

Determining My Co-op's Role in Addressing Forthcoming Megatrends: The Importance of Framing

TACC Cooperative Board Chairmen's Conference
Ruidoso, NM
July 27th, 2012

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How do you address megatrends?

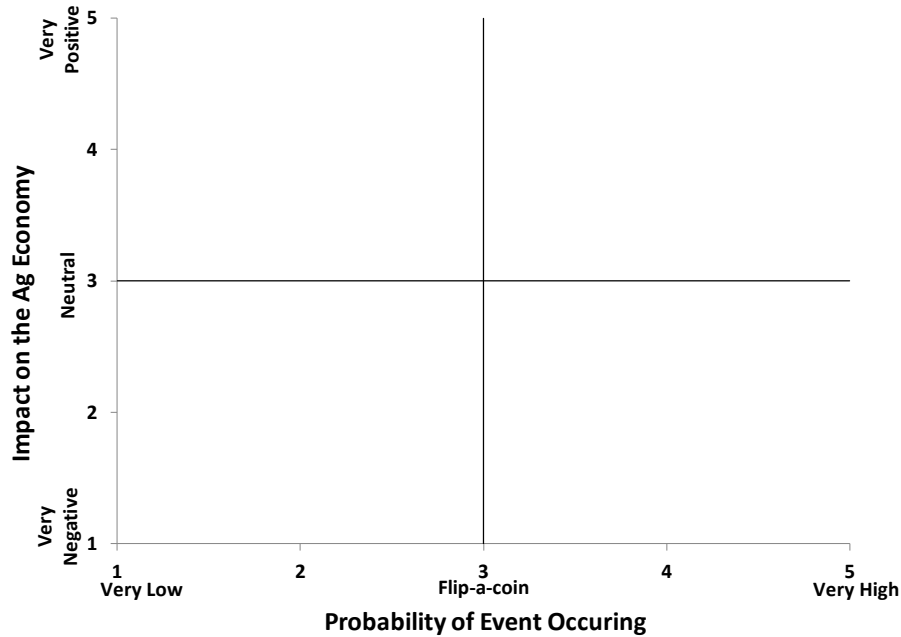
- The key is framing the issues in a way that can be discussed. Here are some steps:
 1. Identify the issues/events.
 2. How likely will this issue/event occur?
 3. If this event occurred, by how much will it positively or negatively impact my environment?
 4. Combine 2) and 3) in a straightforward matrix.
 5. Is our business positioned to mitigate the bad outcomes and take advantage of the positive?

Issues facing agriculture (1-5 years out)

1. Positive net farm income growth is the 'new normal'
2. Market volatility persists
3. Interest rates rise 2%
4. China continues to boom ... China busts
5. "Graying of Agriculture" persists

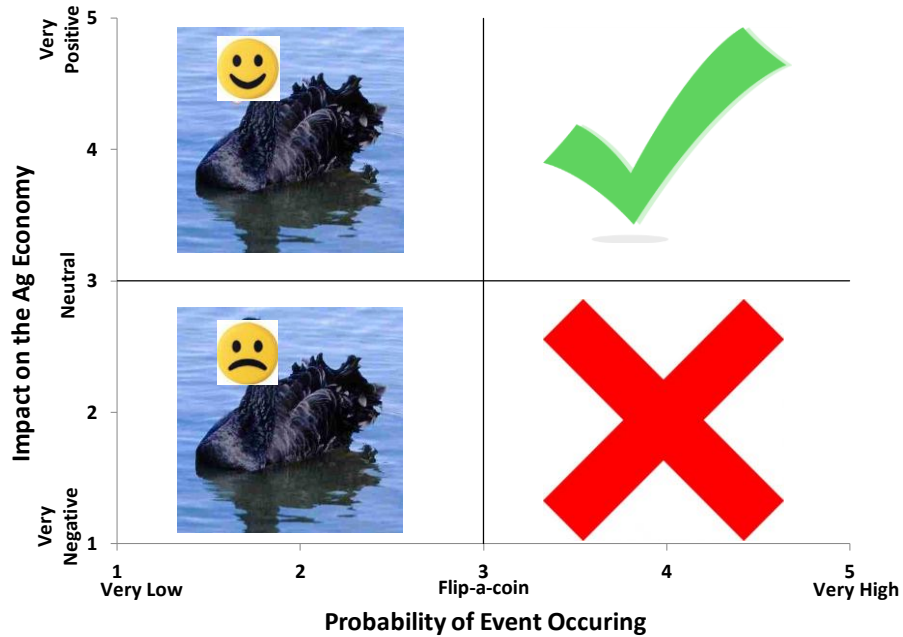
Risk Matrix of Your Responses

- At this point, you all have provided your opinion on the probabilities and impacts of certain events.
 - Only focused on SINGLE thoughts.
- We can combine these responses to better frame a discussion around these big issues.



Intuition of the Risk Matrix

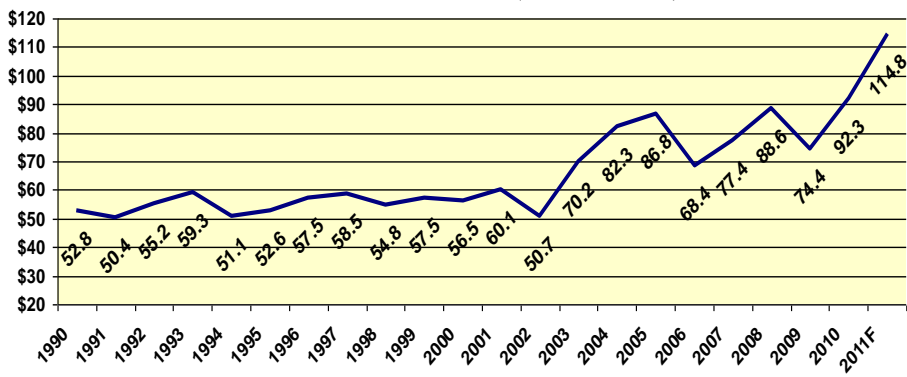
- Think of the risk matrix has being segmented into four quadrants.
1. Events to seize.
 2. Events to mitigate.
 3. Black swan twin #1.
 4. Black swan twin #2.



Issue #1

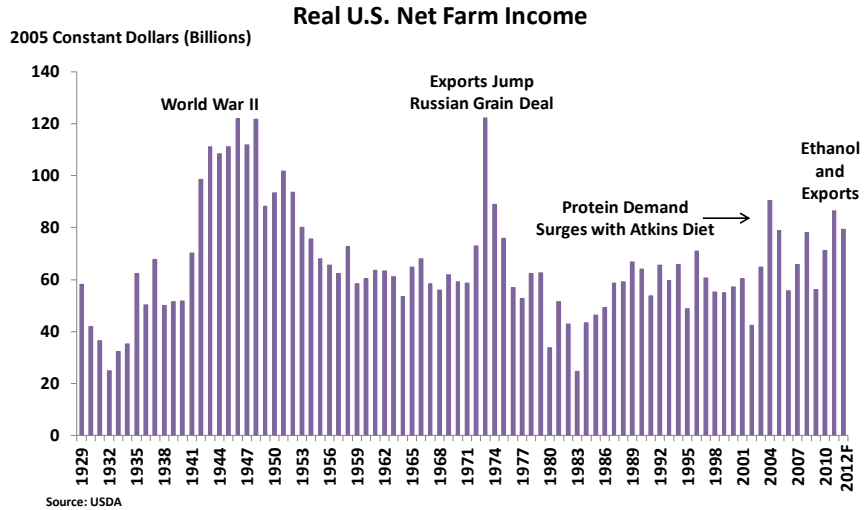
Today's net farm income is the 'new normal'

U.S. Net Cash Farm Income (\$ billion)



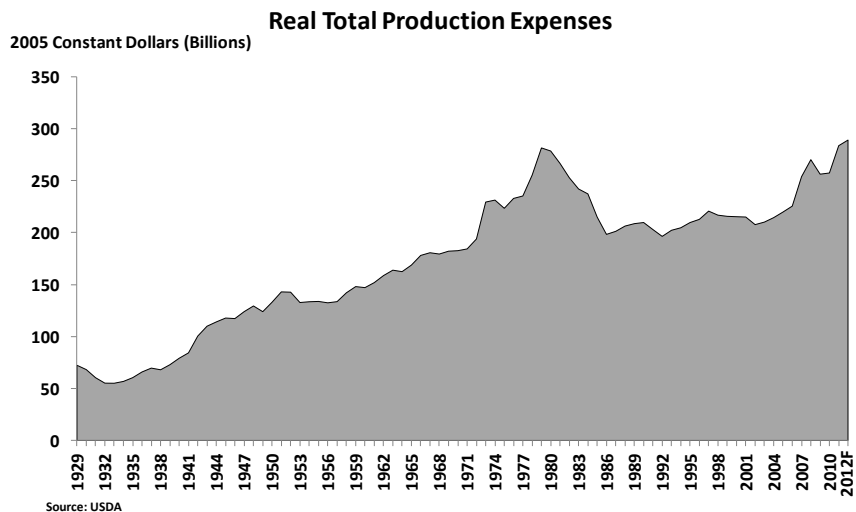
Issue #1

Today's net farm income is the 'new normal'



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Net farm incomes are being squeezed by rising costs.



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February 7, 2012

Iowa: Bidders Vie for Bragging Rights at Cash Rent Auctions

AgFax.Com - Your Online Ag News Source
By Elizabeth Williams, DTN/Telet

Nearly 300 people crammed into a motel meeting room to attend the first cash rent public auction in the Mason City, Iowa, area last Saturday, Feb. 4. About 25 active bidders raised hands or nodded heads as two-year leases for more than 2,250 tillable corn/soybean acres in 14 tracts went up for grabs. After the final "going once, twice, sold," the tillable-acre winning bids ranged from a low of \$325 for 78 acres (62 tillable, subject to flooding) to \$520 for 108 acres (all tillable).

Most of the winning bids ranged from \$425 an acre to \$490 per tillable acre, rates that left onlookers somewhat stunned. After all, farmers in Iowa's most expensive cash rent county only paid an average of \$235 an acre in 2011, according to USDA. The excessive rent also means growers will be shouldering sizable risk should commodity prices plunge to more normal levels between now and 2014 and probably dictates that corn will be the crop of choice to pay the bills on that land.

The Mason City event was the fourth cash land lease auction in three days for the owners, Charles E. Lakin Enterprises out of Omaha, a family business enterprise that had expiring leases on 3,336 tillable acres in Iowa. The Lakins' farms are scattered over eight counties in western, central and north central Iowa.

"We weren't sure what the cash rent market was and we didn't know how to set a fair price, so we thought we'd try an auction," said Chuck Lakin, son of Charles E. Lakin. "It worked out pretty well."

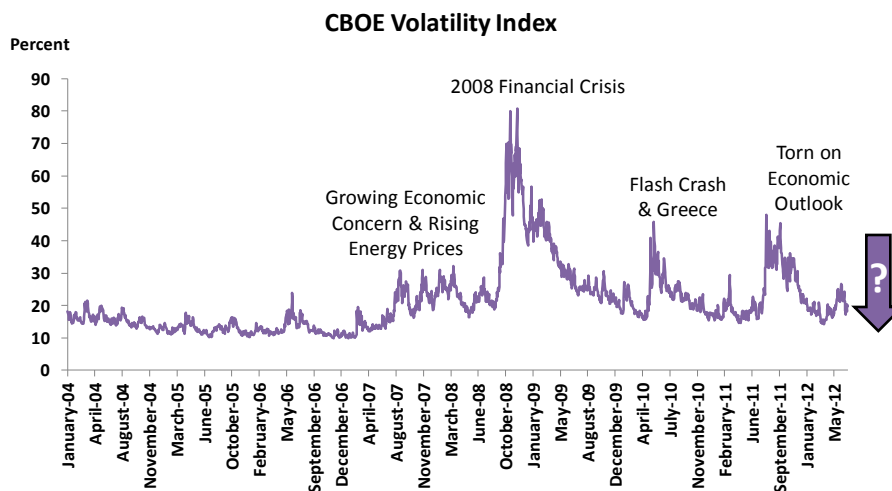
Farmland tenants generally dislike public lease auctions for two reasons: 1) They remove the traditional, personal relationship bond between the owner/tenant and reduce it to a numbers game; and 2) It publicizes actual cash rents so all the landlords in the area can compare how their leases stack up. Even if you are the highest bidder and get the ground, you may not want your other landlords to know you are willing to pay that much for land. In fact, one of the current tenants (who won the highest bid on ground he had been farming) had a proxy at the Lakin farm lease auction and came in after the auction to sign the papers and write the check.

For the landowner, an auction "takes away the stress from negotiating with the tenant and gives the land the potential to reach its fair market value," said Allan Hughes who conducted the Lakins' lease auction.

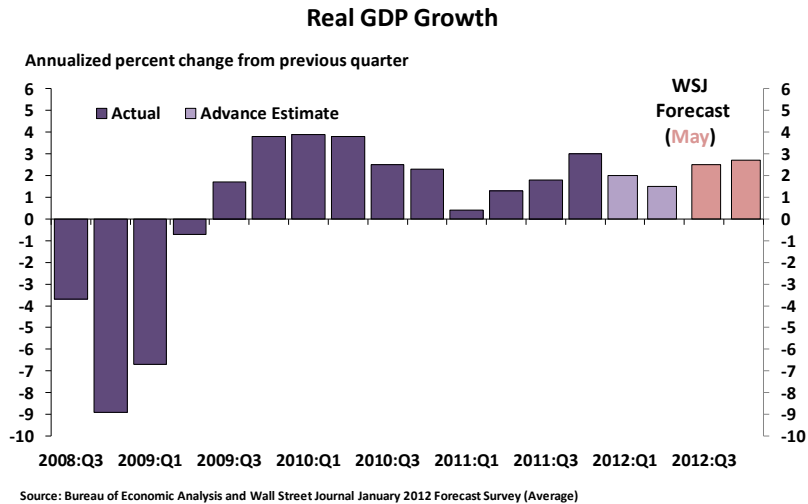
"These leases are structured so good husbandry is required," explained Hughes. A five-page lease requires the tenant to keep the ditches free and clear and to provide soil tests, fertility input records, yield information on each farm.

Low winning auction bid, \$325/acre (subject to flooding)
High winning auction bid, \$520/acre

Issue #2 Financial market volatility subsides ... ?

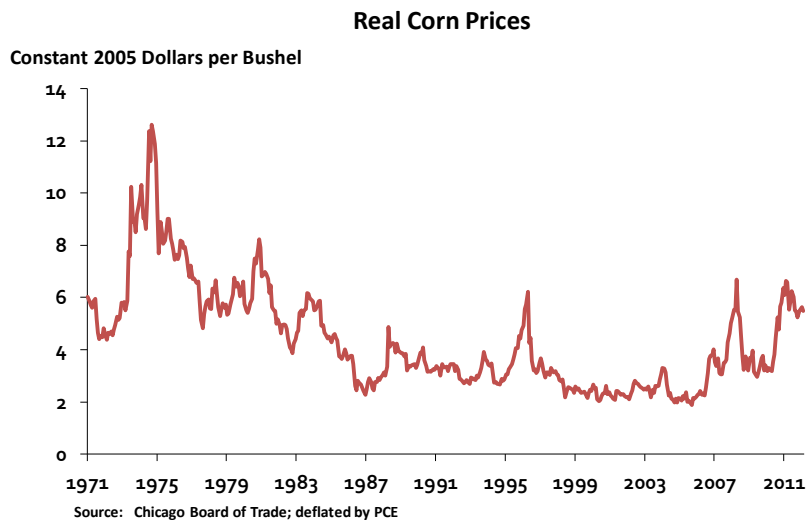


Have economists really figured out the outlook?



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Market volatility provides profit opportunities.



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Another factor playing a role in today's commodity market is the sizable amount of liquidity

CBOT Corn Futures Open Interest Chart

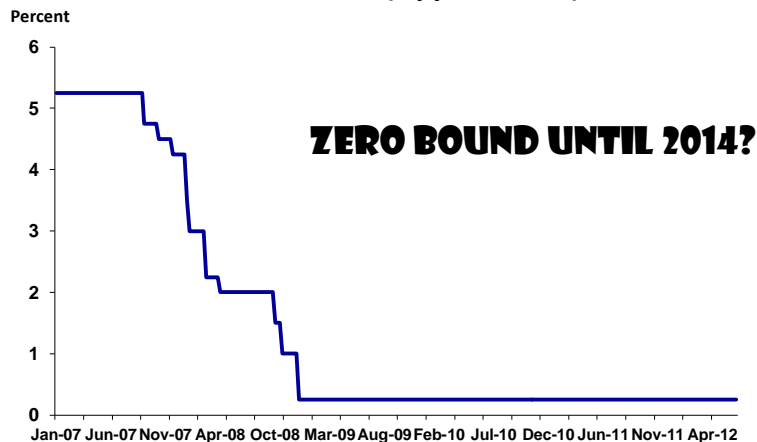


Source: www.ycharts.com

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Issue #3 Interest rates rise 2%

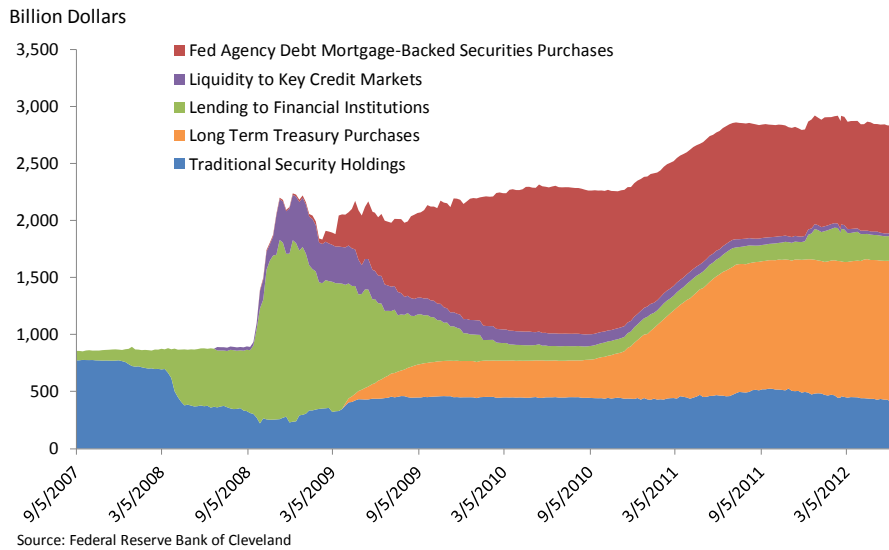
Fed Funds Rate (Upper Bound)



Source: Federal Reserve Board of Governors

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How does the Fed return to a more “normal” balance sheet?



Interest Rates – The Bad (low)

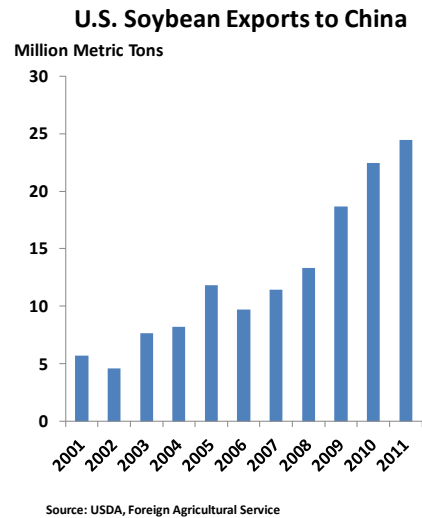
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Issue #4 China continues to boom



Demand for agricultural products has remained strong, especially international demand.

- Demand is shaped by:
 - Population
 - Income
 - Tastes and Preferences
 - Substitutes
 - Prices
- While U.S. demand remains sluggish with high unemployment, international demand remains strong.



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Issue #4

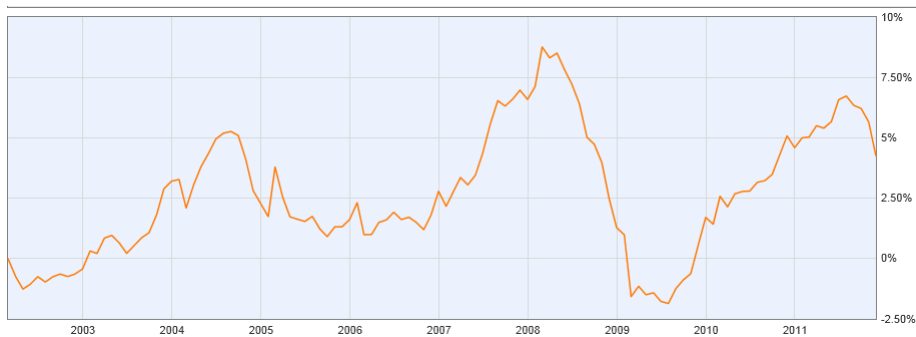
China busts



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Last year, the concern was that Chinese inflation was too high.

China Inflation Rate

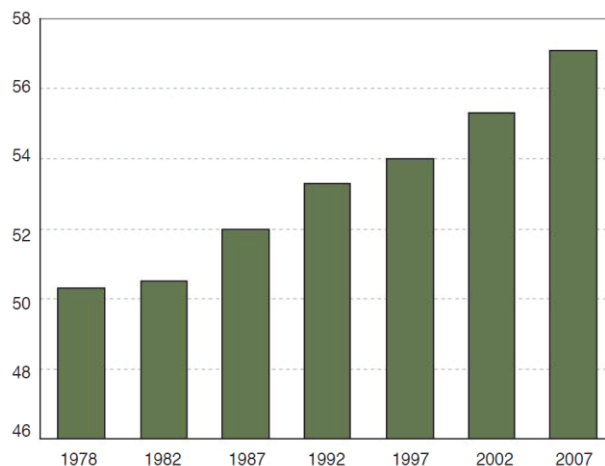


Source: OECD and www.ycharts.com

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Issue #5 “Graying of Agriculture” persists

Average Age of Principal Operator



Source: USDA http://www.agcensus.usda.gov/Publications/2007/Online_Highlights/Fact_Sheets/Demographics/demographics.pdf

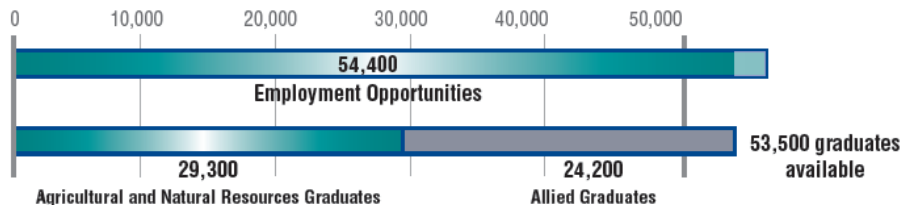
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“Graying of Agriculture” persists...maybe...maybe not

- Many issues have factored into rising principal operator’s age
 - Rising costs of agriculture
 - Technological improvements
 - Low interest rate environment
 - During the 1990s, the “Ho-Hum” nature of agriculture relative to fast U.S. economic growth
- Today, interest and opportunities in agriculture abound

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It is estimated that the number of ag jobs will exceed the number of qualified candidates



Source: USDA, Employment Opportunities for College Graduates in Food, Renewable Energy, and the Environment – U.S. 2010-2015
http://www3.ag.purdue.edu/USDA/employment/Documents/USDA_Employ_Op_2010_8.pdf

- Big opportunity...we can’t miss the boat!
- How do you communicate with the younger generation?

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How *should* we communicate with the Millennial Generation (ages between 18 and 29)

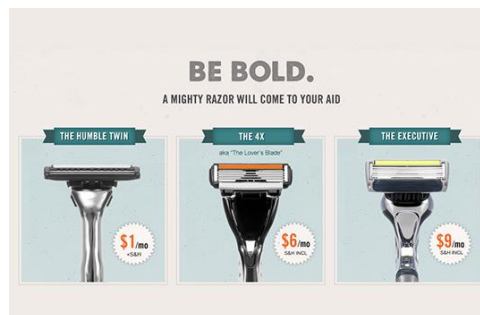
“To Gen X, rebelling was kind of a cornerstone on how they drove their individualization, establishing themselves versus their parents. To millennials, it’s more about the collaborative whole.”

- John McFarland, Chevrolet’s Senior Manager of Global Youth Marketing Strategy



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Here’s a great, current marketing example that took off on social media...driven by Millennials.



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Here's a great, current marketing example from Mid Kansas Co-op. It's a YouTube video parody of Toby Keith's Red Solo Cup.



How *should* we communicate with the Millennial Generation (ages between 18 and 29)

- Interesting study conducted by Online Graduate Programs of some Pew Research data.
 - The Millennials: Best. Generation. Ever.
 - May access the study at <http://www.fastcodesign.com/1665648/infographic-of-the-day-the-blessing-and-curse-of-being-a-millennial>

How *should* we communicate with the Millennial Generation (ages between 18 and 29)

- Millennials article
- Praise vs. Fear
- Social Media is a major source of news
 - #1 is TV News; #2 is Newspapers; #3 is Social Media
- “Old School” communication is still valued
 - Too much PowerPoint
- Emphasis on training
- Huge interest in ag! So get to it!

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Thank you.

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