Leading Cooperatives to Global Success

An address by John Johnson

7:00 a.m., Wednesday, April 2, 2008
Sterling & Crowne Room, Holiday Inn, Fargo, ND
This lectureship series was created to honor Al Bloomquist, who served as president and longtime executive of American Crystal Sugar. A driving force in the development and success of the Red River Valley’s farmer-owned cooperative sugar industry, he became the first executive secretary of the Red River Valley’s Sugarbeet Growers Association in 1961. When American Crystal was acquired by the growers’ association in 1972, he became a part of the new cooperative corporation. He received an honorary degree from NDSU in 1992. In recognition of his contributions to the company and the industry, American Crystal has established this lectureship series through the Burdick Center for Cooperatives at NDSU. American Crystal Sugar is a cooperative that produces 16 percent of the country’s sugar. The company is owned by approximately 2,900 shareholders and employs 2,000 men and women in the states of Minnesota and North Dakota. The company generates approximately $1 billion in sugar sales annually.

John Johnson, president and CEO of CHS Inc., was born above the grocery store in Rahme, North Dakota. He graduated from Spearfish High School and went on to Black Hills State University where he received a degree in Business Administration. He joined Harvest States in 1976 and by 1995 he was named President and CEO. After the merger of Harvest States and Cenex in 1998 he served as General Manager and President of CHS until 2000 when he was named President and CEO. He rose through the ranks from feed consultant to president and CEO of CHS. CHS is the nation’s largest cooperative and number 166 on the Fortune 500. John outlines how the organization has evolved as a global player in the rapidly changing grain, food and energy businesses. CHS has operations in 26 different states and markets products in over 60 countries.
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It is a pleasure to be back in North Dakota. I was born and raised in Rahme, North Dakota. It is not quite the end of the world although I think you can see it from there. It is on the very southwest corner of the state, right next to the Montana border. A unique thing about my background is that I was not born at the hospital. I was born above the grocery store in Rahme. I don’t know if you have ever been there, but there about 100 people in the town. I was delivered by a midwife because there wasn’t a doctor’s office. I graduated from Spearfish High School which was a relatively small school back in those days. Then I graduated from Black Hills State University which was a small Midwestern college. Now, the lesson in all that for you students is that there are opportunities for a lot of people that don’t necessarily graduate from schools like Harvard, Stanford, and other places in order to be a CEO of Fortune 500 Company. I am kind of a testimony of that. Not that I am the smart- est person in the world, but I think that the ground roots and good Midwest work ethic we all have in agricultural communities can also get us a long ways in our careers. That is the message to all you young folks today; that you are in a great institution here at NDSU being a part of the Midwestern culture, and if you use those assets in the right way, you can go a long ways in business or whatever career you might want to be in.
Before I start my comments I want to talk about CHS, where we have been, and where we are going. The points is not so much to advertise CHS to you as much as talk to you about a process that I think is going to be very important for CHS and also for businesses as to how you plan for your future. I say that because, in my 30 years of being in an agricultural business, I have never been in an environment like we are today and our experience this last year. Every commodity is at the highest price level we have ever seen in the history of the business. The degree of volatility that we are dealing with in these commodities is also at an all time high. As a result, some of the basic skills that I have always used to manage the commodities business, I almost have to park at the door and rethink how to do things.

I have told this story to a number of audiences. I have been in this business 30 years, with now about 14 years as a CEO. One of the lessons I have learned is to come into my office (I am usually there by 7:00 am or a little earlier) and the first thing I do every couple of months is to fire myself and think about the business as if I was brand new and consider what would I do differently. In other words, try to get yourself out from under all the baggage you might have from the 30 years of experience. Now the fortunate thing is that at 8:00 am I can hire myself back. I think this is just a way to check our historical methods and our historical experiences and see if they might get in the way of being innovative in our management approach or how we want to approach our operations.

CHS is a Fortune 200 company. In fact, we are the 166th largest company in the US. So consider that this is a cooperative with its roots back in North Dakota from seventy-five years ago and today it is fortune 166 company. We have operations in 26 different states and markets products in over 60 countries. One the new responsibilities that comes with this company is the international part. One thing I have learned traveling the world is that we think the United States always has all the right answers. The reality is that, when you are doing business in foreign markets, you have to understand the cultures and the kind of products and the things they need in these foreign countries.

Let me give you an example. About five or six years ago I traveled to Morocco. Morocco is a large country that uses a tremendous amount of durum wheat. We use durum but it’s not for pasta. It’s made into couscous. Couscous it is kind of like a rice product. I was calling one of our big brokers over there and he was very upset about the durum he was getting. The problem was that when we loaded this durum most of it was dark coated durum but it got blended with what they call desert durum, which has a lighter color. I was sitting there and I thought, “a little white durum? What’s the problem with it?” The problem was the color. The consumer wanted the darker durum. If you think about what is the difference whether it was light or dark, durum is durum. It’s not. That’s what I’ve learned. You have to understand the cultures and the needs of the customers around the world. We now have over 6,000 employees in the company. We have most of them right here domestically, but we certainly now have operations in countries like Asia and South America. I’ll talk a little bit more about our international expansion in a few minutes.

I’ve also learned that as a CEO we have a responsibility to our employees. When I think about 6,000 employees, it is really 6,000 families. When the board and senior management make decisions about the future of this company, we know we have 6,000 families out there hoping we are making the right choices. They are depending on us to do the right thing for their employment and for their family. The reason I say that is I have also experienced companies that did the wrong things. There would be nothing more devastating to wake up one morning and a company is gone. Now you have 6,000 families who are depending on a company and all of the sudden the
company is gone. You know some of the companies I’m talking about. I think the responsibility that we have in the leadership role is to make sure we are doing the right things around the organization not only for our shareholders but certainly for 6,000 employees that are part of our company.

Our vision is really to be an integrated energy, agriculture, and food company that can better connect our producers with consumers domestically and around the world. I want to emphasize the word integrate. In today’s world the idea of independence is getting to be more challenging. I don’t care how big of a company you are or how big of a farmer you are or how big of a co-op you are. I think we are in an interdependent environment. We are dependent on each other to do the right things in order to be successful as organizations. That means integration is important. The other part is connecting our producers with consumers. We must do that internationally and domestically. We wake up every morning thinking about how to get the products you produce as farmers to a market and create value back to you. Our mission is to grow our profitability. If we do that we can add value to all of our stakeholders. Our stakeholders start with our shareholders, the people that own the company. I already talked about the 6,000 employees, they are stakeholders. But the communities in which we operate are also our stakeholders.

Another stakeholder is called the banker. The amount of capital it takes to run these businesses is off the charts compared to whatever I’ve ever experienced in my life. Now I used to have this saying about bankers: the only thing they’re interested in is getting their interest and getting it paid back. Bob Engel, CEO of Cobank, reminds me, “no, John, it’s not quite that way. We want to get paid our interest but we just want the assurance that you can pay it back.” In other words “keep borrowing money from us.” To give you an example of how much capital it now takes, go back to as little as a year ago. Our company operated on about six or seven hundred million dollars of working capital per year. Today we’re approaching 2 billion dollars per year. That is a reflection of the value of commodities that we all deal in.

Ownership is really three major shareholders, the one being the cooperatives and the farmers. There are about one thousand locally owned cooperatives representing over 300,000 producers. We have over 50,000 direct members which are farmers that are part of our integrated company-owned system. We also have 7,000 or 8,000 preferred stockholders. We were one of the first cooperatives to decide we needed to create more permanent capital in the company, but at the same time try to make sure we don’t distract the value to our shareholder. The preferred stock program was the outcome of the decision. I think it was about four or five years ago we put that into place. It is traded over NASDAQ and is completely liquid. At the end of the year, when we have retired the cooperative equity to our cooperatives, we give them a portion of it in preferred stock. They can hold stock as an investment and collect the eight percent dividend, or they can sell it on the open market and take the cash, a win-win deal. It’s a capital position for the company but also creates equity for our owners.

The interesting thing about our preferred stock holders is that some of them are like this man from Minnesota who is about 90 years old. He managed farms for big farm management companies, a real tie to agriculture. He became really excited about this preferred stock, eight percent dividend. His check comes once a quarter. He feels really pretty good about it. He comes in my office once a year, saying “you guys are doing a great job!” Last time, he brought his grandson. “This is the company you want to work for.” So we get a lot of passion from our cooperative ownership.

Ours is a farmer-controlled company. We have 17 directors who serve for three year terms and represent 8 different geographic regions. The number of
directors in each region is proportional to the amount of equity business volume done in that region. North Dakota has three directors, Minnesota has five, South Dakota has two, and so on. The board is unique because all 17 are farmers.

I have had people tell me that farmers don’t always bring the right kind of skills to a company as a director. I want to debate that just a little bit. I have served on company boards and corporate boards. Most of these are made up of CEOs and CFOs. It’s not that they are not great board members. The difference is that in having 17 farm members on our board, each comes to our board with a tremendous amount of compassion, interest, and commitment of time to do the right thing for the company. When I deal on corporate boards, we usually fly in and we fly out and we want to get the job done and it’s over with. So the cooperative board members demonstrate a commitment you don’t get on a corporate board. The farmers also bring common sense to a board. They may not have all the skill sets that sometimes you’d like because they all come from one single kind of business. But the common sense they bring to a board, I think, outweighs some of the attributes you see in some of our corporate boards. It is a great way to govern an organization.

We have had a decade of tremendous growth. Our performance from a financial perspective has been stellar. For a long time we had sales in the $150 to $200 million range. Then, in 2004, things really started to hum. Last year we had $756 million in earnings, the fourth year in a row we have had a record and an all time record high. Six months into this year we are already well over $400 million. Everyone asks if this be the first year a cooperative will make one billion dollars. At the end of six months you are already at $400 million but there are six months to go. A lot of things can happen in this market place in the next six months. With all that said, we are going to have another great year. Our volume of sales has grown dramatically, well over $17 billion and will surpass $20 billion. I guess this means that we will move up on the Fortune 500 list.

The increase in volume is driven by two things. One is the value of commodities: consider $100 crude oil, $10 wheat, $5 corn, $13 beans, and $700 to $800 dollar fertilizer, you can see where the volume generated around pricing is a significant amount of it. And probably the most important thing is actual growth. At the end of the day, whatever company you are involved in whether a corporate IPO or a cooperative, what matters is that you generate value for your owners. We are very proud that this last year we sent out $345 million dollars in cash and preferred stock to our shareholders, a 22% return on the invested capital farmers and cooperatives have in the company. Now, I have some farmer friends here and they say, “yes, but John, as a cooperative we have to pay tax on that.” Well, I invest with my broker and I get a dividend that comes out of my investments, and do you know what I have to do? I have to pay taxes. So it is no different ladies and gentleman. When I look at a 22% pre-tax basis return on your investment in a cooperative, that is a pretty significant. That is how we create value for our shareholders, demonstrating a 37% return on equity.

I must caution here that a 37% return in a commodity market is not sustainable over time. If we can achieve 15%, 16% or 18% percent, that would be a stellar year. My word of caution is that the levels of performance seen today should be taken advantage of. Get more cash out for our owners, reinvest in our infrastructure, and keep our balance sheets strong while these times are here, because they won’t stay forever. We have what some people would call a complicated structure, but at the end of the day it really is not.

The reason I say this is because in every business there are a lot of creative ways that you can get the job done. I hear the comment that cooperatives don’t have enough capital, which may be true in some cases. I think if you look at the
creative ways you can structure businesses, you can access capital in a lot of different ways. Our preferred stock is one, but using partners and joint ventures can help you accomplish growth without using 100% of your own money. That is exactly what we did.

I wanted to share a few of them with you. We have a company called Ventura Foods, the largest repackager of vegetable oil in the United States. There are 16 plants in the U.S., which package about 10% of the entire U.S. soybean oil production. Ventura Foods, owned by Mitsui Cooperation (50%) and CHS (50%), is an independent company with its own financing. In the food business, which has a very consistent cash flow, we can create more leverage than we can with a commodity company. So, it’s a great way of leveraging your capital and bringing another significant partner in with you.

Back in 1996 when I formed Ventura foods, I had never had been out of the United States, except on a vacation to Mexico. I was faced with the decision to go to Mitsui in Tokyo, Japan and try to get this deal done. That was intimidating for a kid that grew up in Rahme, ND and Spearfish, SD and had never been in a town bigger than Rapid City. All of a sudden, I am boarding an airplane going to Tokyo, Japan completing one of the biggest deals I’d ever had. After our flight and arriving at the hotel, we had about ten minutes to freshen up and meet Mitsui representatives for dinner. When I went up to my room the first thing I had to do was go to the bathroom. I went to the bathroom where they had a nice toilet/stool. But, instead of a typical flusher on the side, this one had a console that looked like a BMW car with several knobs and buttons on it. I unfortunately pushed the wrong button and it sprayed rather than suck the water. I was soaking wet from the top of my neck all the way down to my belt and I had five minutes to go to dinner for the biggest deal I had ever done. I was quickly using a hairdryer to dry my necktie and my shirt to get ready for it. The point is that in these leadership roles you have to be prepared for many different things, and mine was learning how to use the stool in Tokyo, Japan.

We own another company, called United Harvest, an export facility in the Pacific Northwest, also a 50/50 joint venture with Mitsui. Mitsui has offices all over the world, so they become a marketing arm for that joint venture primarily for wheat and small grains. We have also got NCRA, which is a refinery down in Kansas. We own about 75% of it, with two other cooperatives owning the other 25% of it.

Temco is another export joint venture and our partner is, surprise, Cargill. And I’ll never forget when we formed that

someone said, “You mean you are going to do a partnership with Cargill?” They are good business people. We share an export facility with them on the west coast for exporting soybeans and corn. We actually operate that business in our home office and Cargill participates by finding markets for us. They are a great partner, which teaches that we shouldn’t label anyone as your enemy. There are good people out there you can partner with and create value for your share holders.

Multigrain, a new joint venture in Brazil, is a longtime 240,000 acre farming operation and grain company that we have done business with for a number of years. We bought into that company on a 50/50 basis for 28 grain elevators, four export elevators and one import elevator. Our first purchase was to buy into the grain elevator and the export and import facility. From that, Mitsui came into the cooperation, so now we own 37.5%, the local owners have 37.5% and Mitsui has 25%. Now you are probably wondering, “why the farm operation?” If the farm had been a separate deal we probably wouldn’t have pursued it. However, since Multigrain owned the farm as part of an integrated system with their grain elevators, it became very clear to me that the best way was to accomplish the deal was bring the land into the investment. Those of you with banking backgrounds know land is a long-term investment and
the grain business is based on a short-term working capital. So, when you borrow funds for this kind of a business, it really balances your long-term and short-term capacity needs. The other part of it is that the Mitsui folks representing Japan, have a demand for about 500 million gallons of ethanol but cannot find it. The most logical place to manufacture ethanol and get it into Japan is Brazil. Our strategic partner, Mitsui, is currently doing a study to develop a portion of this land for ethanol production. They have also developed a technology to build a pipeline along the railroad system going from the Bahia area of Brazil out to the coastal area. The pipeline will take the ethanol out to the vessels and then to Japan and the market. That’s their strategic need for it. When you produce ethanol from sugar cane versus corn, you have to have your landmass right around the plant.

Confina, a lending company 51% owned by local cooperatives and 49 percent by CHS, is a financial arm of our company. Horizon Milling, the largest flour miller in the United States, is 24% owned by CHS and 76% owned by Cargill. Cargill runs that joint venture for us and does a fantastic job. Those of you that have heard me in years past know that this flour milling business has not been a very exciting business profit-wise. This year, they are off to a phenomenal start and have about $17 to $18 million in earnings. Although I have to caution everyone, I think a lot of its earnings are on wheat positions more than on manufacturing flour.

We were a 20% owner in a company called US Bioenergy, who just yesterday consummated a merger with Verisun, an ethanol production company. US Bioenergy had about 8 production facilities up and running or about up and running. Verisun now will be the largest ethanol producer in the world, producing about 1.6 million gallons of ethanol. I am not sure this is a good or bad thing in the market. As a result of the merger, our ownership is diluted down to 8% of the business. We have about a six month lockout where we can’t do anything with the shares. Once the six months is up, we will revaluate whether we want to own more or less of the Verisun business. We also have a variety of local partnerships with local cooperatives. A good example is in Minot, North Dakota where the local Farmers Union and our Country Operations business have a 50/50 share of a fertilizer plant. We have a number of grain or fertilizer operations in joint ventures with local operations.

I am now going to spend a little time talking about energy. We are the largest cooperative refinery. When compared with Amoco or ConocoPhillips, we are a pretty small player in the energy business. We run two refineries, one in Montana and one in Kansas. Even though we are not that big of a player in the market, our niche is rural America. Our core area is the Montana, Wyoming, North Dakota, South Dakota, Wisconsin, Minnesota, Iowa, and Nebraska region. With the Cenex brand, we have been able to make really good investments around our brand and our investments in our two refineries are state of the art. In fact, this week at Laurel they fired up a new cocker, which takes asphalt and refines it once more to remove more petroleum. We invested about $400 million in the Laurel facility which took about two and one half years to build. We are small but our plants operate as efficiently as any of the big ones.

Crop Nutrients is a new business for us. Some of you may remember a company called Cenex/Land O’ Lakes, a joint venture between Cenex and Land O Lakes. When CHS came into the mix, we renamed that Agrilliance. About a year and half ago Land O’ Lakes CEO Chris Polincinski and I sat down and asked if this is really accomplishing what we wanted long-term and came to the conclusion it wasn’t. The outcome of that was Land O’ Lakes purchased the crop protection business and CHS bought the crop nutrients business. It has been a phenomenal business venture for both parties. We eliminated all the corporate overhead Agrilliance had, separated it into
two companies, making it a win-win deal for all. I think we have about $30 million earned in our crop nutrients wholesale business. I believe the reason it fit us so well is that it is a commodity. Our skill sets around logistics and transportation, with management tools, are the kind of skills you need in the fertilizer business.

I think we mentioned that we market grain in 60 different countries. We handle about a billion bushels or greater, making us the third largest grain handler out of the United States. Grain marketing is a viable core function within CHS. When I think about our members and our member cooperatives, the ability to access markets domestically and around the world is crucially important. I don’t know if I could put a value on cooperative presence around grain marketing but I am going to give you an example of what can happen. This is not to paint a bad picture of the other grain companies, but it wasn’t too many years ago our Pacific Northwest export facility went out of commission because of a fire. At that time, Harvest States wasn’t able to bid on grain and prices went down $0.25/bushel overnight. When we returned, the price went right back. The lesson here is that we have value, not only because of the earnings and dividends we can pay, but also because of our presence in the market.

We also have offices in Switzerland, Hong Kong and Shanghai. The reason this is important is we used to handle a lot of our grain through brokers. It became important to us to make sure the relationship with customers was direct, requiring us to have boots on the ground. We hired our own staff in all these different markets, and that is the key for hiring the right people. Let me give you an example, the young gentleman we hired down in San Paolo, Brazil, Stefano Vitory, a 34 year-old native of Italy, handles all of our Brazilian operations. He has managed companies in two different continents. He speaks and writes six languages and is one sharp young guy. The point of that is if you are going to get in these new markets, hire the right people. We went to Geneva and did the same thing and we found a gentleman probably about 48 years old who ran grain companies for a number of different organizations. He speaks and write five languages and has been on probably three different continents. After the leader, we hire the chief financial officer, or controller.

In my thirty years I have never witnessed anything like we went through this last year. Some of you in this North Dakota market know what we did. For durum we went as high as $23-24 per bushel. Soybeans did the same thing. Corn did not have quite the impact but it looks like corn could be next year’s wheat if we have the planting intentions right. So the point is we have seen a rapid escalation of grain values. That is good. It is about time our producers in the United States have found values for the products they produce. I think we need to be conscious of the unintended consequences of these prices. The unintended consequences are twofold. One, is the amount of money it is taking now for all of the companies to operate. Now most of us are getting through that. Two, I think you have to keep your eye on the consumer. What reaction will happen out of the consumer? They are forecasting a four to five percent inflation in food. I think they have that right by half. I think it could approach double digits based on the ingredient costs going into the food industry. I don’t necessarily say that’s bad, I just think as farmers and part of agricultural production in a food system we have got to be conscious of this. In an economy as stagnant as it is today, and the consumer taking on an eight to ten percent inflation factor on food, increased prices can have unintended consequences. I don’t know what that is. Eating habits can change, eating out can change, government policies can change. A lot of things can happen in this environment.

The board has been totally supportive of us getting an international presence. I think it is important for our company so that we have markets for grain 365 days per year. We need to find our homes overseas. We
go about it in a very diligent way. That is, we understand the markets, hire the right people, put trading offices in first, because that is only people and computers. Once we become comfortable in a particular market then we become ready to invest in infrastructure and assets. It was just ten to fifteen years ago everyone had to rush to China. We had a lot of companies that just ran over to China saying they would invest in a processing plant or a flour mill or a flaxseed crushing, etc., and they lost money. We are not taking that approach. We are going in there with trading opportunities first, which is just an office and people. We then come to understand those markets and find the right partners that we can trust.

I made my first trip to China about fifteen years ago just like everybody else was. I was looking for an opportunity to invest. I went to a consultant and I said, “Give me some advice as to what I should look for in a partner.” He said, “Here is the rule. Find yourself a partner and give yourself a 50/50 deal but pay your partner 60%.” I looked at him and said, “Why would I do that? Why would I buy 50% of the company and pay them 60% of the profit?” He said, “Because they are going to get it anyway.” That was my lesson learned. Get the right partners before you go in.

We have two oilseed processing plants. One is in Mankato, Minnesota and one in Fairmont, Minnesota. These processes about 240,000 bushels of soybeans daily. That industry is doing a lot better today. It sells soybean meal, vegetable oil, and soybean flour. We just closed on a transaction this month with a company called Legacy Foods. It is a company that was a large customer of ours using soy flour. They manufacture food and pet food ingredients. They take soy flour and they granulate it and then they make a food ingredient product out of it both for pet food and for human consumption. Some of the products that they would manufacture would be margarine, salad dressings and cooking oils, such as Hidden Valley salad dressings. Another product made there is a health food product called Smart Balance. Soy oils are mixed with butter to get a more healthy product.

Then we have our services area: Ag States Agency provides property and casualty insurance for our customers; Country Hedging is risk management; and Cofina is the financial arm. The last company I want to talk about is our Foundation. William Nelson here is the director of our Foundation. It is about a $30 million funding do work with youth and education in a nutshell. That is really what it is all about. Why is that so important? It’s our future. So when we look at our foundation and spending corporately, putting it in youth and education is the best investment we could make. William Nelson and our board do a wonderful job making sure we give to the right institutions and the right young people because that is really the foundation for our future.

After our third or fourth record year, I was probably the most nervous I’d been in the 14 years I’d been CEO. Everyone was wondering why are you so nervous when things are so good? I said the reason I am nervous is, are we losing our sense of urgency? When things are good you relax a little bit. I wanted to make sure we didn’t relax. We developed what we call a 20/20 process that I want to go through with you. Typically, in strategic planning you take a look at one set of circumstances then you try to build a plan around it. I remember when I first started we would do ten year plans. Then we went to five-year plans and then three-year plans. Now we have it down to two-year plans and I can’t even tell you what is going to happen two years from now. The question is, “Are our processes flawed?” In other words, you are trying to predict something two years, three years, or five years out and then create a plan out of it. Our business today could be totally different six months from now. So to just sit down and go through the effort probably in the end wasn’t going to do any good. So we started a different process. We first looked at our vision mission and said that is okay. The
values at which we operate our company stay the same, no change. Then we looked at things we think are pretty certain, but there are an awful lot of things that we think we don’t know.

Rather than trying to predict what is going to happen down the road, we said let’s go ahead and understand what we know and understand what we don’t know and start to build our plans around that. So what that ended up to be is what I call scenario planning. It is nothing more than a quadrant with four squares in it. In these four squares you have what we call boomtown, which are the great times we are in today. You have another one called meltdown, which is when things are pretty tough and you have everything in the middle. You know we are not a company that says just because business is good or bad, let’s sell out and try something different. We are not going to be that. The value we have is the business we are in. So what does that mean? We have to operate in all four different scenarios, boomtown and meltdown. So what is going to measure your work and help you decide where you are at? That was the formation of what I call the “dashboard”. It is like flying an airplane or driving a car and you have a dashboard. It has a speedometer, gas gauge, thermometer, and you are trying to read what you are going to do as you operate that vehicle or airplane. It is the same thing with a company. You need a dashboard. What are the things that are happening in the industry that tell you things are going to be really good or things can get pretty tough? Do you think, for example, the value of the U.S. dollar has an impact on our exportability of grain? Big time. If the value of the dollar were to strengthen greatly we know that could have a direct impact on the exportability of grain. We are big promoters of ethanol. We will soon have 12 billion gallons of ethanol. That demands 25%-27% of the corn crop. What if something happened to the mandate on ethanol? What if it happened just like the biodiesel industry, where just about every biodiesel plant is now shut down because $50 and $67 oil does not work in the biodiesel industry? Do you think that any of those would have an impact on the value of corn or soybeans? I think it would big time. China is the biggest consumer of commodities in the world. Exportable soybeans command about 45% of all the soybeans that are traded in the world. China has grown at a double digit GDP growth per year. What if their growth stagnated? Do you think that would have an impact on the US and our ability to export our soybean to China? Absolutely. So these are indicators that we have now built into matrices that say if any one of these things happen it is going to have an impact on our business. So how are we going to react to that? How do we position our company for it? How are we going to manage in a different environment?

Rather than try to create a strategic plan trying to predict what the business will look like five years from now, we have put a very interactive process around a dashboard of leading indicators that says we can get ahead of the game rather than reacting to it when it happens. This is a pretty phenomenal change in strategic planning, and we have had an outside company that has helped us with this whole process. From that, we have built a balanced scorecard, one that we still have a fair amount of work to do for the company. All of you as business people, think about a scorecard for a business. What is the scorecard you use? P&L right; the profit and loss statement. It went from once a quarter to once a year. What is that? It’s history. It’s already happened. Nothing you can do about it, right? It is what it is. A balanced score card puts in place different measurements of are you headed in the right course? So it could be things like market share, gross margins, cost of doing business, talent development. It could be a whole bunch of things you can put in there that says, “Are we preparing the company for long term success?” Ultimately it comes down to P&L. I mean every company has to have a P&L but the point of a balanced scorecard is the P&L is really history.
You need something that gives you the leading kind of score that says you are building the company for the future.

We developed five major initiatives as a corporation. The first was to create an enterprise culture. You’re probably asking, “What does that mean?” At CHS we run 14 different companies. The question is, “Are we a holding company of 14 different organizations?” or “Are we truly an enterprise?” Through our work with senior staff and our board and everyone, we realized that no, we are an enterprise. So the question is how do we operate and conduct ourselves more like an enterprise, versus independent companies? We’ve got a lot of work to do yet. Some little things. For example, when a customer comes in to do business with CHS we’ve got different portals they’ve got to go through to do business with CHS: energy, grain, services. You can’t do business with customers that way. We don’t have billing that’s common. We have some IT things that need to get worked out in order to treat our customers more like we’re an enterprise. Little things like that, which becomes one of our major initiatives. And oh, by the way, any of you who run large organizations and think that this should be simple stuff, it turns out that it’s tough to break down barriers.

Another thing is to work on our global competency and presence. Doing business in 60 countries we need to be more than just brokers in these countries. We need to have boots on the ground, people who understand these markets, access to customers that we need, and also to look for opportunities for investing in places outside the United States.

Another one is growth through opportunistic acquisitions. We’ll probably redeploy somewhere between one and one-and-one half billion dollars in growth over the next five to six years in this company. It’s been a very frustrating market in which to try and buy companies this last seven to eight years. Why? The venture capital people would outbid you on everything. These were venture investment houses who, instead of investing in the stock market, would buy companies. They were aggressive buyers. We just couldn’t find prices on companies around companies that we could work with. Today, with the subprime loans, they’re now licking their wounds and back in New York trying to figure out what they’re going to do next. That’s going to create an opportunity where I think we can buy some companies, like we did with Legacy Foods, which can get better value.

We also optimize current business around current markets. If you take even the top customers in our company, it is amazing how many of them we might do energy with but we don’t do fertilizer with, or we do fertilizer but we don’t do grain or we don’t do our services. Try to look across our business units and why we can’t take more of a national account approach to our customers to get more cross selling within all of our business units.

The CHS brand is not to be confused with Cenex. Cenex is a product brand a company brand. CHS is the company and CHS is the product brand around our energy division. These are hard transitions to make. You have to remember that Cenex was a company brand for 70+ years. I can tell you that our oilseed processing in Mankato, Minnesota used to be called Honeymead for many years. It has not been Honeymead for ten years or more, but they still call themselves Honeymead. These traditions are hard to break. If we are going to get value around CHS, we have to put some investment in the CHS brand. If we can do that we will continue to build enterprise value on behalf of our shareholders in a way that can get through all the volatility. We will have ups and downs but over time we will continue to build the value of the organization on behalf of our shareholders. Thank you.