

Economy of scale helps farmers

One-stop shopping center may lower costs and make local agribusinesses more competitive

By Mary Chao
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(March 23, 2003) — Les Cole is about to realize his dream.

For eight years, the lifelong Livingston County farmer has been working on a project to help western New York farmers become more competitive by lowering their cost of doing business. His idea: Create a one-stop shopping site for feed and fertilizer -- the biggest expenses on a farm.

Now Cole's vision -- which he calls Commodity Resource Corp. -- is coming into focus. When the \$15 million facility in rural Caledonia opens in August, it will become the largest feed and fertilizer facility in the Northeast.

"I believe this project will have the largest impact on agriculture of any project in the state," said the 50-year-old Cole.

The 87,000-square-foot plant, plus 4,000-square-foot office, will initially employ 21 people. Situated near five railroad lines, it will include a truck and train unloading area.

Currently, feed and fertilizer companies use trains and trucks to ship supplies to area farmers in small quantities. Buying and shipping in large quantities could cut transportation costs by as much as 40 percent, Cole said.

"Our feed and fertilizer industry is so fragmented here we couldn't take advantage of the economies of scale. So our farmers can't be competitive with farmers in other states."

After visiting other agricultural regions, Cole found that consolidating rail shipments into a central facility would create the scale necessary to reduce costs. By bringing significant volume to one site, CRC could get much lower transport rates from the rail lines.

CRC would service many agribusinesses -- throughout western and central New York and parts of Pennsylvania and southern Ontario -- and make money by charging a small service fee to transport, store and blend feed and fertilizer.

The project has received support from agricultural officials, who say it could offer a way to revitalize the region's agriculture industry.



MAX SCHULTE

Les Cole, left, president of Commodity Resource Corp., and son Matt Cole, plant manager, are planning to consolidate shipments of feed and fertilizer at a new facility in Caledonia, Livingston County. Cost savings would be passed along to area farmers.

''With the environment we're in today, we need something like CRC,'' said John W. Lincoln, president of the Farm Bureau of New York.

Lincoln, who runs a dairy farm in Bloomfield, Ontario County, said feeding his 160 cows accounts for 50 percent of his expenses. Obtaining affordable feed ''could be the difference between a profit and no profit,'' he said.

Area farmers have been hard hit the past few years with a spate of bad weather -- including last year's unusually wet spring followed by a summer drought. Higher prices for feed and fertilizers cuts deeper into already reduced profits.

According to the Buffalo branch of the Federal Reserve Bank of New York, western New Yorkers pay almost 40 percent more than the national average to ship grain products by rail. Factors that drive up costs for rail companies -- such as location and labor -- drive up freight prices.

''Profitability has been lacking the last couple of years and part of that has to do with the infrastructure,'' said Bob King, who tracks agricultural issues for Cornell Cooperative Extension of Monroe County. ''Anything we can do to reduce infrastructure costs will help agriculture here.''

New York farmers are competing in a world market, and ''farmers certainly need all the savings they can get,'' said Nathan Herendeen, extension associate at Cornell Cooperative Extension in Lockport, Niagara County. ''We've got to be competitive to stay in business.''

Not everyone in the agriculture community is supportive of the project.

One critic is Wilbert Rhinehart, owner of Rhinehart Farm Services in Middleport, Niagara County, which sells feed and fertilizer to farmers. He thinks the CRC project, which would compete with his business, is a waste of money. ''Agriculture is shrinking in western New York,'' Rhinehart said. ''Why do you build when agriculture is shrinking?''

CRC would add another layer of bureaucracy and would not save farmers any more money on their supplies, said Rhinehart, adding that many independent suppliers are against this project.

Cole disputed Rhinehart's assertions, saying the ''the freight savings alone would be tremendous.''

''This will bring new agribusinesses and competition to New York state,'' Cole said. ''Smaller dealers that embrace this project will have much better opportunity for growth and stability.''

Cole has built his project despite significant obstacles. He faced an uphill battle to convince a bank to lend him the money needed for the project. Agricultural investments are deemed risky by lenders and there are no similar projects anywhere in the country, Cole said.

A consultant was hired to draw up a business plan. The CRC concept is different, but once a business plan was developed, lenders could see that there was a ready market of farmers who could benefit from economies of scale, said Bruce Dehm, president of Dehm Associates in Geneseo, who consulted with Cole on the CRC project. There is no need to solicit customers as feed companies will deliver to CRC instead of individual farms.

After two years of knocking on doors, Cole received a \$10 million loan from HSBC Bank in 1998.

The project received some public assistance. Livingston County contributed \$150,000 to a state Department of Environmental Conservation project to run a water line to the site. And Cole is pumping his own money into the project. Cole is president of CRC and his son Matt Cole will be plant manager.

It should take no more than a year for CRC to turn a profit, Cole said. After three to five years, CRC should gross \$5 million to \$7 million and net about \$1 million annually, he said.

Once the feed and fertilizer business gets going, Cole would like to expand to allow food companies to rent his facility to bag products such as rice and flour.

Change in the industry doesn't come easily, Cole said. But if New York farmers are able to thrive on the new cost savings, new agricultural investments will follow, he said. ''If you look at this as a growth industry, you need more infrastructure,'' Cole said.