

MISSOURI NEWS SCENE



THE MID-MISSOURI Energy plant, a farmer-owned cooperative in Malta Bend, produces 40 million gallons of ethanol every year.

Harvard conducts case study focused on MME ethanol plant

By MINDY WARD

IN the hallowed halls of Harvard University, Ryland Utlaut presented a case for farmer-owned cooperatives. Utlaut, president of Mid-Missouri Energy, took part in Harvard Business School's 2006 Agribusiness Seminar in January. He discussed the cooperative's role in ethanol production.

From its beginning 45 years ago, the Agribusiness Seminar has offered executives insight into agriculture enterprises such as Monsanto, Nestle, Tyson and DuPont. But Mid-Missouri Energy is not an agribusiness giant. Rather, it is a small, farmer-owned ethanol plant in Malta Bend.

Ethanol gets attention

"Ethanol is something that is actively being talked about," says Mary Shelman, senior researcher in the agribusiness

Key Points

- Harvard Business School does case study on Mid-Missouri Energy ethanol plant.
- Ryland Utlaut, MME president, explains farmer-owned cooperative's role.
- Energy issues have become subject of interest for Harvard Business School.

program at Harvard Business School. "It is showing up in news stories and even the State of the Union address."

President George W. Bush declared that America must break its long dependence on Middle East oil in his address Jan. 31. He offered a program that called for ways to more efficiently produce ethanol, not just from corn but from biomass products such as wood-chips or grasses. He set a six-year goal for making this alternative fuel practical and competitive.

Shelman contacted the MME ethanol

plant last year, asking for permission to write a case study. Educating via case study is all part of the Harvard Business School niche. In the classroom, professors use real-life company scenarios to discuss current business strategies and ideas.

"We were extremely pleased that Harvard chose Mid-Missouri Energy for this case study," Utlaut says. "It was a tremendous experience."

Case writers spent two days at the MME ethanol plant visiting with its management and board members. They examined the formation of the plant as well as day-to-day operations.

"I liked the fact that it was a 100% farmer-owned cooperative that organized recently," Shelman says. MME is a new-generation cooperative, closed to outside investors. The plant produces about 40 million gallons of ethanol annually.

As with many ethanol plants, there is the question of expansion. Harvard picks companies for case studies that have internal issues they are trying to address, Shelman says. "We want it to be a provocative study that creates a lot of discussion, and this case did."

About 200 agribusiness professionals from all across the food chain studied the MME case. "[Mid-Missouri Energy] got a chance to pick their brains," Utlaut says. "And we got all kinds of different answers."

Split decision

On whether or not to expand, the ag experts were split. In the first group, roughly 40% of the participants said to expand. However, that number increased to 70% by the second group, according to Utlaut.

Reasons for expansion ranged from a good return on investment to current high-energy costs. Those in opposition cited government subsidies that encourage ethanol overproduction as well as the possibility of money for programs running out, Utlaut says. Others commented on Brazil's increased presence and its ability to produce ethanol cheaply.

"Several participants said to sell it," Utlaut says with a laugh. "They said, 'You accomplished what you wanted.'" According to Utlaut, after only one year in production the cooperative was able to distribute dividend checks.

Shelman stresses that Harvard does not point out a right or wrong company decision; it only looks for a good discussion of ideas. "Our goal is for the individual to take on the role of protagonist," she says, "and look at how to deal with issues."

Utlaut appreciated that aspect of the seminar. "They were all put into our shoes," he says. "They realized this was a huge investment for farmers."

Energy is hot subject

Students in Harvard's Master of Business Administration program will also have a chance to think like a farmer-investor. The school is offering a new course covering any number of energy-related issues, including the MME case, according to Shelman. "Given the current discussions," she says, "the timing is great."

Ward is a writer from Marthasville.

Consider options before buying machinery



Foresight Forum

By MELVIN BREES

Q: Besides acquiring farmland, the biggest challenge facing farmers who are just starting out is equipment acquisition. What's the best way to go about this? I plan to partner with my father in a 1,200-acre crop operation. He has older equipment. Should I lease or buy? Or, should I ask my father to help finance the equipment?

A: You are correct that purchasing farm equipment represents a major challenge for beginning farmers. High input costs (seed, fertilizer, fuel) result in narrow profit margins, but it's difficult

to cut production costs without risking reducing yields and income. Managing equipment costs is key to profitability.

Timeliness of operations and the production system used or field operations performed are important factors in determining machinery needs. These factors and the limited description of your case raise several additional questions that you need to consider.

You mention partnering with your father. How much longer does he plan to farm before retiring? Will it be a farming partnership or do you just plan to share machinery? How will operating costs such as fuel and repairs be shared? How much of his older equipment needs to be replaced immediately, and does some of it have useful life remaining, allowing some purchases to be delayed? Most importantly, is he willing

to buy new machinery? What are the terms of the agreement that requires you to pay him back? Will your share of the partnership or the number of acres you farm provide enough income to make the required payments? Do you have other income sources that can be used for payments?

In general, if you plan to trade the equipment often, leasing may offer some benefits. However, if you plan to keep it for several years, ownership may be the better alternative. Among the advantages of leasing new equipment is that if properly structured, lease payments are a tax-deductible operating expense and can be paid out of operating funds without tying up owner capital.

However, purchases of equipment under current tax laws offering sizable "Section 179" deductions, along with al-

lowed depreciation, may offset the tax advantage of leasing. In some situations, joint ownership with other farmers or lease arrangements involving producers in different states have enabled some producers to gain use of new equipment with reduced investment requirements, especially for high purchase-cost items such as combines. Upgrading equipment with late-model used machinery is an alternative to buying new, especially for the size of operation you describe.

Summing up, this is a complex issue that requires close examination of a number of alternatives. Contact your University of Missouri Extension ag business specialist, adult ag instructor or a farm management consultant.

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