



## TEAM UP WITH YOUR SUPPLIER

**F**or some time, I have been writing and speaking about the need for producers to look at developing long-term relationships with suppliers. This is because manufacturers and suppliers are downloading the risk to the producers, and that trend will continue. In my opinion, there are cost-saving opportunities for both the supplier and the producer. However, there is increasing evidence that we may have trouble actually getting products due to transportation issues.

**ACCORDING TO** a recent *Harvard Business Review* article by George Stalk of the Boston Consulting Group, the present recession is masking a crisis of global proportions for transportation. When the economy rebounds and demand begins to exceed its previous peak levels by even a little, there won't be enough capacity to move the world's goods.

The article goes on to say, truck traffic is increasing at a rate that far outstrips road construction in the U.S. and Europe. Similarly, while freight volume is going up sharply, railroads are actually reducing the amount of track they have available and delays are already increasing.

In terms of global shipping, the largest U.S. and European seaports were already up against their capacity before the recession.

Outsourcing has been a popular practice for years, and when fuel costs were also low and stable that made sense. Those days are over. We are now connected in a global supply chain that will be stressed when the worldwide recession ends.

This will impact production agriculture, since over half of the nitrogen fertilizer is manufactured overseas, and most of our phosphorus and potash are imported. The practice of producers threatening to leave suppliers to get a better price may not be the best practice for the future. Suppliers will need to know how much product they will need and when and what infrastructure and rolling stock they will need to deliver product to farmers.

**AFTER HARVEST THIS** year I encourage you to sit down with key input suppliers – including seed, fertilizer, chemical, fuel and equipment – who you have a high degree of trust in and begin sorting out common areas of interest and needs. Price discovery can be an area discussed well after other issues are on the table,

particularly if you have aggressive growth plans for the future. Suppliers are very interested in this. If they can “tie their wagon” to stars that will be doubling and tripling in size in the future, they can grow market share without adding customers. Conversely, aligning with producers who won't be around can be dangerous.

One client had great results aligning with an input supplier this summer for his LP needs. He asked the supplier to sign a confidentiality agreement and offered to sign one for the supplier. Both did. They developed a win-win relationship that will cut costs and increase reliability and flexibility for both parties indefinitely.

As one manufacturer told me last week, it has already analyzed the number of customers who have most likely bought their last combine, planter or new tractor. That is the kind of market intelligence that will be needed to meet the ever-changing needs of production agriculture. **CSD**

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