

Bloomquist Lectureship Series 1995

FEATURED PRESENTER:

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Company

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Gazing into the Crystal Ball: Career Opportunities in the Food and Agriculture Industry in the 21st Century

Introduction

Well thank you very much, Al. First of all, this program is rather pretentious, don't you think? You have Al Bloomquist and Crystal Sugar giving the money, and I get to speak first. I want you to know that's not really how we feel about it. First of all, regarding the gentleman who was just up here, Al Bloomquist, I have a line I have used before: "When I grow up, I hope I end up like Al." A long time ago, Al Bloomquist helped provide courage for farmers, and the biggest thing that faces agriculture today is providing courage for farmers to break out of paradigms and move up the food chain.

In the last month and a half, I think as a result of the many things that Crystal has done the last two years, I have been honored to be asked to speak about co-ops around the country. Considering there are about 20 days' work in every month, five days a week, four weeks a month, for the months of January and February, I had 17 requests for speaking engagements. If you count a day and a half travel for each engagement, that would have been about two solid months talking about co-ops. The truth is, every place I have gone, there is one thing missing in agriculture, and that is hope. For many, many years, the government has been the main customer of farmers; and, as a result, farmers are not quite sure what they are going to do as they go forward. From my standpoint, Al Bloomquist is a man who understood what real vision and courage were 20 years ago. I consider being invited to speak at Al's first lecture series as probably the greatest honor I have had since I came to the Valley. Al, I consider it a great honor to speak in your lecture series, and I know the series will help the co-op function.

Now first of all, all those people who don't have jobs and are students, would you raise your hands? And as far as I am concerned, anybody who has a real job and is sitting down should leave because I was asked to come talk about careers, and I am going to try to do that.

The next thing I have to ask you all is how many people come from agricultural backgrounds or have parents who own farms? And how many are going to go back after their education and run the farm? That is why I am here today.

There are three things I am going to talk about today, and I am going to make this lecture easy to take notes. Then you can go to sleep because there are only three test questions you are going to have after this is over. And so, rather than do it later while you sleep, I will do it now.

Dynamics Facing the Food Chain

First, I am going to tell you that if you look at the two dynamics facing the American food chain, you are going to find that you really do not want to go back and run your father's farm. You want to go back and run your father's food company. Co-ops are the next age of two dynamic sectors affecting America today. One, what is happening to the food chain itself in regard to agriculture. Second, what is happening to food companies in the United States. These two locomotives are running at each other at 120 mph; and if there is anything wrong with the title of this lecture today, it says, Job and Career Opportunities in Food and Agriculture. I have spent three years telling everybody there should be no "and" in that title, that agriculture is the food chain. For farmers to look at what is ahead of them, they have got to move up that food chain. So, what I am here to talk about today is not a career running your father's farm, but a career running your father's food company.

Attracting and Keeping Talented People

Second, I want to show you what I think is one of the most dramatic things happening in business in the United States. That is, we have now gone through another cycle of these simple one-minute manager philosophies of running businesses, and the latest has been reorganization. And now we are sitting after five years of reorganization where there has been a tremendous loss of people. People have been fired from every job level that exists in the business, and boards and CEOs are finding themselves with no more money on the bottom line than they had before they fired everybody. Therefore, attracting and keeping talented people is a challenge facing all kinds of businesses, not only agriculture. And human capital is one of the key things to really add value to a company. So, the second point I am trying to make is that keeping good people and attracting good people faces all businesses, not just agriculture.

Creating Value

Third is the challenge for you. I asked you to raise your hand if you didn't have a job. I remember the main concern I had when I was sitting where you are sitting was that I needed to get a job. But I will tell you that from my perspective, as you go forward, the biggest challenge is not going to be getting a job, but creating a job that has value. All rules are down. There are no rules anymore. There are no walls to people's being creative and developing value from the job they do. And looking for a job is not going to be good enough. Whether you are an accountant, a finance person, or a marketing person, you are going to have to create value. The ability to enter into the job market with that sort of attitude is going to be really important.

So those are the three points. Now we could all go home. One is that agriculture and co-ops have to move up the food chain. Two is attracting people like yourselves and keeping people inside of the companies. Making them productive faces all kinds of business, not just agriculture. Three, if you really want to make a difference, you leave here not looking for a job, but for a way to prove that you can add value through your job to an organization.

Challenges Facing CEO

First of all, I am going to suggest that you can't talk about building careers without talking about the challenges that face business right now. The problem is that management and business in general in this country lack leadership. I don't necessarily agree with that. I think it is an issue of understanding what needs to be changed and the inability of organizations to change—the resistance to change that exists. Let me give you some examples. In American business today, there are some companies that have reorganized, some more than twice within the last five years. And what is interesting is one of their answers to reorganizing has been to fire their chief executive officer. I kid people that when you become a chief executive officer, especially in co-ops, you die as a lame duck the day you take the job. The reality is that when you talk about the people who got fired, these are not people without leadership skills. These are not people who don't, in fact, know how to run business. They know how to put quality groups together. They know what TQM is. They know how to control capital spending. They know how to talk to shareholders and Wall Street. These are not people who got to be CEOs by luck. Yet, the CEOs got fired.

What Change Means

There is a fundamental reason why: change does not mean to do what you did before, only harder and more of it. In most cases, these CEOs did what came naturally to them. They managed. One of the tricks about management is we are taught how to manage based on our past. Very few of us manage on the basis of getting ready for a future that you get to write yourself. We are taught how to manage the past, and that is one of the issues that came up in these quotes. Insanity is doing the same thing again and again and expecting different results. The reality is that when many of these CEOs in business today face profit-and-loss statements and return on investments that are not up to snuff, Wall Street starts putting pressure on them. They work harder. They don't change what they are doing. They don't creatively change paradigms. They work harder at what they are doing, and they run into the first quote.

The second one is all of us short, fat guys have one simple problem. There is a word named "manager" after our names. So if you want me to solve a problem, I have to manage something. Yet sometimes, what it really takes is a set back and stop managing what we are managing and take something new into the game. If, in fact, you are facing a problem of change in business around the United States, I have heard all of the excuses that are possibly given in business. Here is a list of some of them. You sit in a boardroom, and the real truth is that the profit-and-loss statement is in the proper level. They will tell you in spite of the fact that they promoted the guy five years earlier because of his outstanding performance as divisional president that the CEO is a dummy. It is interesting how quickly you get stupid in business. Let me tell you, you give me 24 months of ProGold without any money coming out

of that place, and we will be pretty dumb. We won't get invited to any of these speaking engagements, I can assure you.

Excuses

The next thing you always hear is "You know there is nothing wrong with my company, but the real truth is that the competition is so stupid they keep giving the product away. If they would just stop doing that, I would be able to make money." Now of course, that evades the issue: Why does the other company give the product away?

I will give you an example of this in the sugar business. There is a sugar company in Texas. I won't mention any names, but there is only one in Texas. In its annual report, the chairman's letter to the shareholders was six pages long. Of those six pages, two columns were spent talking about the Red River Valley. I am quoting what they said to their shareholders. "There is really nothing wrong with our company, and we could make money if only the Red River Valley would stop making sugar." Now this was in the annual report. We refer back to number one CEO dummy because he wrote it. It would be a little bit like General Motors coming out with an annual report that said, "There is only one thing wrong with General Motors, Ford keeps making cars. If that would stop, we would be okay."

Lack of Courage

The next thing is, and this one is especially true, by the way, in co-ops, that you will sit in boardrooms with senior management, and you will hear them say, "The reason we can't change things, the reason we can't bring a new vision to this company is the shareholders don't have any courage." I have not found that to be the truth. What I have found is that if you talk to shareholders, if you really tell them what the issue is, they have the courage to make the change. The truth is, those kinds of management don't have the courage.

Lack of Strategy

The next thing you will hear is that directors are not strategic. They are so busy micro managing. That is also not true. If you give directors the right information, they will change. Then you will hear the proverbial favorite line of management, that "it is not me that is the problem; the fact is that the workers don't want to do it." Of course, that is also not true, but it is an excuse that is used. Finally, if nothing else fails, you blame the government for something or the college administration. I have found it interesting in the last three years to watch how we very quickly want to blame the structure and organization and not those of us who are actually doing the work. Finally my story about God being in charge. This one I always love, and I added it after I was at MultiFoods. During my very first year at MultiFoods, I was at a meeting with all the divisional presidents. One of them was the grain trader. We were talking about financial performance, and the grain trader talked about the weather. He said that the weather was the reason that they were not making any money, so I asked the rhetorical question: Therefore, is God in charge of the profit-and-loss statement and not the grain elevator management? So, if everything else fails and you can't blame the structure, you can always blame the weather.

Now let me go back for just a second. What's happened is firing CEOs has still not made money. Firing half of the staff at IBM has still not really made money. As a result, we have gone through an age where the reorganization pays and is somewhat hit on its nose. You have got boards sitting around looking for these kind of answers. This is a picture of a boardroom. The administrative assistant is saying about the board meeting, "Don't forget the little pads in case one of them has an idea." And the real truth is that you are starting to run out of ideas because you cannot make money unless one simple thing happens. Someone must go out and sell something to someone else who has money. You can reorganize all you want and you can TQM it all you want, but unless you make that sale, nobody is going to make any money.

Catch 22 of Agriculture

Now, having talked about business in general, not many of you raised your hands when I asked if many of you are going to go back and work the farm. One of the biggest problems in this country is that farming is viewed as a way of life and not as a business. And I have told many people this. In fact, I had one or two people come up and say, "You are not going to give that same speech, are you?" The real truth is, this is the Catch 22 of agriculture. We have tried to defend farming as a way of life instead of as a business. And the real truth is the minute we start treating it like a business, we won't have to be ashamed of what we have done. Like any other business, we have gotten bigger and more efficient. Only in farming has that turned out to be an evil. In any other business, as the little guy gets pushed out because he is not efficient, that is okay. It is the way of capitalism. But in farming, we have got into a moral judgment that that's not right.

In a country that finds it perfectly okay to have three-car companies, it is not okay to have good farms. That's where we have gotten ourselves into trouble. It wasn't the individual farmer we are trying to protect; we are trying to protect the food chain that is based on farmers. There is a world of difference. The minute you take farming out of the hand of independent farmers and give it to corporate America, we are all in for a rude awakening. We are not all going to starve, but we are going to pay 25 percent more for our food than we do today. So what we really try to protect is that the farmer independently would be the person who is on the food chain. That is what we need to defend, not how many there are.

Numbers Trouble

Let's look at some numbers that have gotten us into trouble. If you look at an investment in food processing in the United States, the return on equity is in the 40 percent range. Somebody puts his money into a food company and wants a return. As we form co-ops around the United States, the performance for co-ops is in the 12 to 18 percent range. As a result, co-ops have not been an effective place to put your money. There is something wrong here. I am going to show you how they tie in. We need to move farmers up the food chain so that, in fact, the independent farmer controls the food chain. Here is one of the things that causes the slide to fall. Since 1975, as the price of food and marketing food into the marketplace has skyrocketed, look at how much money is left for the farmer at the farm gate. It has basically stayed exactly the same. The next chart is what happens. We have in fact reduced the number of farmlands and farms, and we have not really reduced the number of land in farms, but we have reduced the number of farmers. Even though we have reduced the number of farmers, we have produced more than we did in 1975. So you go back to this chart, and you tell me that this is how much

you are going to leave the farmer in spite of rising food costs. You are going to get this result. And the real truth is because of Catch 22 of agriculture, we are taking a browbeating because we have fewer farmers. The real truth in any other industry, if there is no more money, the only thing left is to stay in business by getting efficient and smart in running it like the business. We would be declared as one of the best industries in the world. In fact, we are being indicted because we are losing farmers.

Let's talk about agriculture changing because I am trying to convince you that you have got to come back into agriculture and help to change the face of agriculture. We need young, bright people who don't have any paradigms that need breaking and don't have any lack of courage to try.

Dangers to Farming

Farming is facing five basic danger issues. One, you have got to admit I told you about the contradiction of terms, that farming isn't a business. It is the way of life. We have to break that connection.

Two, we need to bring professional managers into co-ops. You only get what you pay for. When you, in fact, hire people to run your co-op and you think they are like migrant workers, you are going to get what you pay for. If you are going to fight big food companies, then you have got to fight them on the ground where they fight you, with intelligence, brains, and experience. You are going to pay for that if you are going to be successful.

Three, public perceptions. The real truth is, the public doesn't want to support big farms. They are concerned about an environment; and, more importantly, they take food for granted in this world. The real truth is, most Americans are domestic people. When they go to the grocery store at 2 a.m. on Sunday, they want to find chili and grapes. If they don't find chili and grapes, they get upset. They think the world is just going to keep going on and on with endless food. Now I am certainly not here to tell you that we will ever go hungry in this country. We won't. But you will not find food as cheap if you let corporate America run farms rather than farmers.

To help you support this idea, when you argue about farmers, I am going to give you my little story about the Rule of Four. Everybody complains about how much sugar growers get for producing beets. But if you were to look at farming as an acre of sugar beets, you are going to need three other acres of other crops [for rotation]. Which means you need the land and the equipment to grow those other crops. If you were corporate America, when you calculated your return and investment for that one acre of beets, you would calculate all the other acres, all the other equipment, and all the losses you are taking on the other crops. The real truth is, to get an acceptable level of return to grow one acre of beets, you will have to increase the income of the sugar beet growers in this valley by 22 percent to hit most corporate [return on investment] rates, and that will end up being in the price of sugar.

Legal Political Hurdles

The real truth is the world is changing. Free trade is coming. Farm programs are under attack. Those dynamic things are going to affect agriculture and, finally, the food business in America. I do want to touch very quickly on farming's future, the gothic myth managing co-ops, what the public feels about

us, what we face regarding politics, and this puzzle about the food chain. You will remember that I said we need to take out the "and" between the words agriculture and food. What we are going to talk about now is what I think is happening on the food side of the business and why the farmer has to go up the chain. We have to talk about a future that isn't here yet, but is coming quickly.

As folks looking for careers, here is what the food chain really looks like. You can go from your father's farm right up to the customer who goes into the grocery store, and there is all kinds of great jobs. You can work for ADM and Cargill and laugh at farmers, or you can buy a process plant and become ProGold, or you can actually get into selling the product, distributing, or brokering, or you can really do fun stuff like marketing products, or work for an ad agency and so forth. I mean, that is really the food chain. And a couple of interesting things have happened to this food chain in the last ten years that is really affecting the marketplace.

Number one, back in the early 80s, the way the food chain worked was very simple. Guys with MBAs and Brooks Brothers ties would be product managers of a big food company. They would do research and say, "I know what your customer wants to buy. This is it in this new package and I am going to put a television ad together for \$30 million to pull this product out of your grocery store." The store owners would say, "Okay, we will do that." But then in the mid '80s around '86 and '87, the world changed because of a little piece of equipment called a scanner. What took place is that the lady at the very top started voting. Every time she went to the grocery store, she said what she was willing to pay for and how much of it. A very subtle thing happened. The grocery stores now have the information on that lady's vote. By the late '80s, the product manager with the Brooks Brothers tie and the \$30 million TV ad campaign would come into the grocery store and say, "I know what your customer wants to buy. I bought a \$30 million TV ad campaign, and we want you to put it on the shelf." The grocery store owner would say, "Tough. I am not taking it because I know what my customer is going to buy. So, here is what you are going to do. If you want to run your \$30 million TV ad, you go right ahead. But you are going to pay me a slotting allowance to put the product on the shelf, and you are going to tell me how much I can expect to sell. If you don't hit those levels, I am going to keep this slotting allowance, and you are going to take the product out of the store." And the world went upside down. If you don't believe me, look at the ad agency income since the late '80s when those ad agencies were in control because they controlled TV. The reality is that they are not in control any more. The retailer is.

The next thing that happens: you look at the attacks that have taken place on brands because grocery stores started putting their own brands in place. Brands are under intense pressure: not the least of which is what is going on in cereals today when Congress is starting to ask why a box of Cheerios costs \$4. The truth is, brands are under attack because the customer is basically saying, "What is the quality: value relationship?" Now, that has changed the food industry.

Jobs in Agriculture

If I can go back to what you heard before about careers: if you look at jobs in all these areas, there are still some great jobs. But the challenges are completely different than they were in the '70s. If you look from a grower's or agricultural standpoint, the truth is that there is 5 percent. Remember that green chart that I showed you? At every single one of these stops, somebody is making 5 percent after the farmer sells his product to when the customer takes the product off the shelf, 5 percent everywhere.

That gets you to the conclusion that if, in fact, farmers join cooperatives and move up the food chain, they are the only group capable of delivering to this customer as good if not a better product for less money and end up with more money in their pocket as farmers. You can just simply pick which part of the chain you want to miss, and you will add 5 percent income to a farmer's income. And then you have got to deliver the service that that segment did for the customer before, which means you start building a profile of a food company or a cooperative food company instead of just producing the food.

This is the vision we must have of ourselves: that we are not only growers and processors, but we are distributors and marketers. We borrow the Brooks Brothers tie. You would be surprised how effective that is.

You should know for example that America wants to do business with the farmer. America is willing to let farmers be successful as they move up the food chain. ProGold's announcement 24 hours ago is a prime example because the customer has let us be successful. We basically have sold the production of that plan to customers who want to be successful before owning the dirt on which plant is being built. So, when you talk about agriculture, I want you to start thinking about the food chain. I want you to start using your creative juices to figure out how you can help farmers move up the food chain.

Incremental change isn't enough for many companies today. I suggest that for young, bright people like yourself coming out of educational schools, educational pockets like this one, this is what is needed everywhere, whether or not it is agricultural business. You don't need to change what is there: you need to create new value. You need to create new visions of what is happening. You have got to question why people tell you that this is the way it is: why they are saying that you have got to deal with the fact that you have to add value. I think agriculture and co-ops can do that. One of the ways to do this is to alter the underlying assumptions and the invisible premises on which its decisions and actions are based. When they tell you, this is the way it is, don't get tired of asking the question why. When you were teased, at three or five years old, you got five or ten whys. By the time you got to the tenth why, there was no reason. That is a real good rule as you come out of this educational group. You go in, and they will tell you how things are. You ask ten whys. When you get to the ninth one, you are going to get close to seeing whether you can make a difference. I won't go through all of these, but these are sort of my fun things.

What Change Entails

There are four things you will always hear about change when you know you have a problem with change. I always try to get people to develop a "tin ear" about them. One is the tyranny of a good idea: When something works, nobody ever wants to change it again. Doctor, you know about that one, don't you? Once it worked. Even though it worked in the '30s and '40s, it may not work in the year 2001. But nobody wants to change it. Two is building a real good mousetrap. The idea is that you built this mousetrap, and the real truth is the real goal is you throw the tools away. It was the building of the mousetrap, not the mousetrap, that was the real skill.

Third is doing it up brown which is a Midwestern term. And doing it up brown is a real personal feeling I have about the color brown. When I took a job with International Multifoods, which seems centuries ago, I remember flying in over Minneapolis for the interview. As I flew over, the plane

tipped, and all the houses were brown. When I went for the interview, they asked me what I felt was wrong with Multifoods. The problem was, they all had brown suits on. The last time they had ever seen a customer was in the early '50s. I came to a conclusion about brown. If you think about it, why did you do things in brown? Well, brown isn't black because black stands for something, and you have to stand up and defend yourself. It asserts itself, and it certainly isn't pink, which is sort of a pansy color. You have got to deal with being in the middle. So, brown is something that doesn't offend anybody. Therefore, in business, when you are in brown, you basically don't want to make any decisions.

Four, let me tell you a little secret about business, okay? In business, nothing ever happens without friction. If everybody loves you, you should get fired. If you are making people unhappy and uncomfortable, you are causing progress. Nothing moves forward without friction. If everybody loves you, you are not making enough changes. It is a lonely profession, but at least you will make some changes. And finally dying from a thousand slashes. That one is a real beauty. What they do is they stand in front of you and say, "Yes, you have a great new idea." Then behind your back, they start with the little slashes and cuts. These are the four things that stand in front of all change in

American business, in co-ops and in agriculture. But if you understand what you are listening to, if you start developing a "tin ear," you can deal with every one of them. But that is another lecture of about 45 minutes, so we won't get into that one.

Here is where we are. We started out as a sugar beet company. We had a simple strategy: grow beets, slice beets, and sell sugar. Now we are not quite like that anymore. We are made up of three beet companies and a corn grower group. They all have assets. We all have cooperated now and have a selling agent called United. We have another plant and another co-op for Golden Growers. Everybody thinks we are done here, but just as recently as a week ago, these groups met and were talking about another bunch of announcements in the next six or seven months about moving up the food chain even further. This is no longer a simple grow-beets-slice-beets-and-sell-sugar company. I think it reflects a willingness on the part of the shareholders of American Crystal and a very astute board to say, "How do you get ready for a world that is changing?"

Change in Food Companies

Now let's talk about you for these last few minutes before we get to questions. How many people in here are in finance or MIS? None, okay. How about marketing and sales, business administration? None. How about ag? Okay. I want to talk about these factors because from my standpoint, when you are looking at careers, you are looking at business, work, and, particularly, agriculture turning into food companies. I want to talk about all of these. One of the things I always used to ask was did I want to get into that discipline. Because my question always was, could I become CEO from that position. That was one of my tests from the time I was 12 years old. But let's talk about it. Let's talk about what is happening in business, and the most dynamic things are very, very effective in regard to agriculture.

Here are four areas that are undergoing dynamic change in the food companies of the United States: you can never make it to CEO from these jobs. If you are a purchasing agent, you are not going to be CEO. If you are in charge of the truck fleet, you are not making it to CEO. If you are in operations or

research, you can beg and borrow and steal to get a better research budget, but you are not going to be CEO. Operations is another thing. You can make it as a plant manager, but all of these groups are changing tremendously because of what the Japanese and the Europeans have done.

Americans are starting to understand that alliance lines can be built from these organizations to reduce assets and, in fact, bring more money to the bottom line. Let me give you an example. In Europe, BrandNet, which owns Pillsbury, no longer owns any of the vegetable factories where they produce for Green Giant. They took all those assets, all those plants, and handed them over to farmers in Europe and paid the farmer to package the goods. What has happened is the product manager who has no assets is now earning off his brand. He is making X amount of margin. And those earnings are against absolutely no assets. As a result, his profit-and-earning ratios have gone through the roof. So, what they finally are doing is they only earn off the brand, and they have no assets.

In America, this revolution is just starting, and it is very, very quiet. But what is happening in companies like ours, for example, are discussions with people where most of the product is sugar. We are asking, "What does both parties want from a strategic partnership?" Well, in the farmer's case, he wants stability, long-term commitment, and a viability for the way of life and the business he's got. Which means he needs a customer or a long-term commitment. On the other side, you have continual pressure from Wall Street on food companies to increase earnings. And one of the best ways to do that is to change your ratios. If you reduce the denominator, it gets real easy to increase your rates so you get rid of those assets. As a result, this is starting to happen in the United States where there are strategically alliances or you simply take assets to change ownerships and go through the steps that they want.

The next thing happening in industry is administrative and legal. I will go back to one of the comments I made. These two areas in business and in jobs are no longer spectator sports. The days when attorneys or the administrative group of the management team could sit aside and second guess directors, shareholders, customers, and management are over. These people have to get into the game and help creatively solve problems. There is a tremendous battle between two types of people: the watch keeper, who has basically had these jobs for years and the person who comes in with no paradigms for these jobs and says what he could make happen in the legal department or administration to add value to what we are doing even at the expense of my own department. And that is a tremendous struggle in business today.

The best fight going on is between the financial guys and the MIS guys in regard to who is going to be the bean counter. The real argument is who controls the information. In business, there is a tremendous struggle going on between people who run the MIS departments and people who are the old finance guys. The finance guys made one simple mistake. They said there will be a new ledger system on the MIS system. All of a sudden, the MIS system guy says, "I don't need the finance department anymore." This is one hell of a fight. It is sort of fun because these are two departments that look at the past most of the time, and they try to project the future out of the past. The reality is in most cases, you have got to write the future. By the way, am I making any enemies yet? If I'm not, this lecture ain't worth a damn. If some of you aren't getting uncomfortable, then I am not doing what I am supposed to do.

Marketing and Sales

Well, this is also an argument about information. The truth is, I am going to go back to my analogy about the food chain. This has gone through two cycles. The first cycle was that sales companies got really successful. I mean, selling Cheerios was good business. You build a tremendous company when you sold Cheerios. Then some smart aleck from some MBA school came in. He held on to all the demographics of the customers, and he figured he was smarter than the sales guy. All of a sudden, control turned over to the marketing departments. One of the things that happened is we got away from actually selling products to marketing products based on what we thought people wanted. There is one thing you need to have happen in the sales transaction. That is, you need to ask the customers "why" when they say "no."

In marketing departments that ran them up in the late '80s, one of the things that happened was we simply assumed when the customer said no, he was stupid. The salesman knows better. This battle is now swinging the other way. Now that we have gone through kissing and hugging each other and TQM (and that doesn't work either, by the way). Now that we have gone through value circles and maintaining quality and have said quality and customers five million different ways, you are now getting back to the part that they are not stupid. Whether you like it or not, they are going to define what quality is. So when you don't make the sales, you must ask why. The real truth is, you are going to see within the next ten to 50 years, sales departments in companies get more and more authority to run the marketing departments. They will come in and say this is the program we need. Marketing departments will do less telling the sales people what to sell.

Personnel and Public Relations

Finally, personnel and public relations. Let me do public relations first. The world is getting smaller. You need to have a relationship with your customers and you need to be able to talk with the public in general. Especially in agriculture and especially in co-ops. We have a great message to tell. It's that message about moving up the food chain and being able to provide quality food products at less price and have the customer and the farmer actually increase their income.

And personnel. I feel very strongly about this, that personnel is a tremendous career opportunity as you go into the 21st Century. Because after going through reorganization and having a tremendous cost of human capital, we are starting to finally understand that it is not throwing people out the door that is going to make a difference. It is teaching people new ways to add value to the business. As a result, personnel has always been a stand-side spectator sport. We do benefit programs. We deal with a person who has a depression problem or an alcohol problem. We spend little money on training, little money on getting people ready to face the 21st Century. That has got to change.

I have two quick examples. First of all, how many people in here have read *Death of a Salesman*? That is not good. You now have a reading assignment. Don't let me see you again without having read that story, and I am serious because that is what is wrong with this society. Number one is one of the reasons Willy Loman is no longer relevant in the 21st Century. The story of Willy Loman is very simple. Somebody gave 20 years of his life to a company; and as he was running out of his prime, he was let go. And in this generation today, everybody reads that story. Instead of feeling sorry for Willy Loman, they all say the same thing: What a dumb guy. Why would you be that loyal for 20 years? Willy Loman is as relevant today as it was then. Because the real truth is we have employers who let

people go. We have people who will go for interviews before they even think about staying in their own job. The real truth is you have got to understand something. When someone leaves you, he fired you as an employer. He basically says, "My values don't match here anymore. I am leaving." The tremendous cost in human capital of firing people we really need and people firing us as employers has got to stop if we are going to change as we go forward.

An example would be a Japanese electronics company. It had a factory of people who were working very diligently and actually had too much inventory. Rather than shut the plant down and send everybody home, it basically took all production people and said for the next 90 days, you are all sales people. It got them plane tickets, and those production people went out and sold inventory and then went back to work. That is the difference about dealing with human capital the proper way. It isn't the responsibility of hiring and firing. It is the responsibility of breaking the paradigms and saying, "How can this person add value now that the change in roles has taken place?"

Why People are Leaving Agriculture

I want to talk about agriculture. I want to end up here so that you will have a few minutes to ask some questions. Why are people leaving agriculture? Why aren't they staying to help build the farm into a food company? I think the way I would like to go at this, if it is okay, is go backward. The way to get people to stay is to understand why people leave. This is why people leave jobs. First of all, there is no challenge. There is no communication. They are not part of anything bigger than their own little job and their own little desk. After a while, food performers don't like that and they leave. Second is location. And don't talk to me about that one because the last place I lived was Palm Springs, California. Every time people ask me where I am CEO and I say, "Fargo, North Dakota," they ask me, "Where did you come from?" I say, "Palm Springs, California." You just see it in their eyes. They see my IQ level go immediately down. Third is advancement. It is one thing to be a loyal employee, but if there is no light at the end of the tunnel, most people are going to want to say, "I need more than this in my life." One of the things is money. That is a major issue. You do want the standard of living to go up.

Prestige and pride. It matters, and I saw it yesterday at the farm show in Crookston. You know why? One of the ways I measure my performance as a CEO, when you walk around a show like that, is how many people are willing to wear the red, white, and blue Crystal jackets? If they are willing to wear the red, white, and blue Crystal jackets, they have pride and they are proud of what they have accomplished. That reflects on the management team, and that is a very important element. When you start working for tobacco companies instead of food companies, you are going to find that when people ask you at cocktail parties where you work, you are going to say, "American mmmm." If you are in a food company, it gets a lot easier.

This is one of the major things today as young people select who they are going to work for. Equal treatment for performance, whether it be females, minorities, or just Joe Schmo. The reality is, if you have an organization where performance doesn't matter if I am an overachiever and the guy next to me is not and you pay him exactly the same as me, I am going to do one of two things. I am either going to crank it into reverse, or I am going to leave. Performance must pay.

Finally respect, recognition, and security. Those are the reasons people leave. If you do exit interviews, you will say to a person, "Why did you leave?" Nine chances out of ten, they will have three of these things to talk to you about.

How to Keep People in Agriculture

Now, how can I get you to stay in agriculture and help us change the paradigm of the food chain and help farmers own what they should own in the food chain? Well, I have some simple answers to that, and here is what we do. Number one is, when the farm gets bigger, a couple of things go away. There is a challenge and there is communication because you are taking something to the next step. There is some prestige and pride that you take a commodity and consolidate, be efficient and get bigger.

The next thing that happens is the farm gets bigger than big. A couple of other things happen now. Not only is the challenge in communication taken care of, there is finally some money to do the things. There is prestige, pride, and respect that comes from being a very top performer as the magazine says so. And there is finally some security, and now the farm joins a cooperative and becomes part of a company moving up the food chain. Challenge, money, prestige, equality, respect, and security all pick up there because you are spreading the risk over your membership.

One of the other things that happens is advancement. All of a sudden, as a shareholder of a company, not only do you have responsibilities to run a farm, but you have responsibilities to understand how the company works, who the customers are, and what you have to do to get and keep customers.

To do that, you can do a whole bunch of things. You can go to information meetings. You become seminar participants. As an example, on Monday and Tuesday of this week, we have a seminar for shareholders who intend to be directors or run for directors. It is a class for 50 people. We will work them from 7 o'clock in the morning to about 1 o'clock in the morning. We have 150 shareholders signed up. We are going to keep it to 50. Hopefully, we will find 7 or 8 people from our shareholders who are going to be the next generation of directors. So, all of a sudden, there is a whole different area you can work on if you are a farmer turning into a shareholder turning into a director. After it becomes a co-op, you become a food company and then finally the issue of location goes away because one of the things that farmers really love is the things they own. In other words, they want to get up on Sunday. They want to drive past the factory, "Oh, I own that." I see Bud Pyles here. The other thing they love is to buy equipment that doesn't work, and they still love it when it doesn't work. They park it under a tree and they still keep loving it after it doesn't work. So, one of the things that happens when you turn into a food company, all of a sudden you start understanding that if you are going to chase customers, you can chase them in California. You can chase them in New York. You can chase them in London. You can chase them in Asia. And all of a sudden, that farm has a global presence, and the reality is you have turned yourself into a food company or a visionary type of organization. That's really what's happening in agriculture.

Crystal is a great place to work. Some of the finest co-ops in the United States are in this area. I challenge you. I encourage you. As you look for careers, look to these co-ops who are changing their personality in the food chain. Unless you think this is too radical, there is really not much to my job. This is really all I do. I simply sell sugar. And with that, I will be glad to answer some questions.

QUESTIONS:**Why Form Cooperatives**

Q. What is the reason behind just sugar beet growers forming cooperatives? You don't see any wheat, grain, or other major commodities forming cooperatives?

A. I think that co-ops and farmers have gone through a couple of phases. If you look at farmers forming co-ops, let's talk why they form co-ops. It is simply the pursuit of the customer. They get tired of competing with each other and they get into a church basement. They go together, and they get into a grain elevator. The next thing that happened in the industry is that wasn't big enough. So you went for another customer, and you have three people stand up and say, "I'll be your customer, Continental Grain, ADM, and Cargill." If you look at the success of those three companies, the willingness of farmers to go one step more to find a customer has made three companies rather big in the world.

The next thing that happened, and I think that you have got to look at it from two different ways, is we went up the chain looking for customers. The government stood up and said, "I'll be a customer." And right now, what is going on in American agriculture is the government is saying, "I want out. I don't want to own all of the cheese and butter in the world. I don't want to own all of the wheat. You go and find your own customers." So number one, your first observation is not quite correct. There has been plenty of attempts to make co-ops in the other grain commodities. They have not been successful because they are pursuing the wrong customer. They have been outfoxed, out-managed, and out-maneuvered by huge international companies. You have got to understand that ADM has \$9.2 billion of working capital. That means ADM tells Wall Street, "I am not going to give this to shareholders, I am going to keep this in case I need it." That is brutal.

So now you have a bunch of farmers who are desperately selling wheat. They get together, and they say, "If we just hold out together, we will do okay." Now you get a bunch of farmers who are desperate in the first place against ADM who has got \$9 million working capital. Who is going to break first? Now there is one answer to this. If you jump over again and go talk to a customer, you might solve your problem. In ProGold, that's what happened.

NDSU's Role

Q. What do you feel is the future role of agricultural research and of the institutions such as NDSU in this changing marketplace?

A. Gee, I was asked to say that one time. The guy got fired who asked me to come and talk about it. Well, let me tell you this. You are going to have to change yourself. You may not like that. I go back to that slide about the tin ear to change. Land-grant universities are no longer going to have a product or service. I am going to do what I want. Tin ear you have got to earn your value, and the reality is that is if your research really wants to work, you had better deliver something. There is a limit to how much you can deliver on the farm versus getting them up the food chain. If you look at this university, and you look at the programs, as far as I am concerned, it is aimed at small farmers and keeping the small farmer in business.

Unless the small farmer joins a cooperative, he has a fundamental problem staying in business because he is not going to be efficient. Are farm programs in this school aimed at the small farmer, the midsized farmer, or the co-op? You answer that question yourself, and you will get my answer. Agriculture is going to turn into the world's biggest business. It already is. The only bridge between independent farmers and staying viable is the co-op because that lets a farmer stay independent, but gets him up the food chain to make enough money. That is why, from our standpoint, we put the money into the Burdick Center: because of the small farmer who is fighting big pig farms, for example.

The small farmer who is fighting those who own the flour mill in East Grand Forks is fighting an uphill battle. It is not a cause without value. I am not saying that. But the reality is the best way we can save the small farms is to make them efficient by putting them together. The more they do that, the more they are going to be able to compete against people who understand one thing. It is one thing to have ADM as your customer. It is another thing to have the government as your customer. When you get into the real world, chasing the person who has the money, you are up against some bad folks. They are smart. They're financed, and they will cut your throat for that customer and the values that you like, the values I moved to the Red River Valley for so I could have my children grow up here.

When you get out into the business world, all that's different. The best man wins. For performers to work, they expect to be treated fairly when they get to the playing field. In business school, they teach you there ain't no such thing. The only thing that happens on the playing field is the smartest survive. As a result, we have to help farmers act professionally and be, as they said in the movie, I always like to say we like to get customers with extreme prejudice. If we are going to do it, we are going to do it right.

So my question about universities: you tell me what your programs are for. I will tell you as I told the chairman of the Burdick committee, one of the reasons Crystal gave the money to the Burdick thing was that I am looking for a return on my investment. The charge was and I quote "that I wanted co-op financing to be taught in the finance department so that for a few days the finance department kids who have no desire to be in a co-op will be exposed to how you do co-op financing." We wanted marketing and governance issues that take place in co-ops to be in the classes for business administration so that for a few days those students would see that there is another world out there that is complicated, if not more complicated.

I will go public, are you taping this—make sure you keep this part—I can guarantee you that Mike Warner and I look at return on investment. If, in fact, we are not exposing finance, marketing, and business administrative students to the outside world called co-ops, to start attracting some bright minds into it, I'll pull in the money because we are looking for a return on investment. We need bright people like you not leaving the valley. We need you to go out and get as much experience as you can, you come back here, and help us move up the food chain. The biggest thing I can accomplish is to see a son or a daughter of a farmer have my job. That is what has to happen. There is no reason why the next generation of farmers cannot be a CEO of a food company. You have more than a legitimate right to do that than almost anybody else in the food company. We need people like you to go out and about and get your ears waxed and come back in and help build this business the right way.

Q. Why does the U.S. Dept. Of Ag... farmers (did not record) . . .

A. Because as farmers you have sat as a group and told them that is what you want. I mean for 20 years you have said that you have got to keep the small farmer. They learn pretty good. They are not very bright, but they learn. Now you got what you asked for and that is the pity. You can't get what you asked for. Now look, this food chain should be in the hands of farmers but they should be smart farmers. They should be efficient farmers. They should be farmers who deserve every day staying in the game. And the reality is if you would defend the food chain with the basic principles that it has got to be independent farmers doing it, you can get what you need. The truth is we have an army to protect the food chain as defined by being farmers. We've argued to protect the farmers, and that is the Catch 22.

Leadership Roles

Q. Earlier in your talk, you talked about where the leadership of the companies and corporations and co-ops will come from. You indicated that the technical people will not make it into a leadership role. (Are you technical? Yes). There have been some arguments against saying that many of these corporations and companies started out because the individual who developed the product, knew the product well, and perfected it; and, of course, it grew, and finance and other aspects took over. But we have lost that knowledge at the top of the company that really knew the product that takes pride in the product. How do you counter that argument?

A. It is very easy. First of all if, in fact, the knowledge of the product was what was carrying the company, it would still be going on just fine so you have a contradiction in terms. If you are in trouble, some customer is not buying that product for a specific reason any more. All companies go through a life cycle. In other words, you have a beginning, you have things that are really important, you start massive growth, and you have structural problems to keep up with your customer base. Then you get old, your product matures, you get competition, and you basically get to the crossroads. The crossroads is that you start the process all over again or you go backward.

The question that is being asked has to do with one of the objections to really deal with the change. The Tyranny of a Good Idea the Inertia of the Founder's Vision Defining The Original Assets Deployed to Activities and Processes to a Chosen Customer (Slide). He is right. The founding father has that vision and has that energy to take an idea nobody believes in and make it successful. He keeps going and going and going. The real truth is the limiting factors of that organization are that own person's energy and his own will to make it happen. A couple of things start happening. If he has a really good idea, the competition comes in and starts duplicating the product with less cost to it or the market or the customer change.

And here is one of the things that happens in business: the founding father sits there and says, "I build a great company." Correct! "I made lots of money." Correct! "You are all here because of me." Correct! Then you are left with one question. Are you going to be here tomorrow? Most people who were the visionary founders basically didn't have the capacity to come up with the next idea. Many did, and what has to happen is you have to go back to the basic assumption and see if they are applicable today.

I tell you that from 25 years in Fortune 500 companies. I will tell you two kinds of companies we would always go out and buy. The first company was a division of another organization who was reorganizing and changing focus. That is a lame duck excuse for saying, "Can't figure out how to make money with this. Sell it." And the second kind of company was an entrepreneurial company that had reached its life cycle when the company's needs exceeded the founding father's ability to deliver. That was the kind of company you could pick off, and you could grow.

So the answer is not two-prong. What I meant is that you need the founding father, and he is successful. What you have to make sure is that his idea is still relevant to the customer. If it is, he will come up with the next idea. But what you proposed to me as the question is mutually exclusive. If you are in a problem because you are sticking to the original idea, probably he is not going to be able to solve it. And I would also go one step for myself. There are all kinds of managers. Not all managers can manage all kinds of situations as far as I am concerned. I know what my limitations are.

If you tell me, Joseph, I want you to come and run this company and everything is perfectly okay. We have no problems. Nothing needs to be changed. Sit in this desk chair, and make sure the lights go off in sequence. Folks, I will be crazy in five minutes. But if you give me the kind of jobs which happen to be the ones I have volunteered for in my whole life that say we don't have the slightest ideas what is going on here, there are more problems than you can imagine, and here is all of the information. They throw it on the floor, and they say tell us what to do. That is the one I volunteer for. But if you put me on a maintenance job, I will drive them crazy, and they will drive me crazy.

So the second part of my answer to your question is you have got to make sure that you are matching up talents with what the needs are. If a company has a life cycle at different stages of that company's life, it needs different kinds of management. The worse thing that happens in business is when short, little fat guys like me think they can manage every situation and can't. You have to make sure you recognize what your talents are and match them up against the proper business question.

Commodity Groups

Q. Do you see the commodity groups in the co-ops at odds with each other because most of my groups are looking at selling the raw product and the raw product overseas?

A. I guess my comment is you have to define "at odds with each other." There are two ways to look at odds. I think that co-op groups that go up the food chain are going to go up so fast and so quickly that being at odds with them is a little bit like sour grapes. If that is what you choose to do, that is fine. But let me tell you one of the things that I think people have to start worrying about. When in the pursuit of looking for customers, we started out with the government. The latest craze is to basically say we have got to have these export markets. Let me tell you something: if you look at the numbers, the chief executive officer ain't going to fly very long.

Two things are happening. First of all, export markets. Does that have a name or face? Sure it does. You know what is happening in those customers. They decide that they don't want to buy grain from you. They are going to buy their own. So a lot of the export markets are building their own infrastructures, therefore, eliminating the market. The next thing you are going to see is that the reality

is everybody is competing for the market. The perception is that just because we are America we are going to get these markets is a misnomer.

So this whole pursuit of commodities for export markets has a very small ceiling. In the end, we are going to find out that export markets aren't the answer because the real question is not markets for my product that I make, but which customer do you want to sell to. And so my comment is what do you consider bad feelings? I am going to tell you this. As co-ops move up the food chain, they are going to have and own customers. The commodity groups looking for an export market are going to find that they are going to be outflanked. Because if you don't own a customer, you own nothing.

The big difference between a grower, a shareholder, and an owner is the day you understand that the most important asset you have is your customer list. At American Crystal, I believe we believe that. It is not the fact that we are low-cost producers of beets. It is not that we bought processing facilities. It is we own some of the best customers in the world, and they allow us the leverage of owning the plant and being the low-cost producers of beets.

Ethanol plants are going up like crazy. Little ethanol plants with no efficiency of size and no customers. They are all over the place. Now should they have gotten in a room and said, "Let's be bigger than ADM in ethanol?" The answer is yes. Should they have decided who is going to market their product and get a customer list? Yes. Then, you do build a plant. In ProGold's case, we had customers who bought sugar and also bought HFC. We spent three years talking to them and we said, "Would you buy HFC from us if we did it?" They said yes. Even though ADM, Cargill, and Tate & Lyle are the competitors? And they said they would rather do business with us as a farmer.

If you noticed and read all of the press clippings, you saw how everybody announced increased capacity. You know that ADM announced that to everybody, and you see they were trying to scare us away because if all that capacity comes on, the capacity industry will be at 73 percent. Now that should scare you, except if you are a bunch of dirt farmers who know that you have orders and that you are below the line of 73 percent. Somebody else has a severe problem. See, I don't care if capacity utilization goes to 25 percent. If I am below the line and I have the orders and it has a decent return on the investment, someone else has problems.

So, the more the announcements came out, the more we laughed. It is a little bit like my shareholders talk about. When people are successful, the quickest thing you are going to hear is that they are lucky. Because if you don't say they are lucky, you have to self-analyze. If they are successful and you are not, it means one or two things. One, they worked harder than you. You don't want to give into that, do you? Or two, they are smarter than you. You are not going to give into that. So if you eliminate one and two, then you are left with that they are lucky.

Farmer Connection

Q. What is it about a farmer connection that made you a better supplier than an ADM or a Cargill?

A. It really is very simple. The question is: What makes a farmer a better business partner? It really is simple. When I walk into my boardroom, it is unlike when I walk into the board rooms of Fortune 500 companies. In Fortune 500 companies, you make decisions on what Wall Street expects you to do the next three quarters. You make decisions, and I have been in plenty of boardrooms, to make sure we hit Wall Street's expectations for the quarter. I have got enough of that. When we go into our boardroom, we talk about how we are going to be sure of a beet check for the next generation of growers ten years down the road. Customers understand the subtle difference. Our need is a customer for the next 20 years.

As a result, if there is an opportunity to extract an extra dime from a customer because of today's circumstances and forego his order the next five years, we pass on the dime. Believe me, the customer understands that. The customer understands when you say, "I want you to be my customer for the next two generations of sugar beet growers." He knows that you are not going to take advantage of him when the weather hits, when the railroads have a strike, or when raw sugar is scarce. They respect that. Customers are real people and they have long memories.

For example, right now we have been selling sugar in Canada, and it looks like they are going to put a dumping charge against us because they can't compete with us. What are they going to do? They are going to provide American Crystal Sugar with so much marketing clout you can't even look straight. They are going to tell all the customers in Canada they can't compete with American Crystal Sugar so they are going to keep us out so you have to pay \$2 extra for sugar. Now how long do you think those customers are going to remember that? How long do you think it is going to take for the customers who have plants in Canada, but are U.S. companies to do something about that?

So, when you get down to the basic difference between corporate America and the farmer, the farmer is more committed, except for Pyle. Pyle, you worked about what the beet check is today. But he is only one vote. The rest of them keep him straight. The real truth is they do understand that farmers are in it for a long haul. Look at it this way. The reason guys like me get fired is correct. When I came here, Nichols, you were the one who interviewed me about this stuff, is that co-ops go through CEO's like they are toilet paper. You know that is the way it should be. The pressure is on me to perform because unlike a Fortune 500 company, if our performance does not reap the expectation of the board and the shareholders, they can't sell their shares. They live on that farm. That is where their grandfather was. So they can't abandon the company by selling their shares. They have to change the guy who is not performing.

When you come to work for co-ops, you had better understand that. You see, in Fortune 500 companies, if somebody doesn't like the performance of the chief executive officer, you get to go to an annual meeting and say, hey, nobody is keeping you in this stock. You want to sell. Sell it. We are doing what we think is right for this company, and the shareholder doesn't really have a say. The biggest thing about co-ops is the revolution in Fortune 500 companies today to give shareholders a voice in the boardroom. In co-ops, you start with the shareholder in the boardroom. There is nobody between management and the shareholder as organized business in Fortune 500 companies spin and twirl. In co-ops is the secret. They already started out with the shareholder in the boardroom. I predict that in the 21st century in global markets and the world shrinking up, if you as a manager cannot manage a co-op, you will not be able to manage Fortune 500 companies. In a co-op, you must sell your

shareholders and deliver the performance, and in the future in Fortune 500 companies, it will be exactly the same charge.

Co-op Jobs

Q. What type of jobs are going to be available in co-ops in five years?

A. All kinds of jobs. If you take a look at General Foods and Proctor and Gamble and you look at marketing sales, logistics, purchasing, you are going to see co-ops move away from buying the cheapest guy to run the grain elevator. Usually somebody who was out of a job, by the way, because you could get him cheap. You are going to start seeing co-ops turning into companies—food companies. You are going to see them diversify. You are going to see them have separate holdings. You are going to see them name all kinds of managers from all kinds of disciplines because if farmers answer the challenge, they will be a major part of the food chain in the United States.

Joseph Famalette

Famalette received an undergraduate degree at King's College, Pennsylvania, and attended Emory Law School and the Kellogg School of Business at Northwestern University. Prior to Coming to American Crystal Sugar, Famalette had been President of the Frozen Foods division of International MultiFoods. During his 10 years with International MultiFoods, he had numerous positions, including the presidencies of two other domestic divisions of this international company. Altogether, Famalette brought 23 years of experience in some of the nation's Fortune 500 companies to ACS.