Managing Supply Chain Volatility in Agriculture

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ABOUT CHS

• Nation’s leading cooperative, owned by farmers, ranchers and co-ops
• Global energy, grains and foods business
• Helping producers, co-ops and customers grow their businesses
SUPPLY CHAIN TRENDS

• Fundamental shifts in supply chains
• Infrastructure not keeping up
• Creating logistics imbalances and increased risk
RETURN OF U.S. MANUFACTURING

- **U.S. Industrial Production Growth**
  - **4.7% in 2014**
  - **2-3% in 2012-2013**
- **U.S. Manufacturing Activity at Three-Year High (ISM)**
GROWING EXPORTS

U.S. Exports
Exports by Month (USD Millions)

Source: U.S. Census Bureau
GROWTH PROJECTED TO CONTINUE . . .

Projected U.S. Manufacturing Costs vs. Western Economies (by 2015)

Source: Boston Consulting Group
RETURN OF U.S. MANUFACTURING

• U.S. Industrial Production Growth
  • 4.7% in 2014
  • 2-3% in 2012-2013
• U.S. Manufacturing Activity at Three-Year High (ISM)
• Increased demand taxing U.S. logistics network
MEXICO AS LOW-COST MANUFACTURER

- Taking mfg. share from China
- Lower unit mfg. labor costs
- Energy advantage . . . from U.S.
- China currency appreciation
- Shorter supply chains . . . but dependent on truck capacity
TIGHT U.S. TRANSPORTATION CAPACITY

- Underinvestment during recession
- More than 10% of workforce left industry (2008 – 2012)
- National shortage of transportation employees at over 125,000 and growing
- Changing regulatory climate
  - HOS rules adding to capacity constraints
  - Potential to weed out 5%-10% of labor force
CHANGING AGRICULTURAL LOGISTICS

- Supply chains increasingly truck dependent
  - Rail challenges
  - Pipeline infrastructure
  - Lower pipeline system inventories
- Increased demand volatility
  - Larger farming equipment; higher yields
  - Shorter, more intense harvest seasons
  - Concurrent with peak logistics season
MANAGING SUPPLY CHAIN RISK

• Growing importance of what is done before the season
• Emphasis on planning, forecasting, and risk management
• Must look at all aspects of supply chain: supply, inventory, transportation
• Develop partnerships . . . before you need them
• Review operations and business practices
• Local and producer inventory investments critical

In this environment . . . anyone running around without a good cushion is playing Russian roulette with a loaded gun.

- Larry Gross, FTR Associates
HEEDING OUR OWN ADVICE . . .

- Capital investments
  - Transportation
  - Energy terminals and storage
- Investments in staffing
  - Growing focus on logistics management
- Using a “supply chain control tower” approach