencies, law firms, associations, and others with high quality analytic information and consulting services. The Informa Economics team has extensive experience in agribusiness and agricultural policy decision making. Many employees formerly held senior policy, analysis or advisory positions in government; worked for major trade associations; held positions in land grant universities; or held senior management positions in leading agribusiness companies. (For more information on Informa Economics and its sister firms, its staff and the services it provides see www.informaecon.com).

About Entira

Entira is a marketing strategy and sales development firm that helps food and agribusiness companies develop out-of-the-box solutions that position them for success. Entira combines strategy and execution to see its recommendations to fruition. Services range from long-term strategic planning through product and customer lifecycle management and distribution architecture. This includes helping companies better understand and meet the needs of customers today and in the future. Entira provides the outside perspective of an unbiased third party with the inside experience of industry veterans who understand clients' business, competition and customers. For more information on Entira, visit www.entira.net.



ENROLLMENT FORM

- Yes, I want to participate in the special multi-client study, entitled “*Contract Production of Major Crops: Status and Prospects for the Future.*” The cost of the study is US\$12,500.

Return Form to Informa Economics
Via Fax to (901) 766-4471

- 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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