The Fertilizer Institute

2007 Fertilizer Outlook and Technology Conference

The Agricultural Retail Situation

Presented by
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- **Market Assessments & Industry Outlooks**
- **Strategic Planning**
- **Management writing**

Stratogy™ Marketing Studies 2003-2006

- Marketing Channels
  - Distribution Segment
  - Retail Segment

- Crop Nutrition & Seed

- Specialty Crop and Non-Crop Markets

- Crop Protection Markets

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The Agricultural Retail Situation

Presentation Review:

- 2002 Perspective
- 2006 Strategic market drivers
- Retail / distributor highlights & trends
- Managing market turbulence
- Future trends

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2002 Retail Distribution Study

with DOANE AGRICULTURAL SERVICES

Projections nearly five years ago:

- 25% fewer ag retailers within 5 years.
- Crop protection shifting to genetics & seed.
- Crop nutrition will be more central.
- IT will impact crop input distribution.
- Services must capture more value.

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Strategic market drivers over past five years

- Biotechnology
- Energy prices / impact
- Information technologies
- Generic/off-patent chemistry
- Rules/regulations affecting industry
- Consumer driven changes in food

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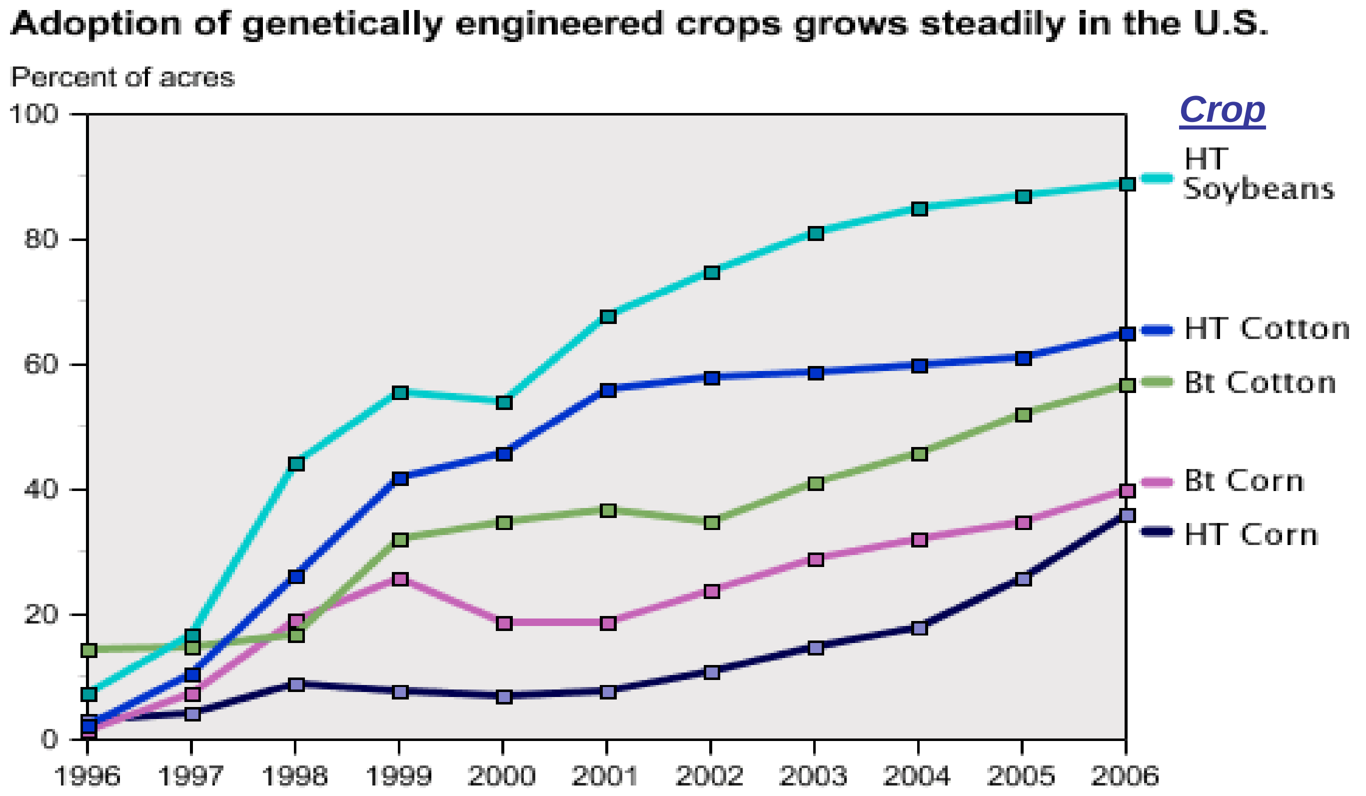

Source: USDA ERS July 2006

Crop	% of Acres
HT Soybeans	89%
HT Cotton	65%
Bt Cotton	57%
Bt Corn	40%
HT Corn	36%

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2006 Retail / Distributor Highlights

- Consolidation continued through the year:
  - Agrium purchase of Royster-Clark.
  - National distributors extending retail market coverage.
- Distributors initiating market-making strategies.
- Service driving more activity to capture knowledge-based value.

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2006 Retail / Distributor Highlights

- More focus placed on specialty markets, crop and non-crop.
- Nutrient positions strengthened, including specialty markets.
- Almost all retailers/distributors belong to at least one buying group.
- Strategic plans developed to manage change over next five years.

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Crop Production Input Suppliers – 2006

Major Suppliers	Number	Retail Connection
▪ National Distributors	4	100% with retail
▪ Cooperatives	3	100% with retail
▪ Regional Distributors	14	60% with retail
▪ Buying Groups	many	75% retail/retailers

Retailers gaining comparative marketing advantage.

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Distributor Trends

- Need to grow
- Seed strategies
- Fertilizer factors
- Generic alternatives
- *Strategic Direction:*

Theo Levitt HBR "What business are we in?."

***Outlook*:**

As distributors' business structures become similar, differences will take place at the service and partnering levels up and down the channel.

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Agricultural Retailer Trends

- National / Major regional retailers expanding through acquisitions.
- Services consolidating at retail, i.e. precision ag, seed services.
- Independent retailers; fewer but larger.
- Local cooperatives retain strong presence.
- *Professional management regardless of ownership*.

***Outlook*:**

Retailers less differentiated by structure than services provided.

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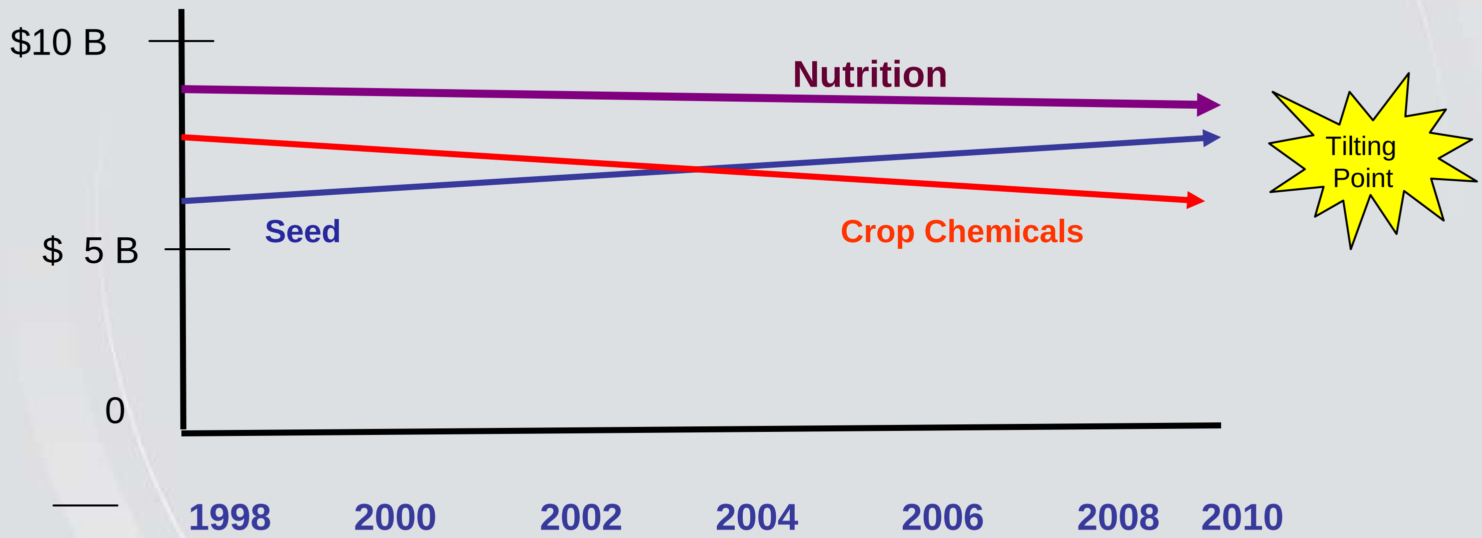
Shift in value of crop inputs



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Situation in 2006 reflects impact of changes

- Disruption and turbulence in creating value.
- High reliance on product transaction as business model.
- Less opportunity for traditional product-based differentiation.
- Value must be created before it can be captured.

Mature Markets Always Change

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Managing the Change

Trends at work will continue to drive innovation in the distribution channel over the next five to ten years.

1. Structure of industry:	Retail in leading marketing position.
2. Stronger alignments:	Genetics and Nutrition
3. Specialized markets:	Crop and non-crop
4. Post-patent products:	Part of the portfolio
5. Larger growers:	Optimize ag retail locations
6. Service income:	Managerial talent is key

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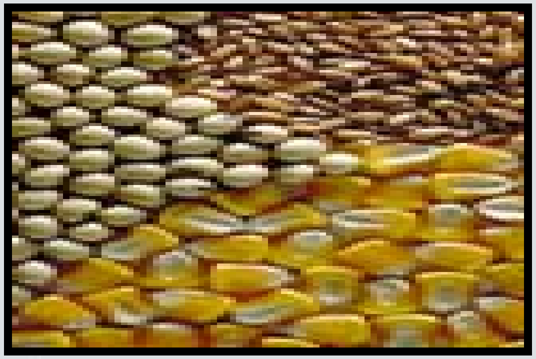
Crop Genetics

Crop Nutrition



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Crop Production Complexity

Crop Genetics

- bioengineering
- food / nutrition traits
- crop protection traits
- patent issues
- regulatory issues
- few large seed co's

VALUE

Crop Nutrition

- precision practices
- N,P,K,S, Mn, Zn,Fe
- liquid and dry forms
- application tech.
- nutrient management
- driven by retailer

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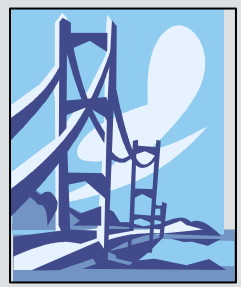
Ag Retailers are Gatekeepers in crop input marketing

Crop Input Suppliers

Crop nutrients
Crop chemicals
Genetics / Seed
Precision tech.
Business systems
Security
Product registration
Biotechnology
Legislative support
Applic. equipment
Seed treat tech.
Product promo.
Tech. support
Finance options
New products
Etc., Etc., Etc.

Agribusiness
RETAILER



Knowledge
Partners
Network
Relationships

Grower Customer

VALUE

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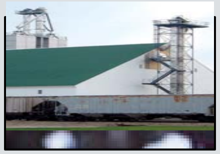
Trends shaping future of industry

- Biotechnology / Seed traits

- Energy issues / Biofuels



- IT / Business intelligence systems
- Government rules / regs at all levels

- Consumer driven food preferences
- Attracting and developing top people

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Where are the resources to make change?

- Resources to create change exist in current retail businesses.
- Future decisions more managerial than operational.
- Strategies will shift resources toward customer values.
- What customers value - they pay for.

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Summary

- Retail will drive proportionately more change than in the past.
- Market value forming around knowledge-based products and services.
- Retail manager is central to intercepting this future.


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Thank You !
Joe Prochaska