

***The Joys and Pitfalls of  
Producer Projects: Lessons Learned***

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# WHAT I WILL COVER

## Discussion topics

- Challenges in commodity ag
- The value-added solution
- Key value-added challenges
- Key value-added opportunities
- How the government can help
- Lessons learned

## KEY TRENDS IN COMMODITY AG

Commodity  
ag is a  
tougher  
industry in  
which to  
succeed

- In any commodity production, the trend is toward lower prices, thus illustrating the importance of economies of scale
- Worldwide competition
- Labor issues
  - Where is the next generation?
  - Impacts of immigration

*This encouraged existing producers to . . .*

## VALUE-ADDED A POTENTIAL SOLUTION

Value-added one solution to challenges producers face

*... unlock their inner-entrepreneur!*

➤ *after all, farmers are among the true risk-takers*

- Value-added projects have been one way that farmers and ranchers have responded to market challenges
  - Diversifies portfolio
  - Higher return potential than commodity ag
  - Allows you to “have cake and eat it too”: can remain tied to roots while benefiting economically
  - Can learn about new opportunities

## WHAT, REALLY, IS VALUE-ADDED AG?

### Examples of value- added projects

- Alternative energy (ethanol, Biodiesel)
- Producer-owned upstream processing
- Organic / natural, identity-preserved

### How do producers become involved

- Providing a stronger value proposition
  - Services, traceability, niche crops
- Direct equity investing in projects (ethanol, etc.)

## KEY CHALLENGES PRODUCERS HAVE ENCOUNTERED

**Challenges  
faced by  
producers  
doing  
value-  
added deals**

- Lack of time / ability to conduct due diligence
- Not enough capital to participate
- In smaller deals, projects not well capitalized
- Exit strategy not well thought out
- No one to hold managers accountable (“I thought *you* were watching it...”)
- Expertise varies widely across investor base; amateurs making multi-million decisions not good for anyone
- Second round venture financing wary of deals

## CASE STUDY: RANCHER'S GOURMET MEATS

### Opportunity recognized

- Beef producers wanted to sell up the value chain to capture (perceived) higher prices in retail segment

### Solution proposed

- Open retail store in upper-income neighborhood in KC; sell premium beef connecting ranchers & consumers

### Problems that resulted

- Undercapitalized, management from afar
- Uneven production and capital commitments from equity owners; high cost of branding
- Too many owners and lack of scale limited upside potential

### Outcome

- Store transferred at a loss

## KEY OPPORTUNITIES THAT VALUE-ADDED PROVIDES

### Opportunities for producers doing value-added deals

- Diversification: ability to spread risk beyond commodity being produced
- Better opportunity for stronger returns
- Opens up new avenues for growth within and outside of core production business
- Provides opportunities for young people to stay in farming
- Helps bolster economy of rural communities
- Larger group of investors lowers risk for each investor, capacity increases

*Producers are doing this now!*

## CASE STUDY: BIO-AG OPERATION

### Opportunity recognized

- Biotech company with SD lab needed cattle for testing of antibodies used to fight immunologic diseases

### Solution proposed

- Ranch in central SD would be utilized to source, multiply and test cattle

### Benefits that resulted

- Negotiations made parties recognize mutual benefit
- Hands-on approach by producer allowed for better due diligence and opportunity management
- Strategic partner insured proper capitalization

### Outcome

- Cattle being utilized at higher value per head than in traditional context

## PUBLIC / PRIVATE PARTNERSHIPS: HOW CAN THE GOV'T HELP?

- Sustainability**
  - Government should focus on businesses / industries with sustainability
    - Must not lower standards
- Coordination**
  - Coordination among departments that share jurisdiction must collaborate for the benefit of all
    - E.g. NMTC; RBIC
- Measurement**
  - Measurement: is jobs the right criterion? Who is watching?
    - Gaming the system a danger
- Motivation**
  - Government should not act like a banker; must provide incentives for entrepreneurial activity without requiring collateral or too much hoop-jumping

## PUBLIC / PRIVATE PARTNERSHIPS: POLICY WISH LIST

How we can  
facilitate  
economic  
development  
through  
legislative  
action

- Increased public / private collaboration
- Business model analysis—how equity structure impacts business results: coops
- Incentives (e.g. federal tax credits, direct subsidies) to encourage the R&D and production of smart alternative energy sources
  - Analysis of direct and indirect costs necessary

## LESSONS LEARNED

**Key lessons  
I've  
learned  
over the  
past decade**

- Bar must be set as high—or higher—for entrepreneurial ventures within rural America / ag sector
- Recognize need for professional expertise to help get projects off ground, and be willing to pay market rate for it
- Properly capitalize projects; don't try to cut corners
- Obtain local, state and federal \$ support; the fewer strings the better
- Don't be afraid of failure
- Have a long-term focus
- Think like a capitalist!

## LESSONS LEARNED

**We've come  
a long way**

- We have come very far in the past 20 years!
  - More producers are invested in higher-valued projects than ever before; benefits of diversification—think of an ag-focused mutual fund
  - We understand the importance of entrepreneurs in rural America better now—creating a robust economy
  - Our learning curve is much less steep than before

**We can do  
better**

- But we can do better—we must and we will!!
  - Must focus on projects that are truly valued by the broader market, not just by us
  - Requires all constituencies—producers, corporations, governments—to work together

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