

# OKLAHOMA AGRICULTURAL LEADERSHIP PROGRAM

## CLASS XVI

### Scribe Notes

#### Seminar 5

February 6-8, 2013

**Theme:** *“Regional Perspectives of Agricultural Industries, Credit/Finance, and Agribusiness”*

**February 6, 2013**

**Scribe: Joe Gribble**

We started our day off by loading the charter bus, with driver Bobby Cooksey, in Stillwater and made our first stop at the Garfield County Extension Office in Enid, Oklahoma.

Our first speakers were Greg Reno and Dennis Williams with American AgCredit. Mr. Williams is a member of the Board of Directors for American AgCredit and a farmer in north central Oklahoma and Mr. Reno is the American AgCredit Regional Vice President based out of Wichita, Kansas. They started their speech by giving us some background on the Farm Credit system in the U.S. It was created by an Act of Congress in 1916 and was the first Government Sponsored Enterprise (GSE) created to provide funding for American agriculture. This in turn created a network of lenders that were owned by its borrowers (farmers, ranchers, etc.). As of 2011, the Farm Credit system funded around 41% of all U.S. farm business debt. Over the past few decades, there has been some consolidation of the Farm Credit lenders. We have seen the decline of around 800 lenders to 85 lenders today. This consolidation has been due to more competitive rates and business decisions for mergers and acquisitions. American AgCredit is the sixth largest Farm Credit Association (FCA) with \$6.2 billion in total assets and 8,000 member-owners scattered over California, Nevada, Colorado, New Mexico, Kansas, and Oklahoma. They offer products such as real estate mortgage and farm operation loans, crop insurance, appraisals, corporate finance, and equipment financing. They are a highly diversified organization with investments ranging from the Dairy sector to bagged lettuce, which reduces the exposure of credit risk from natural causes like drought. Mr. Reno mentioned that technology has really helped them over the past couple years to expand their business. They believe that a personal contact is the best value you can have and with technology on the rise, it has enabled their loan officers to process loans in the field with the farmer or rancher instead of over the phone. Mr. Reno pointed out that since American AgCredit acts as a cooperative, their customers may be able to participate in cash dividends (patronage) at the end of the year.

The next stop was at Advance Pierre Foods in Enid. Our speaker, Kandi Nelson, started off by telling us about their business. They are the largest private employer in Enid with 1800 employees and have sales revenue of \$1.4 billion since the merger with Pierre Foods. Advance began in 1973 and started with one location in Enid and has since gone through two expansions from an 85,000 sq. ft. freezer facility to a 230,000 sq. ft. freezer facility. At the facility, they must keep the raw and cooked materials completely separate due to USDA regulations. Their core business revolves around battered and pre-cut foods. The pre-cooked chicken fried steak is on what Advance built their company name. With the merger of Pierre Foods out of Cincinnati, Ohio, they have expanded their product lines. They now offer stuffed chicken, sandwiches, Johnsonville sausage, and pre-packaged peanut butter and jelly sandwiches to name a few. They sell their products to food service (schools, military), convenient stores, and retail business (grocery stores). Their biggest item today is now the pre-cooked hamburger patties.

Our next visit was with W.B. Johnston Enterprises, also in Enid. W.B. Johnston specializes in grain handling and in particular wheat. They are the oldest and largest privately owned grain company in the state of Oklahoma and have 22 country elevator locations scattered across Oklahoma and Texas. Montie Walton and Dale Owens explained to us what the WB Johnston's terminal elevator does today. They take the delivery of wheat and other commodities from farmers during the harvest period and try to capture margin in a carry market or when the basis improves in their favor. Mr. Walton explained how he is the export merchandiser for W.B. Johnston and discussed with us the different foreign markets that prefer the hard red winter wheat (HRWW) around the world. He also talked about the different types of proteins and how certain types of countries and wheat millers have their own specifications of what kind of wheat they want; for example, a buyer might pay a premium for 12% protein wheat. WB Johnston can blend wheat according to what the buyer's specifications are and get within a 0.5% of the guarantee.

The new crop they have been talking about storing is canola. Over the past couple of years, canola has increased in acreage due to its high profit value and agronomical aspects. Mr. Walton and Mr. Owens spoke very highly of this crop and its future in the state of Oklahoma.

We then took a tour on the bus around the W.B. Johnston elevator and saw where different protein/grade trucks go dump to keep the wheat identifiable. Mr. Owens also explained how the elevator works from the truck into the grain bins. Since Oklahoma has been in a drought over the past couple years, W.B. Johnston has decided to expand its business opportunities by doing different things such as railing in pipeline and off-loading at their site in Enid in order to connect a pipeline from western Oklahoma to Cushing. Another branch of the business has been frac sand. Oil business has always been a large part of the Oklahoma economy, so grain elevators have decided to be storage locations of frac sand. W.B. Johnston has it railed in from the Wisconsin frac sand mines in order to be used in oil and gas drilling operations here in the Southern Plains.

After we departed from W.B. Johnston, we traveled to the Faith Farm in Enid where we met the farm coordinator, Charity Mercer. Charity showed us around and told us a little about the garden. The Faith Farm works with organizations in the community to help the disadvantaged. The garden has 14 raised beds for production of vegetables, herbs, small fruits, and flowers. Its primary focus is to provide garden therapy where individuals can improve on activities such as social interaction and education. Working in this setting has proven to help people relax and reduce stress levels while improving self-esteem, creativity, and cooperation.

After the tour of the Faith Farm, we rode back to the Extension Office in Enid and enjoyed our community service project. Our project was to help Charity propagate flowers for the planting season coming up in a few months, and plant seeds in crates. Charity was very appreciative of everything we did for her and kept saying how much time we were saving her.

We boarded the bus and left Enid for Mr. and Mrs. Don Schieber's home in Ponca City, Oklahoma. They blessed our class with a chili dinner in their barn. Mr. Schieber's operation includes growing soybeans, corn, wheat, and milo. Mr. Schieber (a member of OALP Class I) has been a great ambassador for the wheat industry in the state of Oklahoma and for the OALP.

Our last stop of the day was at the Wyldewood Winery outside of Mulvane, Kansas where we met up with the Kansas Agriculture and Rural Leadership (KARL) class. With KARL, we had the opportunity to watch a slideshow presentation over how to make different types of wine and listen to a presentation discussing the challenges that the Kansas education system is facing.

**February 7, 2013**

**Scribe: Debbie Wedel**

**Cargill Innovations Center, Wichita, Kansas**

## Lance Storer, Strategic Cattle Procurement: Introductions and the Cargill Beef Story

Cargill Beef – Our Vision: To be the benchmark for excellence

Cargill, the second largest privately held company in the U.S., was founded in 1865 and employees nearly 159,000 employees worldwide. Cargill headquarters are in Minneapolis, Minnesota and the Cargill Beef headquarters are in Wichita, Kansas. Cargill has nine harvest facilities in North America. Thirty-three cattle buyers in the U.S. and Canada, along with three in Wichita, purchase over 8.5 million head of cattle that Cargill processes each year. Shipping over 49 million boxes of beef every year, Cargill is also the largest producer of ground beef in the world.

Three out of four carcasses will go into a Cargill brand. Black-hided cattle have increased from 45% to 70% since 2002. Angus Pride can be purchased at Reeser's. Rancher's Registry (high select and low choice grades) can be found at Safeway, Homeland (Red River Ranch), and Crest food stores. Sterling Silver (high choice, not black hides) is another brand that Cargill produces.

The vision camera, E + V, is the most consistent grading camera in the world and is in use at all Cargill facilities.

Cargill's commitment to food safety is evident in their systems approach to food safety. Technological developments such as the hide on carcass wash and the steam cabinets on the harvest floors help Cargill to ensure a safe food supply.

Cargill's Animal Care Program claims a genuinely humane harvest. Arrowsight has been employed as an independent third party auditor for all of the Cargill beef plants.

Cargill also owns and operates five feedlots. Using 25 pen characteristics, Cargill determines which pens will deliver the product that they require for their customers.

Storer thanked the OALP for what they do and appreciates their efforts to advance agriculture.

## Alan Smith, Beef Risk Management – Beef Outlook

Current cattle supply inventories are the lowest since 1952. The industry does not see inventory numbers increasing until 2015-2016.

The beef cutout has stayed in the \$1.85 to \$1.90 range since August. The choice-select spread has basically collapsed. Overall demand has stayed "good" historically, but is still weaker than a year ago. Cargill harvests 20-22 percent of the industry beef cattle, but due to supply, overall numbers are down and continuing to fall.

Due to dwindling cattle supplies, Cargill made the tough decision to shut down their Plainview, Texas processing facility the first of February 2013.

Export demand is expected to increase since Japan recently opened up their market to US beef again. The "heating" of Australia and New Zealand will likely cause those countries to import more beef also. Unfortunately, domestic demand will likely tighten up due to tax hikes that will reduce consumer incomes and retailers having to raise beef prices to keep up with the cost of production.

## Michael Martin, Director of Communications: Media and Agriculture – My Life

Transparency is the new normal. Reputations are important....and unfortunately, stuff happens.

Organizations have 15 minutes to respond to the 24/7 news cycle. Social media has become a huge influencer in the news world.

Some recent issues that animal agriculture has been faced with include HSUS – gestation stalls; PETA – undercover videos; food safety; and animal welfare.

Reputations are hard to fix once they are broken!! It is more important than ever for each of us to be an animal agriculture public relations person in order to create, enhance, protect, and preserve our industry. If we don't drive our message, someone else will. Celebrities, activists, critics, and bloggers will all try to control the message, but we must remain in control. Unfortunately, sometimes we lose control, as in the pink slime issues. This issue destroyed 80% of Cargill's business in this area. Consumers tend to trust Food Scientists, Nutritionists, USDA officials, and Animal Scientists the most and bloggers the least. "The best defense is a good offense." As an industry, we need to access opportunities and be willing to take a risk; be transparent and give access where needed; and tell our story to credible sources and experts.

Some suggested readings and shows to watch:

"The Fight to Keep Your Burger Safe from *E. coli*", Minneapolis Star Tribune, Sep. 12, 2010

FOOD, INC. – A Robert Kenner Film <http://www.youtube.com/watch?v=2Oq24hITFTY>

American Meat – being shown to FFA chapters <http://www.americanmeatfilm.com/>

"Beef Labeling Rule..." Kansas City Star, Mike McGraw

<http://www.kansascity.com/2013/01/27/4032880/rule-to-label-mechanically-tenderized.html>

Overview – Oprah Winfrey Show from inside the Cargill Beef Processing Plant in Fort Morgan, Colorado. About 7.3 million households saw the first airing. Cargill got to tell its story, control the message, and demystify the beef processing industry.

Takeaway message: Be transparent.

#### Daniel Schaefer, AVP, Beef Research: Cargill Innovations Center Tour and Overview

Dan has achieved a 20 year career with Cargill. A total of 70 people are employed at the center – two-thirds are food scientists. Cargill invested \$15 million and moved into the center on July 6, 2011. The center was built for the development of the beef business and further processing in Wichita. The center features a wide range of capabilities and staffing, including full-service research and development and professional chefs who work with customers to develop new products and demonstrate how existing ones can be better prepared.

The ready to eat area is the cleanest part of the center. Separate heat and air and separate ventilation support this area. Four ovens in the room can cook 1200 pounds each or 4800 pounds at one time. A USDA inspector is on site during all production times. Cargill recently launched a new steak and egg burrito for McDonalds.

Four labs in the center have the capability to cook around 700 steaks and to measure tenderness. There is also a "raw" area and a "spice" room.

Several showcases displayed various brands that we can find in the stores that are actual Cargill products. A favorite is the Castle Rock lunch meats that are sold at Sam's.

#### **Horizon Milling – A Cargill Joint Venture**

##### Mike McElroy, Assistant Facility Manager - Tour

Horizon Milling is a joint venture with Cargill, Inc. The CORE values for Horizon Milling are Safety, Integrity, Commitment to Serve, and Respect. The class viewed the Horizon Milling Safety Film that is shown to all people coming into the plant. A tour of the facility was then given by several employees.

Horizon Milling provides a full line of flours for baking, food manufacturing, and private-label applications. The Wichita facility is a bulk-processing facility and the finished product is shipped to bulk customers and bakeries throughout the nation. Smaller, retail size bags are processed at the Newton, Kansas facility.

Hard red winter wheat is the class of wheat milled at this facility and from it all-purpose, whole wheat, and bread flours are the most common flours milled. Whole wheat flour is milled with the entire kernel. All-purpose and bread flour involve the process of separating the endosperm, bran, and germ, and milling to certain specifications. Some bleaching is then required to get the flour to a specific white color. Around 45 employees operate the mill 24/7. Cleaning operations are performed on the day shift, as well as most of the shipping and receiving. The wheat milled at this location is trucked in from a 100 mile radius of the mill.

Baking with the correct flour is important to achieve a quality product. Use bread flour for bread and rolls, cake flour for cake, and all-purpose flour for cookies.

## **INTLFCStone**

### Kyle Smith, Regional Director and Risk Management Consultant

Kyle Smith has been in the grain business for 36 years – nearly 31 years as a risk management consultant and 25 years as the Regional Director for INTLFCStone.

INTLFCStone is a publicly traded company with 1200 employees, 33 offices, and over 20,000 customers in more than 100 countries. There are 15 offices in the U.S. and 18 international offices. As one of the largest traders of agricultural and soft options, INTLFCStone had \$1.9 billion in customer assets and executed more than 45.8 million contracts in fiscal year 2012.

The name, INTLFCStone, originated from International Assets (INTL), Farmers Commodities Corp (FC) and Saul Stone Brokerage (Stone). Saul Stone started out in 1924 as an egg wholesaler in Chicago.

A key driver of INTLFCStone is to help mid-size companies with risk management. The company manages customer risk through planning, communication, performance, and accountability. Financial services include a 24-hour order execution desk.

Agriculture, energy, and livestock are the top three markets served through the Kansas City office.

Electronic trading now accounts for 95% of the contracts traded. Contract volume has increased due to electronic trading.

The commercial grain business has become much more expensive to conduct. Capital requirements such as cost of assets, employee cost, and inventory values are much higher. A start-from-scratch elevator will have double the costs for \$ per bushels compared to 15-20 years ago. Cooperatives are consolidating to help reduce costs. On-farm storage of crops has actually increased over the off-farm storage numbers due to the cost of storage off-farm.

Crop supplies are tight. Corn, with a normal supply of 25-30 days, is at 19 days and soybeans are at a 16 day supply, down from the normal of 20-25 days. Wheat supply is at a 108 day supply. Demand is down and more wheat is actually being fed. A general rule of thumb is to plot the basis numbers for your crop and watch the trend. It's all about risk management.

Smith took the class into his work area and we were able to ask more questions about the day to day operations and observe his partner take a transaction over the phone.

**February 8, 2013**

**Scribe: Justin Whitmore**

### **Kanas City Board of Trade**

The Kanas City Board of Trade is the primary market for hard red winter wheat. The Chicago Mercantile Exchange recently purchased the Kanas City Board of Trade. CME has decided to move trade to Chicago starting on July 1, 2013. Wheat has been traded at the Board since 1857. Since that time, many changes have come to the Kanas City Board of Trade. One of the biggest changes is the use of electronic trading. This has ended the iconic scenes of traders shouting orders in the trading pit. Most of the trading is now done on the computer.

### **Louis Dreyfus Corporation**

Louis Dreyfus was founded in 1851 and actively participated in the development of grain trading. The group has since expanded its expertise to a wide variety of commodities and participates in various diversified areas. Louis Dreyfus Corporation is one of the companies that owned a seat on the Kanas City Board of Trade. Louis Dreyfus will not be moving to Chicago – they do about 90% of their trades electronically and only 10% in the pits.

### **Federal Reserve Bank**

The OALP had the opportunity to visit the Federal Reserve Bank of Kansas City, District 10. The Federal Reserve Bank of Kansas City has a new building. Their old building looks much like a bank. The new building looks very modern with a museum and viewing windows to watch workers sorting paper currency that comes in from banks. Old and worn notes are destroyed – notes that are still usable are bundled and sent out to banks that need currency. Currency is moved from the vault using three robots named Huey, Louie, and Dewey. In the museum, we learned that paper currency started as bank notes that were issued by private banks.

### **Economic Outlook – Adam Pope**

Adam Pope shared the economic outlook for the U.S. and Oklahoma. Oklahoma has done fairly well through the last several years due to strong activity in the economic and agricultural sectors. Oklahoma has one of the lowest unemployment rates in the U.S. Adam forecasts increased growth in the gross domestic product – this growth however is expected to be slow over the next several years.

### **John Deere**

Todd Love welcomed us. He is a graduate of Class XV and is a territory manager for John Deere in Oklahoma. He explained that John Deere was founded in 1837 and is a world leader in agricultural and turf equipment. We then had a panel discussion. Don Borgman, Director of Ag Industry Relations, is a liaison between producer groups and suppliers and is on the U.S. Farmer and Rancher Alliance. Tammy Lee is a Tactical Sales Manager. Erica Shoe is the Manager of Public Affairs. Bob Timmons is the Director of Marketing. Jason Tucker is the Regional Strategic Marketing Leader. They spoke about how John Deere strives to create products and solutions that will meet their customers' needs and also that they would soon be introducing a large square baler in the U.S. We were also able to tour their new facility in Olathe, Kansas. The new building was built using green and sustainable technologies – examples were the use of pressed sorghum boards and natural landscaping.