How can supply chain organisations better connect with growers to help them achieve a successful grain growing enterprise?

by Lachlan Allen

2016 Grain Trade Australia Fellowship Scholar

Supported by:

August 2017

This Fellowship to travel overseas to study the grain value chain has been supported by Grain Trade Australia and Nuffield Australia

FELLOW Contact Details
Lachlan Allen
19 High St, Mitcham 5062
Phone: 0417675638
Email: locky.allen@gmail.com

NUFFIELD AUSTRALIA Contact Details

Nuffield Australia
Telephone: (02) 9463 9229.
Mobile: 0431 438 684.
Email: enquiries@nuffield.com.au
Address: PO Box 1021, NORTH SYDNEY, NSW 2059

Executive Summary

The Australian grain industry has gone through some significant changes over the past ten years. What was once a regulated market that required little to no decision making from the grower has now moved into a very active market that can require thought and analysis for growers to make the best decision possible.

Since deregulation in 2008, growers have been opened up to the entire supply chain network, and this has exposed the full costs of that network. Some see the value in this, whereas others have seen this as an additional expense to their business. Throughout this report I look into how the supply chain can better connect with growers, as well as highlighting its benefits.

As the grain industry has moved into an area of greater competition, not just amongst the supply chain but also marketers, there now needs to be a greater information flow to help growers calculate/determine/negotiate the best pathway for their grain.

In the past, delivering into a supply chain meant the only pathway for that grain was the export channel, however this is no longer necessary the case. Supply chains and markets need to look at ways to pass on more information to the grower on just what markets their grain might be heading to. This will not only help with marketing decisions but may also play a critical role in indicating what sort of market they should be tailoring their grain towards.

In a world where information is king, supply chains can help provide more information back so the growers do not just see their grain disappear into the silo network but they feel as if their grain is moving to a market of choice.

Throughout the studies, growers who had access to this information were able to leverage it for marketing opportunities. I witnessed growers able to play both domestic and export markets, and have a complete understanding of the qualities required by each, meaning they could make in-growing season decisions to adapt to whichever market they wanted to enter.

Table of Contents

Table of Figures

Foreword

I have been working in the grain industry now for close to ten years; in fact, the 2017/18 season will be my tenth harvest. Throughout this time, I have held various roles in grain marketing and customer management. I started off on the cadetship program offered by ABB Grain and then moved into a Customer Relationship role with Viterra, five years ago I joined GrainCorp where I was a Commodity Manager for South and Western Australia.

I have a passion for the grain industry which had lead me to getting involved outside of work where I currently sit on the executive committee of GIASA (Grain Industry Association of SA) and, as of October 2016, was elected as a director (merchant association) of GTA (Grain Trade Australia).

Throughout my different roles I have worked for the major bulk handler in South Australia and the East Coast of Australia, and have also been a marketer utilising the bulk handling facilities, which has provided me with a unique prospective of grower's engagement with the supply chains.

I have felt the supply chains can do more to look how they engage with growers to help demonstrate/educate not only what they do in storing and maintaining the quality of the grain, but how this, in turn, creates opportunities within the market place.

I see many growers view the supply chain as a cost and sometimes struggle to see how it can create value for their enterprise; I wanted to study this topic to hopefully breakdown a few barriers and see how supply chains can show their real value. To do this I travelled to areas that are similar, yet different, to the Australian market; areas that can also be direct competitors to Australian Grain. To gain these valuable insights I headed to the United States of America, Canada and Brazil. All offered unique insights into how we can cut down barriers and engage better with growers.

Providing information became a key message throughout this study, and that improved knowledge became a valuable tool, not only for growers connecting with the supply chains but also in ensuring a clearer understanding of the markets they are entering.

Figure 1: The team from Ginerich Farms, Illinois, USA. Source: L. Allen, July 2016

Acknowledgments

I would like to acknowledge the people and organisations that have made this trip, and this report possible.

Grain Trade Australia; thanks for coming together with Nuffield Australia to offer this opportunity for people working in the industry. It has provided an amazing chance for me, and future participants, to grow industry knowledge and bring back new ideas to be implemented here.

Nuffield Australia; an amazing organisation with connections all over the world, parts of this trip would not have been possible if it was not for the people within your network.

GrainCorp; I would like the thank GrainCorp, and in particular my manager Michael Roche, for allowing me the time to undertake this study.

Abbreviations

FAMATO - Federação da Agricultura e Pecuária do Estado de Mato Grosso

GIASA – Grain Industry Association of South Australia

GRDC – Grain Research and Development Corporation

GTA – Grain Trade Australia

IMEA - Instituto Mato-Grossense De Economia Agropecuaria

SENAR – Servico Nacional de Aprendizagem Rural Mato Grosso

SAGMAG - South Australian Grain Market Access Group

Objectives

The objectives of this report are to:

- See how grain growers connect with supply chains in different markets.
- Identify how supply chains engage with growers.
- Look at what products and service supply chains and marketers are offering.
- Determine if the Australian market can learn from our overseas counterparts?
- Understand what challenges the grower and supply chain currently face.

Introduction

To start off this research project, I wanted to look into how supply organisations connect with growers and how growers also connect back with the supply chains. I have been working in the industry for close to nine years and have seen the industry change over that time. One of the biggest changes has been deregulation and how growers have embraced, and reacted to, the open market.

In my current role, I have been working for one of the major bulk handlers with GrainCorp, as a storage and handler provider across the East Coast of Australia, and as a pure grain marketer in South Australia and Western Australia. This has provided a unique experience to understand the interaction between growers and the supply chain. This has led me to look into just how this interaction is taking place and if there is anything we can learn from other areas in the world to improve how we do things here.

Within Australia, I have seen how many aspects of the supply chain system have changed, from delivering and selling all wheat or barley to a single buyer to delivering and selling to who growers want, when they want. I wanted to look abroad and see if similar issues were at play.

I decided to focus on three keys areas to help improve my understanding of supply chains within the following categories;

- Established.
- Similar.
- Emerging.

Established - America

The American system has long been at the forefront of the grain industry and can still be seen as a leader today. Many growers and industry leaders talk about their learning in the USA so this naturally fitted into the established criteria.

Similar - Canada

With the Australian market only a handful of years out of deregulation, I was looking for an environment where deregulation had also more recently occurred, and with Canada only just going through it, it was logical to head there to see how their industry is adapting to change.

Emerging - Brazil

For the emerging criteria, I wanted to find a market that is completely different to the Australian set up, yet still in its growth state. Brazil fitted into this equation and became my last stop on this journey.

Within each area I wanted to be able to look into several key points including:

- How the grower/supply chain interaction currently occurs.
- What challenges the grower and supply chain currently face.
- What areas supply chains are focusing on to improve their service to the grower.

This then provided the base I need to start looking into each region to see how supply chains and growers are interacting and what we can take away for the Australian system.

Figure 2: In front of Great Western Malt Co., Pocatello, Idaho USA. Source: L. Allen, July 2016

Figure 3: Visiting barge loading facilities in Savage, Minnesota, USA. Source: L. Allen, July 2016

Observations

United States of America

To gain the best understanding of the US system, I took in as much of the grain belt as I could. This led me from Minnesota to Denver, stopping in along the way to meet everyone from large multi-nationals to small family businesses.

One of the first things I noticed was the sheer size and scale of the US system, which showed how important it was for a grower to connect quickly with a supply chain. Because of the size of the US, failure to connect quickly with the supply chain could lead to a loss of market, or changing market conditions, and a resultant loss of opportunity. In particular, I noticed farming in the main grain-trading hub really had its benefits for the grower because they were able to see what was happening and understand a lot faster where that grain needed to go.

An example was the Gingerich Farm, where they had close to 15,000 metric ton on-farm storage and were able to switch their marketing from delivering to the end user, to exporting straight away. They were very well set up and knew exactly why they had on-farm storage and what markets they expected to hit. The Gingerich farm knew what they wanted to get out of their own storage (see Figure 4) and how it could help them utilise other supply chains. They were well positioned to take advantage of two different markets (due to their location) so they were able to compare the delivering into the end user mark (via their local ethanol plant), with delivery into the export market via the Mississippi River. The Gingerich's keep their options open by looking at the two markets and comparing the two pricing points. Depending on the market, they had the ability to switch their delivery quickly and maintain market access.

Competition is very tight for a lot of the grain in nearly every area visited, not only against competing supply chains, but also within the same organizations. Growers typically find it difficult to find out the true value of their grain because the US grain market is not as transparent as ours in Australia. Traders enjoy keeping the water muddy in relation to pricing transparency; they were very comfortable not making their price public. To get a list of prices wasn't easy for producers and most traders price up each parcel at a time, which means the grower has less opportunity to see what competitor's prices are.

Price discovery is difficult for the grower, but he can gain very good information in a much broader view of the market. The competition between supply chains and trading organisations (who are not as open as the Australian market) is taking its toll on the US grower. In a number of meetings with both growers and traders we were told this competition was driving the grower to seek a managed product, similar to our traditional pools. Growers see this as an easier way to market their grain so they can get back to managing production. Supply chains and organisations are now looking into new products, and ways to continue to engage with the grower.

Figure 4: Gingerich Farms on-farm storage, Illinois, USA. Source: L. Allen, July 2016

Observations

Canada

To get a greater understanding of the Canadian model I was able to make use of GrainCorp's global presence and base myself in GrainCorp's Calgary office. From there I was able to jump in a car with GrainCorp merchant, Russel Warrack, to visit supply chains and growers throughout Alberta. Russel comes from a grain growing family in Alberta, and had some insights into the challengers of transitioning into a deregulated market. A good example was Russel's own family investing in on-farm storage and looking at seeking out new traders to market their grain to that wouldn't have been around in the Canadian market if it wasn't for deregulation.

Since the Canadian market underwent deregulation in 2012 growers have come to believe they can now handle the situation alone. There is now a strong acceptance from the grower they now have greater access to a wider variety of markets, and that helps to improve the competition for their grain.

There were still some small groups of growers who would prefer if the single desk system returned but they have come to accept this is unlikely to happen. Growers are generally happy to invest in on-farm storage and tackle all marketing alone. Surprisingly the broker environment was relativity small, which is unusual for a deregulated market and was unexpected given the similarities between Canada and Australia. However, I believe this is an area that will develop in the grower services space as new traders enter the market and growers struggle to understand each buyer.

To help build confidence quickly in the Canadian market, many marketers are also building supply chains to help support their presence in Canada. I noticed this across Alberta where supply chains are fighting hard through investment in either new sites or modernizing older facilities to try to pull grain back into their system. This is a key area to help build a brand quickly to help grow producer's confidence if they are a new player in the market.

Other areas the supply chains are looking into to help gain market share is closed loop environments. Creating a 'one-stop shop' for growers provides them with access to inputs and in return they have storage and marketing options available.

Figure 5: GrainConnect silos under construction in Alberta, Canada. Source: L. Allen, July 2016

Observations

Brazil

Heading to Brazil was a completely new experience. To help organise this part of my journey I turned to the Nuffield network, which had amazing contacts throughout, not only the Brazilian grain industry, but also the wider agricultural industry.

To better understand the industry, I headed into the self-proclaimed heart of the grain industry of Brazil, Mato Grosso. Mato Grosso is a state whose annual corn production is similar to Australia's average wheat, around 25-28 million metric tons annually.

Brazil is a relativity new player in the grain industry and it was amazing to see how the success of its own industry has also caused some big growing pains for all involved. I started the week by attending a meeting arranged by Nuffield, with Instituto Mato-Grossense De Economia Agropecuaria (IMEA) a local government agricultural agency that provides research into many aspects of the grain industry (mainly soy, corn and cotton).

Supply chains within Mato Grosso need to work in some very challenging environments. Mato Grosso is located right in the middle of Brazil and the only export channels are some 2,500km to the north and south. Export pathways are limited, with little to no road and rail infrastructure for growers and supply chains to work with.

It was here I noticed the link between the farm gate and supply chain was very different to the other areas observed. There was much greater emphasis on growers providing their own network and working with end-user supply chains, whether that is a domestic end-user or export pathway. Growers have invested heavily in their own infrastructure a very large scale. In some cases, on-farm storage was in excess of 1 million metric tons.

With most of the infrastructure being very minimal, growers have had to take it upon themselves to get the supply chain working - in one case a grower had privately funded 80 kilometres of their own highway. To connect with markets, however, and get their grain to market, the supply chains had to work hard for the grain. I was able to witness some very state-of-the-art end-user systems, which showed that the only link missing in the network was from the farm gate to the supply chain. Work is in progress to improve that link, and over time this improvement has the potential to make Brazil a serious player in international agricultural markets.

For a lot of these supply chains to connect with the grower they have had to offer new ways to capture the grain and this is undertaken by offering agricultural inputs and creating a closed-loop system. Access to capital can be challenging at the moment, so for a grower to have access to the seed and inputs they need access to working capital. Growers take out a contract that gives them access to the inputs they need and in return need to sell back to the supply chain that provided the inputs. Growers then have access to the inputs that need and a supply chain can secure grain for their supply chain.

A lot of growers I spoke with did not mind this system and only a few of the smaller growers had some reservations about a closed-loop system as sometimes they missed out due to their size.

Figure 6: A driver prepares for his 2,500km journey to port. Source: L. Allen, July 2016

Conclusions and Recommendations

One of the key lessons I took away from this experience was that growers generally feel more connected to a supply chain when they have a better understanding of how that supply chain works. In particular, I saw the benefit of the deeper understanding when growers had more information about the movement of grain, whether that was to an end-user, or heading into an export channel. This improved individual growers' ability to market their own grain because, in effect, the additional information acted to 'de-commoditise the commodity'.

My main recommendations are:

- Show the grower what markets their grain goes to.
- Provide market feedback to the grower.
- Provide innovative marketing solutions to engage growers to the network.
- Industry engagement is needed to deliver a common message.

Growers really wanted to know where their grain was going and who their end-user customer was. Ultimately suppliers who either dealt directly with the end user or who had a sound understanding of the market were able to engage more quickly and in turn access the market more effectively to sell their grain for fair price.

Since returning I have tried to explore the level of understanding and engagement growers have of our supply chains and markets in the many conversations I have with grain growers. Pleasingly, I have frequently seen that Australian growers do have some understanding of where their grain goes and are interested in knowing more about what the market is chasing.

Recently, I have been appointed chair of the South Australian Grain Market Access Group (SAGMAG) whose aim is to make growers aware of the markets around them and the importance of working together with the supply chains to maintain these markets. I have already put to use some of the things I learnt on my fellowship, such as providing feedback from markets or highlighting issues growers need to consider in marketing their grain.

In the current grain market, any edge the grain grower can get may not only provide them with an advantage but also maintain and grow their various markets. This is the primary message I try to pass on to growers when we speak – the greater the understanding of and involvement in the supply chain, ultimately the greater the profits can be.

Figure 7: An image of the poster being rolled-out by the SAGMAG. Source: AgCommunications

References

Edward Dunn, Ag Marketing Specialist, Strategic Farm Marketing

Bill Mayer, Ag Marketing Specialist, Strategic Farm Marketing

Dave Janson, president/Owner, Strategic Farm Marketing

Luke Lind, President & CEO, J & F Oklahoma Holdings Inc

Marco Barros Sampaio, Risk Management, JBS USA

Karl D. Skold, Risk Management, JBS USA

Austin Winger, JBS USA

Dannie Gingerich, Farm Manager, Gingerich Farms

Scott Stoller, AgPerspective Inc

Spencer Janssen, Manager, Farmers Grain

Lowell G. Day, Senior Manager, CGB Co.

Chuck Beier, Vice President Sales and Marketing Grain Group, The Andersons

Carrie Williams, Merchandising Manager, Ag Mark

Kevin Walker, General Manager, Legacy Grain Cooperative

Greg Oberle, Terminal Marketing Manager – Grain Marketing, CHS Inc

Steve Neelly, Vice President Merchandising & Logistics Country Ops, CHS Inc

Clayton Haupt, Senior Merchandiser Grain Marketing, CHS Inc

Ryan Caffrey, Senior Wheat Merchandiser, CHS Inc

Alan Hagemeier, Merchandiser, CHS Inc

Dave Guicon, President, Ag Value Group Inc

Russel Warrak, Grain Merchant, GrainCorp Canada

Claudinei Jorge, Coordenador De Silviculture, Girassol

Fabio de Carcalho Bini, Assessor, SENAR

Otavio Lemos de Melo Celidonio, Chief Executive Officer, SENAR

Jose Victor Zamparini, Trainee, IMEA

Marco Antonio Gaitan, Trader, Amaggi

Ricardo Figueiredo de Arruda, President, Sindicato Rural de Cuiaba Expoagro

Plain English Compendium Summary

Project Title:	How can supply chain organisations better connect with growers to help them achieve a successful grain growing enterprise?
Fellow: Organisations: Phone: Email:	Lachlan Allen Grain Trade Australia and Nuffield Australia 0417675638 Locky.allen@gmail.com
Objectives	• See how grain growers connect with supply chains in different markets • Identify how supply chains engage with growers • Look at what products and service supply chains and marketers are offering • Determine if the Australian market can learn from our overseas counterparts? • Understand what challenges the grower and supply chain currently face
Background	I have been working in the grain industry now for close to 10 years Throughout this time I have held various roles in grain marketing and customer management. I have seen the industy engage with the grower on many different levels but have believed there is more the industry can do to improve this engagement. I have a passion for the grain industry which had lead me to getting involved outside of work, I currently sit on the executive committee of GIASA (Grain Industry Association of SA) and as of October 2016 was elected as a director (merchant association) of GTA (Grain Trade Australia)
Research	Many growers view the supply chain as an additional, or after-market cost and sometimes struggle to see how it can create value for their enterprise. This study topic aims break down some barriers, and to assist in understanding how supply chains can contribute real value to farming enterprises, specifically, the grains industry.
Outcomes	One of the key lessons from this fellowship is that growers feel more connected to a supply chain when they have a better understanding of how that supply chain works. In particular, the benefit of understanding through transparent information was clear. This was true for both grain movements to end-users and export markets. This improved individual growers' ability to market their own grain because in effect the additional information acted to 'de-commoditise the commodity'.
Implications	How supply chains deliver key market information is important. It needs to be a tailored information flow to suit individual growers and customers. Increased engagement between growers, their markets and across the supply chain means closer ties and relationship within the supply chain will be necessary.
Publications	AGIC (2016) and Nuffield National Conference (2016)