

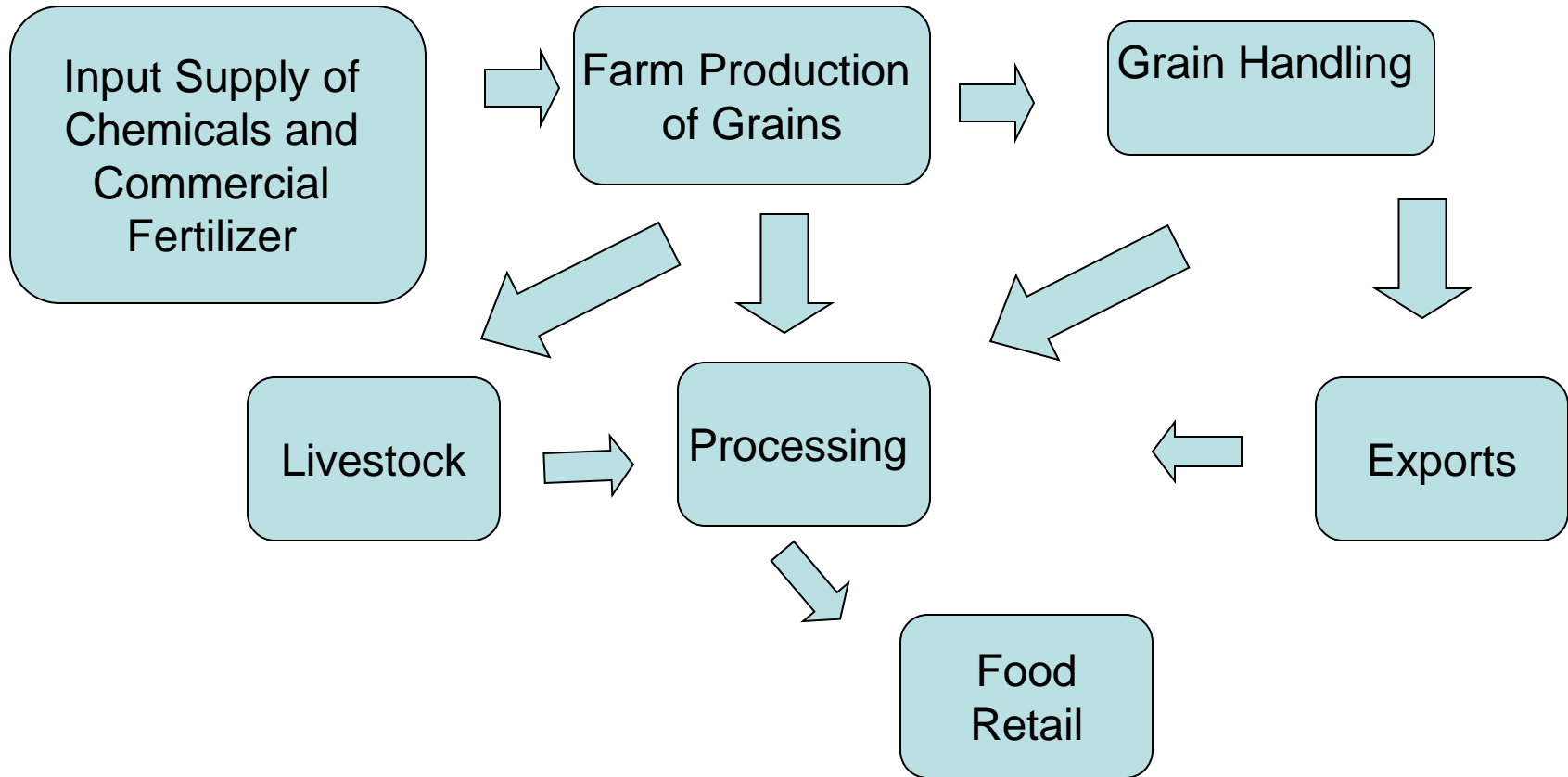
Model Market Proposal

“Trust us and we’ll all be rich”

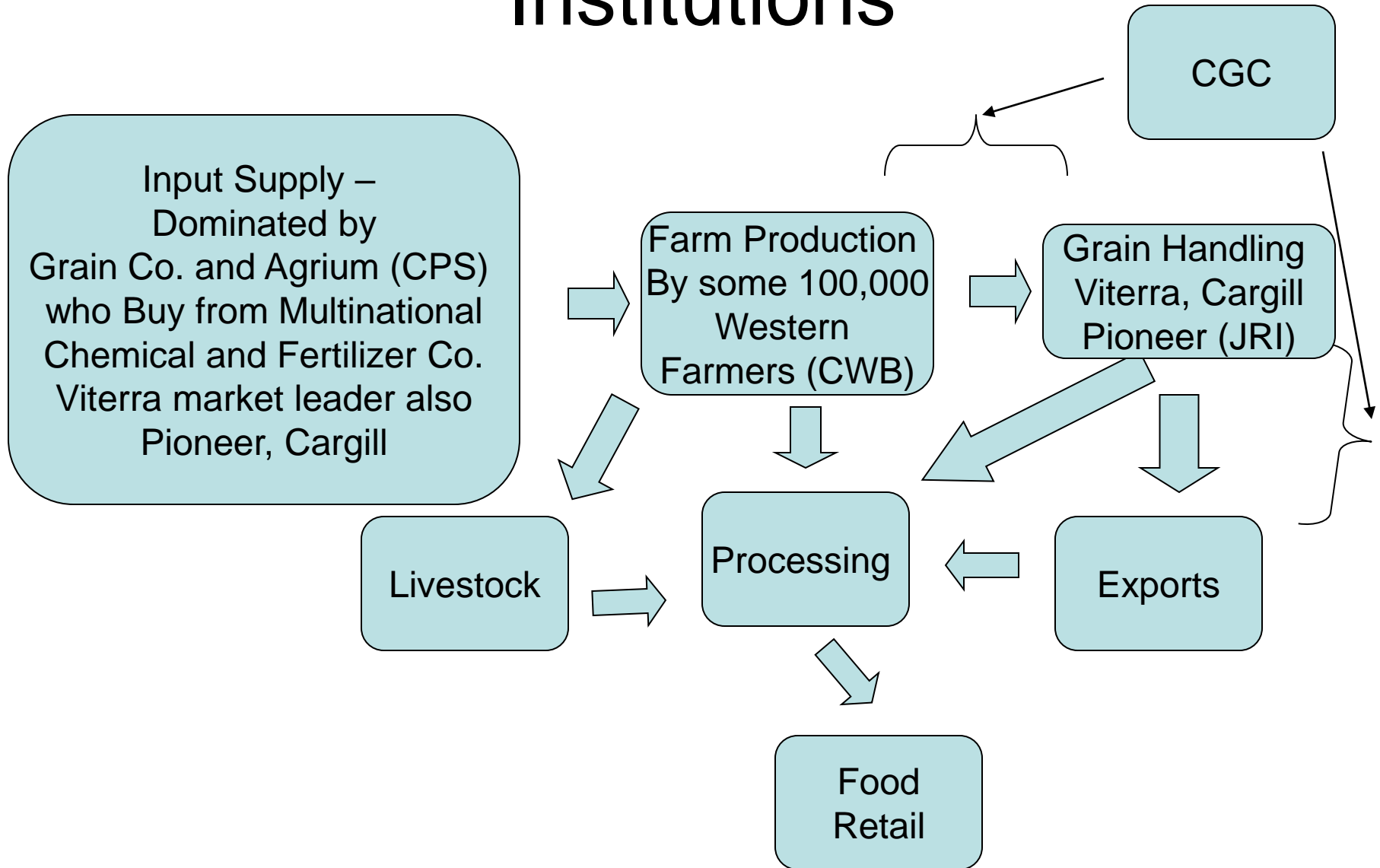
The Issue

We are proposing the divestment of the input supply business in Western Canada for **Viterra** corporation

The Grain Market Chain - Functions



The Grain Market Chain - Institutions



The Wheat Market Chain – Motivation Behavior

- Input and Grain Handling –
Oligopoly/Oligopsony some competitive
limitations
 - Smaller firms/terminals
 - Rail company bargaining position
- Farmers – assume perfectly Competitive
 - Cost minimization

The Wheat Market Chain – Motivation Behavior/ Monitors

- Chemical and Fertilizer producers – Oligopoly/Oligopsony fewer competitive limitations
 - Chemical and Petroleum Corp.s among the Largest in the world
- Canadian Grain Commission – Grain quality and quantity assurance, research, and producer protection. (CGC)

Issues Facing Sector

- High Demand for Inputs in U.S. Corn growing regions and reliance on petroleum driving up input prices
- Prices may not offset costs
- Long run concern of Petroleum supplies
- Premiums for Organic sector
- Shortage of Low input extension

Details of the Proposal

- Sell off Input Supply Assets to Competitors or Other Firms (last year earned \$160 million (Viterra))
- Hire Dr. Martin Entz to create new “Low Input Service” Offer new advisory service for \$5/acre (potential income \$500 million)
- Buy up Bankrupt Competitors when input supplies dry up
- Extract rents on Handling Business

Benefits of the Proposal

- Increase profits from new service
- Limit exposure to powerful Chem/Petrol Corporations
- Build “good will” in farming sector

Costs of the Proposal

- Loss of Input supply business
- 17.5% decrease in yields – lower handling volumes (Entz)
- Profit = (rev and variable costs)0.825
 - Input sales loss \$160 million
 - + Low input management fees \$500 million

Profits of the Proposal

- Profit = (old handling rev)0.83 + Low input management fees \$500 million
- (old variable costs on handling)0.83 and Input sales loss \$160 million

Conclusion

Loss of risky input business will be offset by
long term Viability of client base

References

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- Entz, M., J.W. Hoeppe, M. Tenuta, K.C. Bamford and N. Holliday, 2005, “Influence of Organic Management with Different Crop Rotations on Selected Productivity Parameters in a Long-Term Canadian Field Study”
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