

THE STATE OF RETAIL DISTRIBUTION

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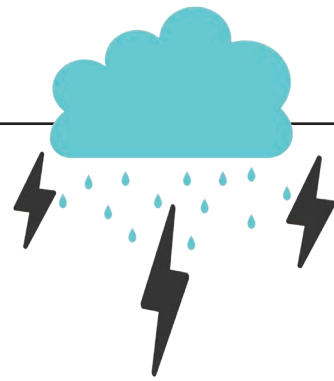
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‘Stormy Weather’ Remains in Forecast for Distribution Channel

The factors that have altered the market landscape continue to make their presence felt.

BY ERIC SFILIGOJ
 Editor

IN SEPTEMBER much of the Eastern Coast of the U.S. dealt with the impact of a “monster storm,” Hurricane Florence. Of course, weather storms, while destructive, tend to come and go in a matter of days (although the damage caused by their aftermath may remain for months or even years). However, the overall duration of economic storms, such as the ones now buffeting the agricultural marketplace on multiple fronts, are much harder to forecast.

One year ago *CropLife*® magazine devoted an entire issue to the examination of what we dubbed the “perfect storm” of changes impacting the ag retail distribution chain. “We are definitely in a period of change in the market,” Dave Coppess, Executive Vice President of Sales and Marketing for Heartland Co-op, West Des Moines, IA, observed in the October 2017 edition of *CropLife*. “There are new business models beginning to pop up, and they are threatening to destroy or at least radically alter the old ones.”

A year later Coppess says not much

has changed in this regard. “There’s still a lack of profitability and money in the agricultural market,” he says. “The price pressure that was at work one year ago is still there in force.”

For the most part, Coppess says, this financial crunch ties back to commodity prices. Not too many years ago during the early 2000s, as the agricultural industry was actively embracing the quest for biofuels development, corn and soybean prices were at all-time highs. At this time, according to market watchers, corn prices were regularly topping \$8 per bushel while soybeans were in the

\$14 to \$16 per bushel range. As a result, growers were able to significantly boost their annual income above the \$100 billion mark for the first time in history.

Commodity Crash

Today, however, the commodities markets have crashed back down to earth

as demand for biofuels has waned in the wake of relatively cheap fossil fuel prices. In fact, according to Dr. Michael Swanson, Senior Vice President, Agricultural Economist and Consultant for Wells Fargo & Co., biofuels/ethanol growth in the U.S. during 2017-18 has been zero

percent, “which is something we haven’t seen since the early 2000s.”

Because of this and a few other factors, such as increased crop yields/carryover from one season to the next, commodity prices have dropped back into the \$3 per bushel range for corn and less than \$8 per bushel for soybeans. In fact, according to Paul Rea, Senior Vice President, Head of the Regional Business Unit North America for BASF, net farm income for 2018 is expected to fall to \$65.7 billion.

“Commodity prices are really depressed, and the short-term outlook doesn’t really show much improvement over the next two or three years,” Rea said at the 2018 Mid America CropLife Association (MACA) annual meeting in September. “There’s no obvious upward pressure in the mid-term.”

Eric Cowling, Director of Sales and Supplier Relations for Helena Agri-Enterprises LLC, agreed. “We’ve been in a downturn for five



Dave Coppess



Paul Rea



Eric Cowling

years or so,” Cowling also said at the 2018 MACA event. “Lower commodity prices are severely impacting the ability of growers to buy new equipment and make money.”



V.M. (Jim) DeLisi

In 2018, on top of this, the U.S. agricultural marketplace has had to deal with a trade war with one of the industry’s most important export partners, China.

According to V.M. (Jim) DeLisi, Chief at Fanwood Chemical, the U.S. and China began sparring on trade tariffs rates back in early July. To date, “several hundreds of billions of dollars’ worth of tariffs” have been announced, with many agricultural products from the U.S. being targeted by Chinese regulators.

According to Dr. Wendong Zhang, Assistant Professor of Economics and Extension Economist at Iowa State University, China buys approximately \$12 billion to \$14 billion worth of U.S. agricultural products annually. “The U.S. sells 62% of its soybeans to China — one in every four rows grown) — 75% of the sorghum, and 15% to 20% of dairy products each year,” Zhang said at MACA. “For Iowa farmers, this translates into a loss of \$551 million for soybeans not being exported to Chinese buyers.”

Consolidation Push

Naturally, with less money coming into their bank accounts from crop sales, growers have cut back on their usage of crop inputs and services accordingly. At the supplier level this has led to a series of high-profile consolidations and mergers, including ChemChina buying Syngenta, Bayer purchasing Monsanto, Dow and DuPont combining their businesses in “a merger of equals” under the new name Corteva AgriSciences, and fertilizer giants Agrium and PotashCorp joining forces under the Nutrien banner.

At the retail level, ag retailers,

too, have felt this economic squeeze. During 2017 many cooperatives decided to formally “pool their resources” and combine their businesses. This included Heritage Cooperative and Agland Co-op in Ohio, Wheat Growers and North Central Farmers Elevator in South Dakota, and Ceres Solutions and North Central Cooperative in Indiana.

Now, however, many independent ag retailers are getting into the act. In December 2017 Centennial Ag Supply Co. of Greeley, CO — a long-time member of the *CropLife 100* listing of the nation’s top ag retailers — announced that it was being acquired by Helena Agri-Enterprises.

“Commodity prices are really depressed, and the short-term outlook doesn’t really show much improvement over the next two or three years,”

— Paul Rea, BASF

According to the company, the sale was made so that Centennial Ag could offer “more resources” to its grower-customers. “It’s sad to see one of the last independent family-owned businesses go through consolidation,” Centennial Ag President Jake Adler told a local newspaper regarding the sale. “But at the same time, the same group of people will be servicing customers.”

A few months later in February another independent *CropLife 100* ag retailer, Green Valley Agricultural Inc., announced that it was being acquired by Nutrien Ag Solutions

(formerly Crop Production Services). “Green Valley has more than 60 employees, and they will be staying in their present positions under CPS,” wrote President John Christian on the company’s Facebook page.

In addition to consolidation, the other big development in the ag retail distribution chain these past few years has been the rise of alternative product distribution models utilizing the internet. Many companies such as this already exist in other countries around the world, including AgroStar in India and AgraCity in Canada. DeLisi explained that at least two such companies, Farm Trade and Farmers Business Network (FBN), are in the U.S. market.

“Firms like this are flattening the supply chain,” DeLisi said at the *AgriBusiness GlobalSM* Trade Summit in August. “FBN offers farmers, both large and small, general support on myriad farm issues, as well as an alternative to their traditional sourcing patterns, including chemicals, seeds, equipment, and even financing. FBN is becoming an all-in-one stop to allow farmers to buy materials from all over the world. It’s like having a mobile cooperative.”

In response to this potential threat to their businesses, many ag retailers have begun offering their grower-customers “direct shipment” product sales using the internet, such as CommoditAg from *CropLife 100* retailer The Equity.

According to Heartland Co-op’s Coppess, his company has investigated using this kind of model. But the evidence of a wholesale customer movement to this area isn’t there just yet. “We’ve been looking at how many growers have wanted to move to this ‘transactional only’ way of doing business,” he says. “But we haven’t seen a complete collapse of farmers who want the full service offered through traditional ag retailers. So right now we will do some walking in this direction perhaps before we start running.”



Market Mergers: More Moves Coming in Consolidation 2.0

The crop protection/seed supplier consolidation trend might not be finished just yet.

BY ERIC SFILIGOJ
Editor

FOLLOWING THE first announcement of mergers among crop protection/seed suppliers in 2016, the various companies involved have moved steadily to gain all the necessary regulatory approvals around the globe, line up their financing, and bring their operations together as seamlessly as possible.

Indeed, once Bayer Crop Science closed its acquisition of Monsanto in August, most agricultural market watchers probably believed things would settle down somewhat going forward.

But not so fast, says V.M. (Jim) DeLisi, Owner of Fanwood Chemical (which provides detailed agrochemical import and export reports, technical marketing of custom manufacturing services, and regulatory services). Although Consolidation 1.0 might be complete at this point, there are moves afoot that could see a second wave, Consolidation 2.0, further shaking up the crop protection/seed markets.

“Recently it was reported in the Chinese press that ChemChina’s se-

nior management had exited, stage right, and the senior management of Sinochem had taken over,” DeLisi said at the *AgriBusiness Global*SM Trade Summit in August in Phoenix. “Nobody is using the term ‘merger’ or ‘acquisition’ yet, but the facts are not in dispute. The Sinochem management is running ChemChina today.”

Sinochem Group is listed as “China’s largest operator in seeds, agrochemicals, and fertilizers,” according to the company’s website, with 160,000 metric tons of capacity for active ingredients. If combined, Sinochem and ChemChina would reportedly be worth approximately \$100 billion — two times larger than BASF Corp.



V.M. (Jim) DeLisi

Recall that ChemChina is the entity that ultimately ended up purchasing Syngenta Crop Protection, which was the first megamerger announced in 2016. The deal was finally completed during 2017 without too many divestitures of assets being required to win regulatory approval from key countries around the world.

According to DeLisi, this would not have been the case had Sinochem stepped into the picture earlier. “If

this Sinochem move had happened when ChemChina was about to acquire Syngenta, several antitrust authorities said that they would have had to re-evaluate the position of the acquisition of Syngenta,” he said.

Equally worrying, he added, was how casually the whole Sinochem/ChemChina relationship has developed. “The thing that I find very troubling here is, under any other normal circumstances, there would need to be applications being submitted to antitrust authorities in the U.S., Brazil, India, Japan, and the European Union,” DeLisi said. “So far, there is no indication that that is being looked at at all. But I cannot imagine a set of circumstances where it will NOT be looked at.”

Reasons for Mergers

While there still seem to be some unanswered questions when it comes to the players involved in mergers and consolidations, there isn’t much debate on why or how the industry got to this point. According to Alex Polinsky, Owner of Polinsky Chemical, it all ties directly back to a simple factor — money.

“There’s no question about it — the price of corn in the U.S. led to this,” Polinsky said at the *AgriBusiness*



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Global Trade Summit. “Corn prices in 2008 were at \$8 per bushel or more. Today this has fallen to around \$3 per bushel. Now most growers can probably still make money on corn if it’s at \$3 per bushel, but the overall loss in value for the entire agricultural industry from this amounts to more than \$15 billion. These losses have impacted all of the suppliers in this market, including but not limited to equipment, chemicals, seeds, and fertilizer.”

While the overall market value has dropped over the past decade, the cost of doing business for crop protection/seed companies has steadily risen. According to Polinsky, it costs between \$300 million and \$500 million to develop and bring a new active ingredient to the agricultural marketplace today — more than double what it had at the beginning of the 21st century.

“Given these facts, only the largest agrochemical companies have the adequate resources to spend money on research and development to try to stay ahead of the weeds and bugs that farmers need to control,” he said. “You have to have a lot of dollars on hand. And for many companies, merging was the only thing they could do to make their bottom lines look better and survive.”

Back when many of these mergers were originally announced, some grower organizations went on record opposing them, believing that fewer suppliers would lead to higher product prices and less innovation. However, according to Polinsky, this doesn’t appear to be the case anymore, at least among the growers themselves.

“The growers are the guys that are really feeling the pain of reduced commodity prices and they require innovations to help them improve yields and profits,” he said. “They seem OK with the mergers taking place in crop protection and seed because, at the end of the day, they just need solutions to help them make more money on their corn and soybeans while fighting back against the resistant weeds and pests that seem to be appearing on an almost daily basis.”

2019 CROP PROTECTION COMPANY TOP 5

(sales in billions)



Source: Fanwood Chemical

New Top 10

Going into 2019, Fanwood’s DeLisi speculated on where the top 10 crop protection/seed companies would rank in terms of sales, using the completed acquisitions/mergers as his baseline. “Bayer/Monsanto will be No. 1 in sales with an estimated \$22 billion, down because of divestitures

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— Alex Polinsky, Polinsky Chemical

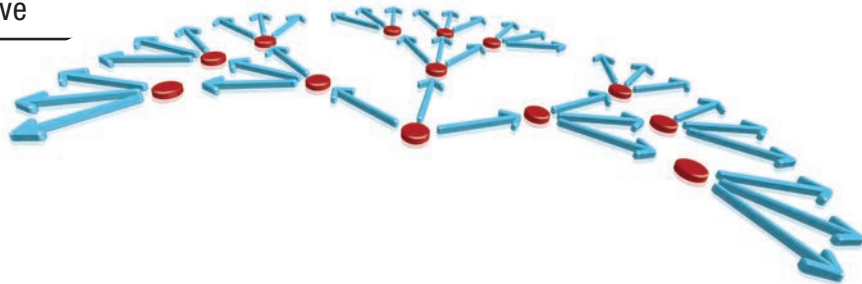
of approximately \$5 billion,” he said. “In second and third place will be Syngenta/ChemChina and Corteva AgriScience — the old Dow and DuPont companies — with \$16 billion and \$14 billion in sales, respectively. Both of these will also be down in sales from their pre-merger 2016 levels because of divesting assets to receive regulatory approvals.”

Rounding out the top five are a pair of companies that have benefited, sales-wise, from the divestitures made by some of the other top crop protection/seed players. “At No. 4 will be BASF at \$9 billion, up from \$6.7 billion in 2016 because of buying Bayer products such as LibertyLink,” said DeLisi. “At No. 5 will be FMC, which bought a lot of products from DuPont, and will now have sales in the \$4.2 billion range.”

However, he added, FMC could be No. 6 in the rankings if United Phosphorous Limited (UPL) successfully completes its planned acquisition of Arysta. “If UPL does this, then it may be slightly larger than FMC and become No. 5 worldwide,” DeLisi said.

Following these six, the other four top crop protection/seed companies in 2019 will be (in no particular order): Albaugh LLC, Sumitomo Agrichemicals, Nufarm, and AMVAC. Other key players in the crop protection market will include several generic producers, such as Drexel, Gowan, and Loveland Products from the U.S. and international companies, such as Tide International, Helm Agro, Rotam, and Sipcam Agro.

DeLisi ended his speech by returning to the Sinochem/ChemChina situation, wondering what this could mean for any future top 10 crop protection/seed company rankings. “If this happens, it might ultimately see the breakup of Syngenta,” he said. “So for anyone out there who thinks they have all this consolidation figured out and that it’s over, it isn’t over.”



Word-of-Mouth Farmer-Dealer Networks Shake Up Distribution

The concept is going global as mom-and-pop dealerships sign on in a bid to boost cash flow.

By **JACKIE PUCCI**
Senior Writer

IN AN INDUSTRY that is constantly striving to revamp its public image, there's no getting around the thorny issue of wasted fertilizer.

As a recent FAO report from the UN states, "Poor use efficiency of current fertilizers is a major issue. For instance, in China, the world's largest consumer of nitrogen fertilizer, up to 50% of the nitrogen applied is lost by volatilization and another 5% to 10% by leaching."

A study from Tamil Nadu Agricultural University in India found that, "Nutrient use efficiencies of conventional fertilizers hardly exceed 30-35%, 18-20%, and 35-40% for N, P, and K respectively."

According to Czech chemical raw material importer/exporter Ag Chemi Group, one of the most promising research topics for improving plant nutrition is in the field of nanofertilizers. As a study published in May 2018 in the peer-reviewed *Journal of Agriculture and Food Chemistry* states, "Mineral fertilizers are key to food production, despite plant low nutrient uptake

efficiencies and high losses. However, nanotechnology can both enhance crop productivity and reduce nutrient losses. This has raised interest in nano-scale and nano-enabled bulk fertilizers, hence the concept of nanofertilizers."

rectly to farmers' desires to have more of a say on product choice, while at the same time allowing them to become their own dealers and provide some cash flow.

It currently has 26 farmer-dealers in the network and is aiming for 30

"Farmers right now are getting hit from every angle — whether it's equipment, fertilizer, chemical costs, or labor."



Clark Bell

Enter a U.S. company shaking up distribution of said nanofertilizers.

AquaYield was co-founded in 2014 by a trio of Salt Lake City-based ag industry vets: Warren Bell, Chairman; his son, Clark Bell, CEO; and Mike Bullock, COO. All of its fertilizer products are applied at a nano-scale 4 ounces to the acre.

Rather than focusing solely on the traditional retail distribution chain, the company launched its own farmer-dealer network, hoping to appeal di-

by the end of 2018. At the pace business is moving, Bell says he won't be surprised if he starts 2019 with 50.

"The network is word of mouth at its finest and eliminates individual corporate sales reps in the same area," Mark Mitchell, Director of Sales, says. "We try and protect our dealers that we have in place. We are not going to sign up another dealer that's 20 miles away. We execute an MOU (memorandum of understanding), and if they follow through with

minimum orders, we will protect them as a dealer within a certain radius. They have sales quotas and data collection methods they have to put together.”

“The reason we started this enterprise,” Bell explains, “is that we weren’t OK with the fertilizer status quo. When we saw what nanotechnology could do with crops, that’s when we knew we could potentially disrupt a very mature market.”

AquaYield has already teamed up with a handful of large retailers, including one that made the upper fifth of the *CropLife*® magazine *Top 100* list.

But there is a reason it has latched onto the farmer-dealer network concept, Mitchell says.

“Farmers right now are getting hit from every angle — whether it’s equipment, fertilizer, chemical costs, or labor. It’s gotten to the point where it’s almost impossible for the farmer to make money, let alone break even. I think for the most part farmers are tired of getting pushed around by the big guys. We want to put some control back into the hands of the grower and let them be the dealer, and let them decide what they can and can’t do, and show them that they can make money by reducing input costs.”

Bell adds: “There is a huge variance as to what’s going on in the supply chain in ag. We have a lot of conglomerates that have purchased one another, and with the advent of precision agriculture and other changes in technology going on in ag, there is a lot of uncertainty and discomfort. I’m a farmer, and my family has been farming out west since the 1830s, and there’s been times where a lot of farmers develop a mistrust as to what’s going on with corporate distribution inputs. So we went with the guerilla method of going direct to farmer and now having our products placed in a 2.5-gallon jug.”

Taking it Global

The company made its name in the Florida citrus industry partnering

with Arcadia, FL-based TriYield to attack citrus greening. During the 2015-16 growing season production increased 36%. This was at a time when production across the rest of Florida was dropping.

It has seen its products work on every variety of vegetable and fruit crops, and this year it is making a strong push in commodity crops, Bell says.

In recent months it has reviewed “compelling data” from trials on corn in Michigan, Wisconsin, Iowa, Minnesota, and North Dakota, “that we are thinking on a minimum basis, will lead to a five- to 10-bushel

be disruptive to some of (the large ag retail) business models simply due to the fact that one pallet of our products, which is 180 gallons, has the capability of covering 5,400 acres, which is equivalent to what many of the leading ag retailers are capable of doing with a semi-truckload of product,” Bell says.

Eyeing global success across its 10-product line, AquaYield is expanding its footprint, adding farmer-dealer networks in Australia, New Zealand, and Japan this year. It is already in Canada and expects to soon add farmer-dealers in Mexico and India to the network. Talks with

“Farmers right now are getting hit from every angle — whether it’s equipment, fertilizer, chemical costs, or labor. It’s gotten to the point where it’s almost impossible for the farmer to make money, let alone break even.

— Mark Mitchell

increase. Thus far we have been able to cut their starter fertilizer by 20 gallons. It’s about a \$115 increase to the bottom line, so that’s very compelling,” Bell says. “We want to see where that goes. It’s all about yield and all about quality.”

Results on potatoes are also strong: “NanoPhos is cutting input costs from 45 gallons on a starter down to 20,” according to Mitchell.

Another of AquaYield’s key products is NanoGro, a carbon-based biostimulant that helps build soil health for less than \$7 an acre. NanoPro is its adjuvant that helps with delivery and uptake of specific herbicides.

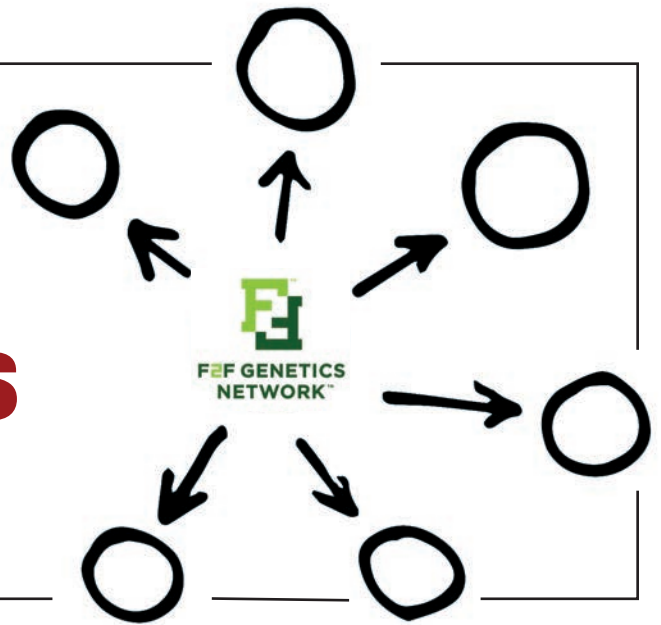
“We knew that could potentially

growers in other countries, including Brazil and Argentina, are frequent.

“All of these markets represent countries whose commitment to agriculture and the environment fit our own product and corporate focus and purpose: using less and yielding more,” Bell says.

Mitchell adds: “We’re very excited to be able to go to small mom-and-pop dealerships, where we can have a half- to 1-ton pick-up in a small warehouse, and all they have to do is keep two to four pallets of inventory of ours — and they can generate really good cash flow and really make a dent in their community and help local growers.”

FBN 2018: Sowing Seeds of Disruption



Ag retail's favorite whipping boy is at it again, this time announcing an ambitious new seed-selling venture. Get it straight from the camel's mouth as we discuss the implications for the traditional distribution channel with two of FBN's executives in charge.

BY MATTHEW J. GRASSI
Field Editor

WHAT'S THE LATEST with ag inputs distribution disruptor Farmers Business Network (FBN)?

The Google Ventures-backed, San Carlos, CA-based "farmer-first revolution" is jumping, no arm floaties, into ag's deep end of the pool — the corn and soybean seed game.

First, the particulars: Farmers who join FBN's data-centric platform (\$700 annual membership) and purchase seed through the F2F Genetics Network can obtain five different hybrids/varieties of conventional corn at \$99 a bag and four glyphosate-resistant soybean varieties that are priced

at \$29 a bag for 2018. It bears mentioning that those prices are offered under F2F's "Early Adopter" program, which expired after Oct. 12, 2018.

Since the announcement of this venture, we've been on the receiving end of a gamut of opinions on just why FBN is delving into seed sales, an area of retailing often designated as the most customer service-oriented (i.e. difficult) in all of ag.

Some believe FBN's seed foray is a hint that perhaps the company's chemical sales under FBN Direct aren't faring as well as expected, and to appease their various venture capital-backers, seed is the next logical avenue toward getting more acres into FBN's system.

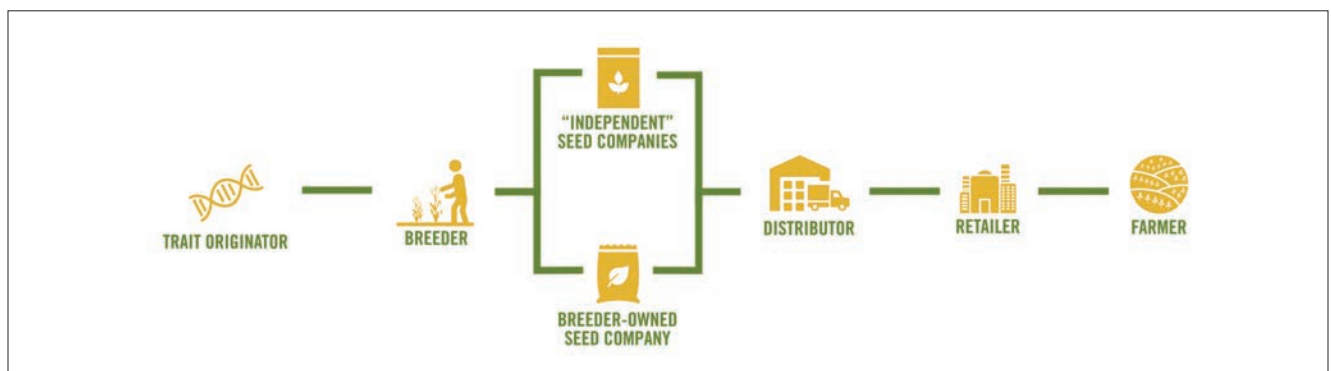
Others reason that this is just a natural progression after two years spent

dialing in its crop protection chemical offerings and delivery network, and that farmers will go hog wild for the prices advertised at this summer's Farm Progress Show (FPS).

CropLife® magazine connected with two FBN executives following FPS, intrigued with what we had heard and understood about this development but wanting to know more.

Ron Wulfkuhle, FBN's new head of seed and a veritable lifer in the U.S. seed industry (Wulfkuhle has international seed R&D experience under his well-notched belt) is the man with the unenviable (or perhaps enviable, depending on who you ask) task of heading up F2F seed.

Wulfkuhle understands that the cheap prices advertised at FPS and on



the FBN website will attract most of the attention in ag retail circles around the new venture, although he argues that the industry should take a different view of F2F seed.

“When I talk to ag retailers, I hear them focus on, ‘Well, that’s just a way to get cheap prices,’” Wulfkuhle said at FPS. “I’d like to challenge folks to



Ron Wulfkuhle

embrace the idea that it’s a way for farmers to improve profitability — which means low prices and high yields. Everyone should be focused on farmer profitability right now — there’s too much cost pain on the farm.

Farmer profitability in tough times is going to be helpful for everyone in agriculture.”

Wulfkuhle thinks F2F seed, while certainly as focused on disruption of the traditional distribution system as FBN’s other product-focused initiatives, will eventually find a complementary role among many Midwestern ag retailers.

“As we’ve launched our seed products, coming forward with conventional corn, there’s going to be a lot of ag retailers that that’s actually going to be helpful for,” Wulfkuhle predicts.

For instance, he says, farmers who plant one of FBN’s conventional corn hybrids in an area with corn rootworm pressure will likely need the local retailer’s help in crafting that season’s corn rootworm insecticide program.

“And guys need to think about their herbicide programs,” he adds. “I’ve talked to so many farmers that should be putting down pre-emerge, and they’re not. If we have people buying conventional seed, the local retailer should be engaging with them.”

Another area in which FBN hopes F2F Genetics Network can make a mark is opening the seed market in general to more choices.

“We’re very open to collaborating with anybody — retailer, seed company, breeder. As we got to looking at the industry, what we’ve identified is

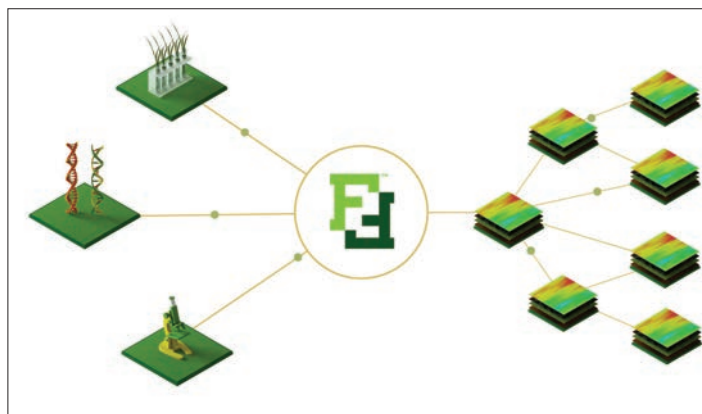
that there are a number of breeders that do not have an easy path to get to market,” Wulfkuhle explains. “To get to market today you basically must convince Bayer, Corteva, Syngenta, or whoever, that their genetics are worthwhile. And that’s just to even take the time to trial, let alone take it to the commercial market.

“Globally, there’s more than 30 independent corn breeders who are real breeders,” he continues. “They’re guys that are making real products. In the soybean world it’s a little bit more concentrated than that, but still there are bunches of soybean opportunities from breeders that are licensing to the big guys, and they are eager to have a faster path to the market.”

Meanwhile, Charles Baron, FBN’s Vice President of Product, says the expansion of seed selling (FBN last year helped Calyxt commercialize Calyxt gene-edited seed) is not just another ag product line launch.

“It’s not just releasing a seed line, it’s a totally different concept,” Baron says. “We’re building a network of independent breeders, and we’re working closely with them to identify the highest-performing genetics, then farmers in our network gain access to those hybrids and varieties. This approach brings the farmer as close to the breeder as possible. Combined with our farmer-direct distribution system, it enables us to deliver members very high-performing genetics at low costs.”

For Baron and his cohorts at the helm in San Marcos, the concept is a direct answer to what they view as



a largely consolidated row crop seed industry in which the startup argues that some seed developers have gotten so large and so multinational that they’ve lost focus on bringing new innovations to market and simply pump out the genetics most profitable to their bottom lines.

“You get companies getting so large that you don’t get transparent pricing. I mean, there’s only a handful of seed companies that post prices online, and very few without zone pricing,” Baron says.

“Additionally, you’ve had a drastic reduction in the number of companies developing new genetics,” he says. “There’s really only three trait originators right now, so as long as the emphasis is always on newer traits being matched to proprietary chemical, that causes higher prices back to the producer.

Like Wulfkuhle, Baron wants to ensure the industry is aware of FBN’s openness to partner or join forces with any interested party, be it manufacturer, retailer, cooperative, or independent seed breeder.

“When we say FBN is a farmer-led revolution, we mean that there needs to be an independent farm economy that develops here today that improves their economics,” Baron says. “For us, an independent system means an open and competitive market vs. what you have today, which is a highly consolidated manufacturing, retail, and distribution system.

“We’re creating a new model, one that is openly bringing out new products and innovations from nontraditional sources, that can be distributed in numerous ways, with transparent and competitive national pricing. No more zone pricing, hidden pricing, or one-off discounting.”



Online Sales Change The Game



Growing farmer interest in product-only transactions feeds opportunities for retailers to engage in electronic commerce.

BY PAUL SCHRIMPF
Group Editor

WHEN FARMERS Business Network (FBN) broke out the soapbox and megaphone a few years ago, decrying the evils of crop protection pricing, it did so on the backs of the entire distribution channel. Retailers and distributors were thrown into the proverbial fiery pit of inequity with manufacturers, who ultimately create the rebate programs that result in uneven and impossible-to-explain pricing that the distribution channel must manage.

Early retailer reaction ranged from annoyed to dismissive, but that has changed significantly over the past 18 months. FBN served to restoke the fire for electronic commerce in inputs — in particular, crop protection — as farmers look for any way to reduce production costs.

And the companies that are working on e-commerce systems for inputs are saying that farmer attitudes toward buying online have rapidly improved in recent years as trust in e-retailing has increased. The combination of customer demand and market forces is pushing the distribution channel further and further into the internet product sales game.

Key Drivers

Internet-based crop protection input sales are certainly nothing new, nor is the heartburn they create for retailers. Back in the early 2000s XSAg emerged as an online auction for overstocked crop protection products that allowed all site visitors to offer their excess inventory online for

FBN had when it came on the scene a few years ago. Alexander Reichert, Co-Founder of e-commerce platform AgVend, spent some time working with imagery company Mavrx prior to starting the new company. He quickly discovered the importance of the farmer-retailer relationship. “We were spending a lot of time with



Rusty Andrews

“We are not trying to break the channel — we only want the full support of retail partners. We are channel friendly and only want to work with the distribution network to help lower costs and allow them to focus on higher value work.”

sale. While it enjoyed relatively modest success and caused significant disruption to the channel in its early years, it never made the lasting impact that many thought it might.

It also did not pay deference to the distribution channel in a similar but much less demonstrative way than

younger and more tech-savvy growers at the time, and we were also partnering with retailers to reach the grower,” Reichert says. “We focused a lot of effort on (*CropLife*® magazine’s) *CropLife 100*. We started to understand a couple of things — first, there was increasing need and inter-

est from the farmer side to want to engage with retail in a more digital fashion, and purchase inputs online.

“At the time, the rhetoric from other online e-commerce competitors was that the only option was to go around the retailer, and it really poisoned the value the retailers bring to U.S. agriculture,” he continues. “Knowing and working intimately with both sides, we know that this rhetoric was not what most farmers believed. This really laid the groundwork for our approach.”

Rusty Andrews, CEO of Texas-based e-commerce platform Agrellus, fully concurs with the positive dealer message. “We are not trying to break the channel — we only want the full support of retail partners,” he says. “We are channel friendly and only want to work with the distribution network to help lower costs and allow them to focus on higher value work.”

Bruce Vernon, President of CommodityAg, an e-commerce platform owned by The Equity, a cooperative based in Effingham, IL, also believes that controlling the crop protection e-commerce game is important for retailers to manage because doing so can deliver business opportunities.

“I’ve seen it over and over in my career in retail,” says Vernon, who has spent more than 30 years working in the ag distribution channel. “Farmers get to a certain scale, and they need you less, but as they grow, they begin to need you more again.” Vernon calls it the “service ladder,” and farmers will move through different rungs on the ladder as they evolve and grow.

While these emerging models for facilitating e-commerce for farmers take different approaches, each has a foundation at the retail outlet. But why is this starting to take off now?

All three of these companies point to an increased comfort level among growers to buy products online in

their personal lives, in addition to farmers simply indicating that its time has come.

“I was talking with an Iowa grower after hours at a meeting, and he told about this special 4-ply toilet paper he buys online,” Reichert recalls. “I asked him if he could get it at the store, and he explained that the closest place was 60 miles away. So I asked how much of his household goods he buys online, and he said probably 90%, which is a lot more than even I would buy, and really indicates a high level of trust and comfort with online purchasing.”

“Retailers are great at moving product and servicing the grower, but they’re frankly not great at addressing online commerce; it’s not a strength. This is a great digital complement to the service they provide.”



Alexander Reichert

He then was asked about crop inputs and business purchases: “He said, ‘I don’t buy anything online because I want to work with my retailer, but if I could, I definitely would do that.’ That was the insight that led us to create AgVend, work on retail partnerships, and help them get a digital presence that helps their business.”

An additional observation from Agrellus’ Andrews was that farmers are tiring of the sales call for crop protection, especially those chemistries that have been around for decades. “These guys know the products and how to use it, and they’re not looking for a sales call from a crop protection representative,” he says.

It’s not just a few startups and mid-range retailers in the game — Nutrien Ag Solutions, the recent rebrand for Crop Production Services based in Colorado, announced it is launching an e-commerce platform that it expects to debut next year.

The Partner Approach

Two of the leading models for input e-commerce are driven by independent organizations and feature retail channel-friendly approaches that offer a measure of value to operations that partner with them — along with the capability of conducting business online. That said, there are some interesting differences.

Just over a year old now, Minnesota-based AgVend operates an e-commerce engine that offers retailers two options to participate in the system. For farmers who want the ability to shop around

for products, AgVend has its own labeled online marketplace, in which retailers can participate and offer products for sale. Farmers can compare prices and create product bundles and, based on the ZIP code provided, will get a list of offers available from the retail participants. “Different prices for the products and any services required, as well as shipping options, will be covered in the list of offers,” Reichert says.

To date, AgVend has 20 retailers locked into this broader e-commerce approach, and it hopes to grow the number to more than 30 by year-end.

The second retail offering is a private-label online marketplace for individual retail customers to market to their customer bases. The first site of this type went up in mid-September.

What’s motivating retailers to add e-commerce? “Retailers are great at moving product and servicing the grower, but they’re frankly not great

at addressing online commerce; it's not a strength," Reichert says. "This is a great digital complement to the service they provide."

He adds, "This model is also not replacing salespeople. We are helping them engage with growers in more meaningful ways."



Bruce Vernon

"Farmers get to a certain scale and they need you less, but as they grow, they begin to need you more again."

Meanwhile in Texas, Agrellus is offering an e-commerce platform for a wide range of potential farmer purchases, from crop protection and fertilizer to seed, irrigation parts, fuel additives, and more. CEO Andrews says that the program was driven by grower demand but built with the traditional channel as the key partner.

"Farmers came to us saying they were frustrated that they could not buy inputs from their computer," says Andrews, who demonstrated Agrellus at the 2017 Commodity Classic trade-show to great success. "And they were also telling us that sales calls from crop protection representatives were becoming burdensome." From the standpoint both of time required for salespeople, and the rep's propensity to sell their own product, farmers were ready for online sales.

Agrellus offers farmers the opportunity to create product and service packages that are turned over to retail participants in the site. Retailers

can then build quotes on the packages, which farmers then review and select a winner. An interesting twist to the system is that everyone who participated in the bid gets to see the winning number, which can be used to fine-tune future quotes, or as a negotiating chip.

Andrews agrees that the Agrellus service is all about convenience on brands that are old-line, familiar, and require little to no service. The benefit to retailers is the ability to service a low-profit product efficiently, allowing them to focus on higher value services and products.

Retail-Based Offering

CommoditAg is unique in that it was built by a medium-sized retail entity, an expertise that's outside the wheelhouse of most retail dealerships. But with the first entire season about to come to a close, Vernon has been pleased with the results on a number of levels.

Like other e-commerce engines, CommoditAg houses an inventory of products that farmers can choose from, and delivery is provided from The Equity, Vernon's cooperative, or one of the partner retail entities that have signed on.

Vernon says that CommoditAg addresses the ever-fluctuating farmer

demand for crop protection product access and internet purchasing and normalizes the movement of bread-and-butter crop protection products. And it has pushed an acceptance that selling these basic products should be managed as efficiently as possible, with speed, accuracy, and convenience at the forefront.

"Some say that they're afraid that this will facilitate the cannibalization of the business, to which I say, 'If the business is vulnerable, then it will be cannibalized,'" Vernon says. "It's better to participate than not."

Another benefit has been exposure to new customers who happened to find them online while searching for product. "We had a customer buy some corn herbicide from us, and after the delivery and some discussion, we walked away with an order for 600 tons of ammonia business we would not have had otherwise."

This was the first full season, and Vernon's group went the extra mile to ensure smooth transactions. "Our motivation this year was a positive customer experience, so every online order got a follow-up phone call to walk through the process," he says. "After the delivery, we would follow up again."

It's also been important to keep communication lines open with manufacturers about what they're doing. "We have had good conversations with suppliers, and we're very careful to work collaboratively," Vernon says. "We're bringing the market along at a pace that is comfortable for them."

In the end, using e-commerce is helping them manage the retail business more effectively, and putting the human assets in retail to better use, he says. ▶

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