



Meadow Feeds is the largest feed producer in Africa. Cargill supplies corn to this plant in Johannesburg.

OPPOSITE Hugo Buys (left), procurement manager for Meadow Feeds, with Cargill senior trader Paul Ruston (center) and Meadow driver Ezekiel Mogale.

THE TOOLS OF TRADE

When Cargill teaches employees about developing relationships with customers, Meadow Feeds often comes up as a case study. Based in South Africa, Meadow Feeds is the largest animal nutrition company in Africa, enjoying a reputation for healthy profit margins and robust growth.

“Meadow Feeds is far and away the most strategic customer for the Grain & Oilseed Supply Chain business in South Africa,” said Paul Ruston, relationship manager and senior grain trader in Johannesburg. “They make full use of the Cargill toolbox.”

But what tools can Cargill offer when it primarily provides a commodity—corn—to Meadow? What kind of value can Cargill offer under those circumstances to build a relationship?

In fact, even in supplying a basic commodity, Cargill’s toolbox is surprisingly full. The relationship with Meadow demonstrates how those tools of trade can become increasingly sophisticated over time and adapt to changing circumstances.



When it comes to offering customer solutions, Cargill’s commodity trading businesses can be just as resourceful as businesses higher up the value chain. A case in point is South Africa’s Meadow Feeds.

BY PAUL DIENHART
PHOTOS BY PHILIP MOSTERT



One of the biggest changes in South African agricultural markets was deregulation in 1994. Until then, a government board controlled supplies of commodities like corn, soybeans and wheat. Under those circumstances, Cargill's trading toolbox is pretty much closed and locked.

When the market opened and Cargill began a trading operation, one of the customers that attracted its attention was Meadow Feeds. *Feed International* magazine ranks Meadow Feeds as the 40th largest feed producer in the world. It notes the company has grown "substantially" in the past decade.

Meadow Feeds is the animal nutrition arm of Astral Foods, which has a variety of businesses, including a chicken broiler



From modern control rooms to superior formulations, Meadow Feeds is the leading animal nutrition company in Africa. Cargill provides its grain and risk-management tools.

operation, egg hatcheries and even a bakery business. Meadow is building its ninth mill in South Africa and is involved in several other countries in Southern Africa.

Meadow had several procurement managers buying for its feed mills when it first connected with Cargill in 1998. The initial agreement was an unpriced supply agreement for 10,000 metric tons of corn a month. Jointly pioneered by Cargill and Meadow, it was the first agreement of its kind in the South African market.

"That allowed us to showcase our abilities in performance, logistics, price-risk management, execution, reliability—all the things that make Cargill a great company to trade with," Ruston said. "It grew from there."

One comfort factor was that Astral Foods, the parent company, has a lot of cultural similarities to Cargill. The two organizations also share a common philosophy on growth.

"Other companies still operate as if this is a volume-driven business with the need to fill capacity," said Chris Schutte, who recently became CEO of Astral Foods after leading its Meadow Feeds division for five years. "Every day, I ask myself how I can turn these raw materials into the most profit. It may be going for a higher margin, rather than simply chasing volumes."

Essentially, Meadow Feeds under Schutte's leadership added value to its product with innovation and a full-service approach, realizing margins that could be three times higher than their competition.

Cargill, with its Strategic Intent announced in 1999, also set out to add value to its businesses and go beyond a volume-driven commodities approach. But such an approach requires customers who appreciate the value. Meadow Feeds saw the value.

"For example," Ruston said, "the corn that we supply to Meadow's mills is not always the most aggressively priced in the market. We offer value in terms of market information that helps them capture the big market moves. With the extreme market swings we see in South Africa, this is information that can help Meadow price more competitively than its competition."

INFORMATION'S VALUE

To appreciate the value that Cargill supplies, it helps to understand the distinctive corn market in South Africa. Yields can vary widely depending on when rain arrives and how much it rains. With poor rainfalls, the supply can be several million metric tons below local demand. With good rainfall, South Africa can be in a surplus position of needing to export several million metric tons of corn.

An additional complication is the white corn market. Typically, white corn goes into food products, but in a surplus situation it can be available for animal feeds.

All of these swing factors can make it difficult for corn customers to know when to buy and how much.

"We provide Meadow with an awful lot of information on price direction and our view of the market," said Johan Steyn, managing director of the regional grains business. "The real value for a customer like Meadow is in knowing where these import and export parities lie—the points where South Africa will be in a position to import or export grain."

Schutte describes the relationship with Cargill as an open-book system. "Whatever information any Cargill trader gets from around the world, I get at the same time," he said. "That allows me not just to know when to buy, but when *not* to buy. This information is of extremely high value to us."

Meadow is involved in Cargill's supply-and-demand discussions, both in South Africa and with Cargill's trading desk in Geneva. "We're really giving them full exposure to our risk management services," Ruston explained. "This kind of full service means that they don't have to worry if, on any given day, they're a half dollar more expensive than their competition."

This year, the rains were good, and South Africa harvested a bumper crop. "Currently, I don't have an advantage over my competition because of my dealings with Cargill," Schutte admitted. "But our company is almost 70 years old. We don't take short-term views when it comes to partnerships and suppliers. In the long run, dealing with Cargill will be to my benefit."

GLOBAL SOURCING

Even trading a generic commodity like corn, Cargill has a solution to offer a customer like Meadow Feeds: global sourcing. "Cargill can source grain for us from anywhere in the world—

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In a Meadow Feeds warehouse, Cargill senior trader Paul Ruston (right) talked with Hugo Buys, procurement manager for Meadow Feeds.

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from China to Argentina,” Schutte said. “If South Africa runs into trouble, we know we will be able to get grain.

“The challenge in the future is *not* having a raw material price that is 1 to 2 percent better than your competition. The real challenge is having a guaranteed supply. If I have a global partner like Cargill, I will have a secured supply. Maybe I’ll pay a slightly higher price, but my competition may not have raw materials at all.”

Most years, Cargill sources mainly South African corn for Meadow Feeds. But in situations of short supply, it can import corn. “Should we get to price levels where it’s cheaper to bring in corn from Argentina or Brazil, we will switch Meadow Feeds out of their domestic contracts and start importing for them,” Ruston said.

Local traders in South Africa don’t always have the volume to competitively book shiploads of corn from South America. “We allow Meadow a huge degree of flexibility in switching to the cheapest origin corn and letting them pick up the price benefit,” Ruston said.

Like any good customer solution, Cargill also benefits. The volume provided by Meadow Feeds provides Cargill with a critical mass to take advantage of local opportunities. Just as important, the close relationship with Meadow Feeds gives Cargill insight on demand, further honing its trading expertise.

Ruston offers the example of white and yellow corn. In years of surplus, food-grade white corn may go to the animal feed market. “We trade on the price spread between white and yellow corn,” Ruston explained. “Knowing the points where demand will move from yellow to white and back again is hugely valuable to us. The insights on demand that we get from Meadow are an important part of that.”

THE ZAMBIAN EVOLUTION

Like any healthy relationship, the one between Cargill and Meadow Feeds continues to grow. The most obvious example is Astral Foods’ operations in neighboring Zambia. It owns a feed mill in Lusaka, the capital of Zambia, and has built a 1,000 hectare poultry farm nearby.

Zambia presented some interesting challenges on price risk. It has no futures market for price discovery. Some of the corn delivered to the feed mill comes by wheelbarrow.

Cargill and Meadow Feeds decided to jointly source grain for the feed mill. Zambia was new territory for Cargill, too. Having a volume commitment from Meadow was a basis for establishing a grain trading business in Zambia.

In 2009, Cargill and Meadow Feeds signed a profit-sharing agreement on their grain trading in Zambia. Cargill now supplies both corn and soybeans to the Zambian mill. The agreement formalizes an activity that had been taking place for more than a year.

“We have a level of trust with Cargill that we sometimes do business on a handshake and a nod of the head,” Schutte noted. “Now, we have a contract to jointly share in the profits *and* in the losses for the next couple years. After the first three to four months, the partnership already is in a small profit situation.”

The benefits go beyond the partnership. “The whole Zambian agricultural community is going to benefit in the long run from having a more formal pricing mechanism,” Schutte said. “That’s the kind of system that Cargill can help create.”

Cargill benefits not just from the profit sharing but from the knowledge that comes from an on-the-ground operation.

“There is a lot of cross-border trade that goes on among South Africa, Zambia, Botswana, Namibia, Mozambique and Zimbabwe,” Steyn explained. “It’s extremely difficult to get involved in that cross-border trade flow if you don’t have a handle on the crops in those countries and the government’s involvement with those markets. For that, you need a presence.

“Our partnership with Meadow Feeds allowed us to establish a presence in Zambia, which means we’re better prepared to trade in the regional market.”

While Cargill benefits from its Meadow connection, Schutte doesn’t see the supplier-customer relationship as totally equal.

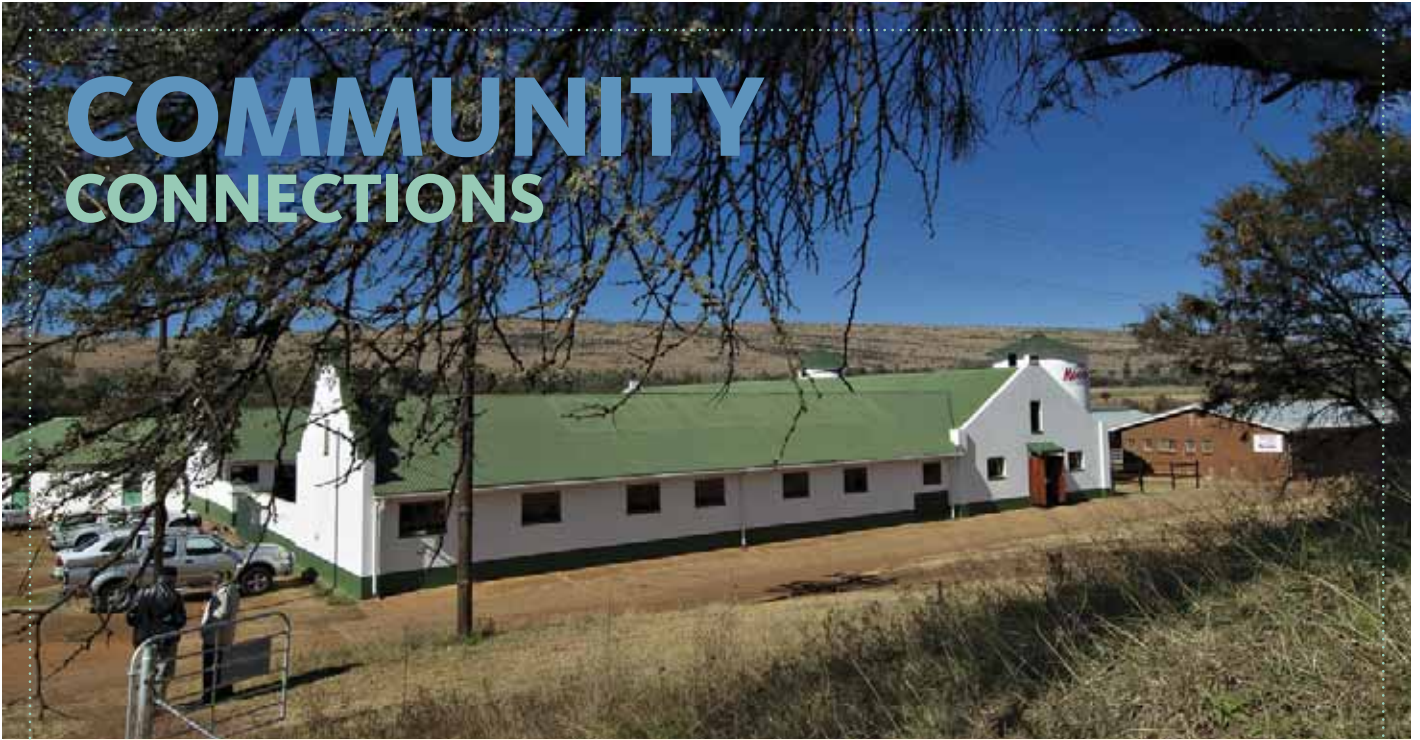
“One point is very important,” said Schutte, “and I mean this from the bottom of my heart. We are the largest feed manufacturer in Africa, but we shouldn’t be arrogant about that. We need Cargill more than Cargill needs us. Without a Cargill in South Africa, we are in more trouble than Cargill would be without a Meadow.”

Schutte is so dedicated to building a long-term relationship with Cargill that he requests that junior Cargill people be part of all the meetings with Astral and Meadow. He wants to start now in developing relationships with the next generation of Cargill managers.

“It doesn’t matter where in the world you are, or what level of Cargill employee you speak to, everyone seems to come from the same high ethical background,” Schutte said. “There is a golden thread that runs through Cargill, and it all has to do with the integrity of its people. I want to be part of the development of Cargill’s people.”

When it comes to model relationships, the model can’t get much better than that.

COMMUNITY CONNECTIONS



At the instigation of Meadow Feeds, Cargill supports the Bekker agricultural school, helping to turn an old barn into a modern conference center. This day, agricultural teachers attended a seminar on soil mapping.

Cargill and Meadow Feeds don't just do business together. They also work together on helping the community. Meadow Feeds had become involved with the Bekker agricultural school in Magaliesburg, South Africa, and Cargill joined the effort.

The only remaining agricultural school in Gauteng Province, Bekker had fallen on hard times. "The headmaster of the school phoned us to say that the agricultural part of the school was on the brink of closing," said Dr. Joubert Nolte, marketing executive for Meadow Feeds. "About one-third of the 600 students at the school are in agricultural programs."

Meadow Feeds convened a meeting of about 15 of its suppliers to explain the situation and ask for help in keeping the agricultural school open.

"The facilities were in dire straits, and there was no government funding available for the school's agriculture department," said Paul Ruston, senior trader for Cargill in Johannesburg.

"Then Meadow called us and said, 'Let's do something to help this school or it's going to close down.'"

In one of the first projects, Cargill donated 50,000 rand (\$6,500) to assist in renovating an old milking shed dating from the 1930s, turning it into a modern conference room for agricultural education.

Meadow Feeds worked with the school to set priorities for projects funded by its suppliers. They also helped the school upgrade its agricultural operations.

"It was really a team effort," Nolte said.

Cargill is continuing its support with a donation to support a National Youth Show at the school. Rural children will show off their husbandry skills by displaying their prize cows, beef cattle, sheep and goats.

"Fewer people are going into agriculture these days, and we must work together to protect the industry," Ruston said. "We're grateful that Meadow Feeds asked us to get involved with the Bekker School."

CONNECTING WITH FARMERS

In South Africa, Cargill is extending its supply chain to individual farmers.

In South Africa, customers like Meadow Feeds understand the value that Cargill can offer as a supplier. In the past year, Cargill started the process of presenting its value proposition to South African farmers—a development that will also help customers.

Having a connection to individual farmers wasn't needed until recently. For years, following South Africa's disbandment of its government-controlled Maize Board in 1994, Cargill sourced corn from cooperatives, brokers or the futures exchange. But the playing field is changing in South Africa.

Coming from a controlled market, South African food and feed companies initially had little experience buying and pricing raw materials in the free market. The government bought the grain and allocated it. The help of a company like Cargill was essential in the early years of the free market.

"Cargill really put the whole supply chain together in the early days," said Paul Ruston, senior grain trader for Cargill. "We sourced grains from co-ops, utilized our expertise in logistics and offered risk management solutions to customers. Nobody else was doing that. It was a successful approach to the



ABOVE: Brendon De Boer (left), procurement manager for Cargill in Johannesburg, showed the latest market information to farmer Giep Steenkamp.

market for more than 10 years."

But as the market matured, co-ops became more confident about pricing and logistics and began dealing directly with end users. They connected with millers needing white corn for food consumption and with feed companies needing yellow corn for livestock feed.

The co-ops' value proposition was simple: a slightly lower price. That was attractive to some customers who didn't understand the wider value that Cargill could bring to the table.

To meet the new competition, Cargill realized it needed to move down the supply chain and get closer to farmers. "We're now rolling out an origination strategy that puts agents in the field to work directly with farmers," Ruston said.

The first question was how to develop a brand new relationship with farmers. How do you develop trust when many South African farmers view Cargill as the company that suppresses local prices by bringing in imports?

"Farmers like our exporting ability during surplus years,"



“We were able to tap into a lot of in-house expertise, especially from Cargill AgHorizons in the United States and the World Farmer Team.... Cargill connectivity kept us from reinventing the wheel.”

BRENDON DE BOER, *Cargill procurement manager*

Ruston said. “But they tend to forget that when we’re importing and they believe we are responsible for moving prices down.”

Fortunately, Cargill has a lot of experience working with farmers around the world—from the United States to the United Kingdom, from Brazil to Argentina.

“We were able to tap into a lot of in-house expertise, especially from Cargill AgHorizons in the United States and the World Farmer Team,” said Brendon De Boer, procurement manager for Cargill in Johannesburg. “There is a lot of internal expertise on marketing materials, strategies and structures. Cargill connectivity kept us from reinventing the wheel.”

Cargill South Africa spent much of 2008 getting the right people in place and getting them trained. The people in the field would be the face of Cargill to the farmers. At the same time, Cargill began to determine what regions of the country and which individual farmers to target for a relationship.

“Cooperatives simply want as much corn as possible to fill their silos,” De Boer said. “We can be a little more selective about who we work with.”

The value proposition would be crucial for approaching

farmers who might already be skeptical about Cargill.

“The trigger is offering a better premium for their crop,” De Boer explained. “That’s where we start building the relationship—being reliable, paying on time, picking up the grain at the agreed time. Simply being a reliable player is worth quite a bit these days—knowing that Cargill doesn’t back out of deals.”

Shortening the supply chain offers multiple benefits. “Buying directly from farmers means a better premium for the farmer, a better margin for Cargill and a discount for the end user,” De Boer said.

By the end of this year, Cargill expects to be offering more sophisticated kinds of value to farmers. “We hope to earn sufficient trust from farmers for them to give us pricing authority over part of their crop,” De Boer said. “A next step might be forming pricing pools where groups of farmers commit a percentage of their production to the pool.”

Offering such risk management tools are an evolution. “You need to create a level of trust before it’s possible to offer those tools,” De Boer said. “It’s like you need to qualify for it. We have a series of steps to grow trust with the South African farmer.” 