Qualitative Tools
to Examine the Potential Effect of Bio-Engineered Grains\textsuperscript{1,2}

Steven Sonka
R. Christopher Schroeder
Carrie Cunningham\textsuperscript{3}

Abstract

The goal of this paper is to describe the use of qualitative tools in examining market system changes that could result from adoption of bioengineered crops, if that adoption occurs. Analysis results are reported here which are prospective in nature. Their overall purposes are more for identifying questions and key issues, rather than predicting specific outcomes. Three qualitative tools; system dynamics, futuring exercises, and scenario analysis, were employed to generate these results. These tools are especially useful when the potential exists for turbulent change in the market environment.

INTRODUCTION

The overall goal of this paper is to describe and analyze the market system changes that could result from adoption of bioengineered grains and oilseeds in U.S. agriculture, if that adoption occurs. Clearly there is considerable uncertainty regarding biotechnology’s role in agriculture, with the extent of consumer and societal acceptance in this country and in export markets heading the list of unknowns. Because of the highly volatile nature of today’s agricultural marketplace, quantitative predictions based upon analysis of historical data are of limited applicability. Therefore, the analysis results reported in this paper are conceptual and prospective in nature. Their purpose is primarily to identify questions and key issues, rather than to project specific outcomes.

In this study, three types of analyses are employed and integrated. The dynamics of change in commodity markets are explored through application of system dynamics. Second, in-depth futuring exercises with sector decision makers solicit expert opinion regarding the evolution of alternative market channels. Third, scenario

\textsuperscript{1} Presented at the 2001 Annual Meeting of the Western Coordinating Committee for Agribusiness, Las Vegas, Nevada, June, 2001.
\textsuperscript{2} This material is based upon work supported by the US Department of Agriculture under USDA Award Number: 12-25-A-3808. Any opinions, findings, and conclusions or recommendations expressed in this publication are those of the authors and do not necessarily reflect the views of the US Department of Agriculture.
\textsuperscript{3} Steven Sonka holds the Soybean Industry Chair in Agricultural Strategy, is Director of the National Soybean Research Lab, and is a Professor with joint appointment in the Department of Agricultural and Consumer Economics and in the Department of Business Administration at the University of Illinois at Urbana-Champaign. R. Chris Schroeder is a principal, as is Sonka, in AEC/Centrec, a financial and management consulting firm in Savoy, Illinois. Carrie Cunningham is Visiting Research Specialist in the Department of Agricultural and Consumer Economics at the University of Illinois at Urbana-Champaign.
analysis is employed to investigate the managerial implications of potential adoption of bio-engineered crops and market channel change.

**THE DYNAMICS FOR CHANGE**

If widely accepted by consumers, agricultural biotechnology offers the potential to provide substantial benefits, but also challenges, to participants throughout the commodity production and marketing system. The existing commodity system is not designed to produce and deliver diverse sets of differentiated output. The following discussion will examine the dynamic interactions likely to result in a setting where biotechnology drives structural change in the production and marketing system.

**Investing in a Vision**

The vision that there are potential benefits from biotech commodities has driven investment into research and development initiatives. Figure 1 suggests that *Theoretical Value from Biotech* supports [S] the *Speculative Investment* that in turn supports [S] *Biotech Development*. This tends to be a reinforcing process[R] where new developments generate more ideas for value that drives more investment. For many types of biotech value traits, this depicts where we are in the current situation—especially for value traits that provide benefits to participants further down the value chain beyond the producer. The bold dashed lines that intersect the linkage between *Speculative Investment* and *Biotech Development* denotes that there are time delays between the decision to invest and actual development of innovations.

![Diagram](image)

**Figure 1. The potential for value drives development.**

**Moving from Theoretical Value to Realized Value**

As development continues and biotech-driven quality improvements become reality, it becomes possible to move from theoretical value to realized value. Figure 2 expands our diagram to illustrate that *Transportation and Handling Infrastructure* will be needed in conjunction with the *Biotech Development* to generate *Realized Value*.
from Biotech. Other system components will be needed to facilitate the full adoption of biotech grains. For example, the factors below are just as important as the transportation component.

- New marketing and business arrangements that will be needed to facilitate the re-distribution of value through the value chain,
- The utilization of information technologies,
- The evolution of testing technologies, and
- Public acceptance of different kinds of products.

Figure 2 illustrates where the current structure is lacking today and most likely in the near future unless changes are made to the Transportation and Handling Infrastructure. That is, the amount of Biotech Development is continuing to advance and build Theoretical Value from Biotech, while (without investment) the Transportation and Handling Infrastructure can quickly become a limiting factor in realizing the potential value.

![Figure 2. Physical infrastructure as a gap limiting value realization.](image)

The Incentive to Invest in Infrastructure

Investment in Transportation and Handling Infrastructure is fundamentally different than the investment in Biotech Development. Investments in biotech are large and speculative, but perceptions of high long-term payoffs justify investing. This tends to attract long-term investors. On the other hand, investment in Transportation and Handling Infrastructure is more mundane but has a more tangible outcome. There is little question that a particular
infrastructure can be built. The speculation is whether the market will provide adequate return to the Transportation and Handling Infrastructure to provide sufficient return to the investment—especially in a sector that has historically been characterized as highly competitive with very narrow margins. However both components are important if value is to be actually realized value from biotech commodities.

Figure 3 builds on the previous figures to include a very important linkage from the Theoretical Value From Biotech to Infrastructure Development that supports the development of the Transportation and Handling Infrastructure. The notion here is that it as the Theoretical Value From Biotech increases over time, it will reach a threshold at which time someone in the system will become convinced that it makes sense to invest in the development of infrastructure. (Of course, the perceived theoretical value can decline which would retard investment.) The two short, bold lines that intersect the linkage between Theoretical Value from Biotech and Infrastructure Development suggest that this time delay is likely to be both significant and lengthy. Over time, this will provide the infrastructure needed to realize the value from the biotech developments. The time lag between the point where the biotech product is ready for market and the time when it is actually generates market returns is critical. There is the potential for substantial lost opportunity if a biotech product is ready for market, but sits stagnant even for a couple of years while the necessary infrastructure is developed.

Figure 3. Infrastructure investments are needed to realize market value.
### Closing the Loops

It will be important to understand the dynamics of the continued evolution of the *Transportation and Handling Infrastructure* as the system matures. Figure 4 identifies feedback loops that will provide a return to those who invested in *Biotech Development* and *Infrastructure Development*. Over time, these feedback loops will generate varying degrees of additional investment, depending on how successful (profitable) the existing products have been. Again the magnitude of any delays between the time when value begins to be actually realized (Realized Value from Biotech) and *Infrastructure Development* will significantly affect the pace by which returns accumulate and fuel further investment.

![Figure 4: Returns from the market flow to investors.](image)

The relationships and dynamics illustrated in the preceding diagrams are used as points of reference for the remainder of this analysis. The time lags noted in those diagrams are of critical importance. They identify a significant mismatch between the processes by which expectations are formed that lead to investment in biotechnology development versus investment in infrastructure. Although infrastructure is not needed until crops from biotechnology are in the marketplace, delay in the availability of that infrastructure will reduce profitability and restrain further investment in biotech development.

**BIOTECHNOLOGY AND THE COMMODITY MARKETING SYSTEM**
The production and marketing system for major commodity crops in the United States is designed to provide maximum value through the low cost delivery of massive amounts of homogenous grains and oilseeds.\(^4\) Key characteristics, which result in successful operations in the current commodity setting, conflict with the needs that appear to be required for effective marketing of bio-engineered crops.

Even though the biotechnology revolution is still in its infancy, significant transportation, handling and logistical implications can be identified that may result from the continued adoption of bio-engineered crops by producers and end-users. For two very different reasons, it now appears that crop identity will have to be maintained in production and marketing supply chains for at least some portion of the crop.

So-called first generation crops were altered to enhance agronomic performance. Because output traits were not affected, segregation of these crops was not expected to be necessary. In some international markets, however, acceptance of bio-engineered crops is a controversial issue. Labeling of bio-engineered crops currently has been mandated for some uses. Therefore, separate handling systems for bioengineered products and non-bioengineered commodities may need to be created because of the lack of immediate acceptance of genetically modified crops in those markets.

The most significant impact of biotech crops on the crop transportation, handling and logistical systems should occur with the second generation of biotechnology, where crops with quality related traits that have added value for specific end users are available. The added value of these crops is found beyond the farm level. Potential examples include high lysine corn, high oleic soybeans, or wheat with improved processing traits. These products will require segmentation to preserve their identity through the grain handling systems to the point where the value is captured. If grain with specific end use value is commingled with other grain, value is likely to be lost.

**DECISION MAKERS ASSESS FUTURE STRUCTURES**

Market and technological forces in the US grain and oilseeds sectors suggest that there is considerable potential for significant market structure change (Sonka, et. al., 2000b; Boehlje, Hofing and Schroeder, 1999). Due to rapid changes in technology, policy, and consumer preferences, decision makers throughout the sector are forced to adapt to the best of their ability using the information that is available. The ability to predict the future becomes

---

\(^4\) In reality, of course, homogenous commodities dominate the current system; however, there are a variety of value-enhanced crop products on the market as well. In general, market transactions and transportation logistics work smoothly for these niche products in small volumes and with premium pricing.
more difficult because of the complex interrelationships among demand, supply, technology, regulatory environments and policy.

In the face of a dynamic market structure, there is very little past information or data to analyze for quantitative predictions of the future. The “normal” approach to research in agricultural economics has been to quantitatively analyze historical relationships to assess implications for the future. However, in times of dynamism, volatility, instability, and significant structural change, an *ex post* analysis approach using historical data sets is not effective in *ex ante* assessments (Boehlje, 1999). Therefore in this analysis qualitative tools are used.

The working hypotheses of the analysis reported here is that industry leaders and experts have useful insights as to how the aforementioned factors will affect the future of agricultural market structure. Past management decisions have helped to build a set of tacit information that is useful to think about the future. Use of scenario analysis and semi-structured personal interviews enables the researcher to extract that tacit knowledge. Scenario analysis allows the study participants to “project themselves” into alternative futures and to describe how individuals in managerial roles would respond to those futures. The objective of this section is report on the insights discovered as to likely impacts of biotechnology on the market system.

**Research Design**

Qualitative research, the process of analyzing words and thoughts, is employed in this portion of the analysis. This type of analysis is routinely employed in strategic and market research (Wolcott (1992); Miles and Hubermann (1994); Creswell (1998)). After consideration of the options available for conducting qualitative research, the method of research chosen for this project was face-to-face interviewing. More than thirty decision makers with extensive experience and who represent interests from throughout the production and marketing sector participated. Because the questions designed require knowledge about the topic, outside sources were consulted to gain perspective on what individuals would have this knowledge. Academics, experts and experienced researchers were consulted to build a list of possible contacts with positions from throughout the supply chain to be interviewed.

To ensure participation of the informants, strict confidentiality was promised. The sectors represented include (with the number of participants in parentheses):

---

5 Explicit knowledge is formal, repeatable knowledge; that which can be written down. Tacit knowledge refers to the informal, experience based insights, judgment and experience that decision makers employ (Nonaka and Takeuchi, 1995)
Interviews ranged in length from 45 to 60 minutes, took place during the late winter and early spring of the year 2000, and occurred in the respondent’s office (or a location of their choosing). More detailed information on the design process and the study participants is available in Cunningham (2000).

To provide a common terminology and perspective relative to current market channel alternatives as well as future possibilities, the marketing channels described as part of the U.S. Grains Council’s 1998-1999 Value-Enhanced Corn Quality Report were employed. These marketing channel definitions were enhanced by adding vertical integration as an alternative marketing channel and traceability as a channel differentiating characteristic. This framework was explained to participants in the qualitative analyses that follow.

The interview for the in-depth futuring exercises consisted of six main questions, three for each of the two time periods in question. The three questions for each time period were the same, for the purpose of comparison. Four follow-up questions were administered to get richer, more in-depth answers; to explore newly discovered avenues; and to test and modify emerging themes (Rubin and Rubin, 1995).

**Near Term non-GMO Segregation**

Two market structures were examined in the research. The first focused three to four years into the future and centered on the notion that a 20-30% market share exists by that time for non-GMO corn and soybeans. The respondents were told that a premium is paid for segregation. Of the 30 respondents, 43% of the respondents said the structure was realistic; 47% thought it was not realistic; and 10% said this was the current market structure. The main reasons given for not thinking that the scenario was realistic were that they didn’t see the premium occurring; they couldn’t see the premium sustaining the market; and they couldn’t see consumers paying more for what was once a generic product.

The main issues identified for a market structure such as this to occur were:
There would have to be a continued increase in consumer concern surrounding GMO’s.

Similarly, there would have to be an increase in consumer demand for non-GMO products.

There must be a decrease in the level of risk associated with providing a pure and segregated product at all levels of the supply chain.

Issues with segregation and identity preservation must be resolved.

There would have to be increased concern regarding international trade losses with the EU and Japan.

Governmental regulations and requirements will need to be better understood to certify the products.

Market structure would need to change to accommodate differentiated products and premiums.

Respondents were asked how their decisions and behaviors would change in response to a market structure where 20-30% of corn and soybeans were marketed as non-GMO. Of the 30 respondents, 60% said that their behaviors and decisions would change; 40% said that they would not change; and 30% said that they were already prepared or preparing for this scenario. The major behavior and decision changes that were discussed were as follows:

1) Respondents said that in this sort of structure, there would be a need to establish better infrastructure throughout the supply chain.

2) As there would be an opportunity for new markets, management decisions would change to facilitate these opportunities.

3) To provide segregation, new services, or new products necessary to serve this market, respondents said that they would need to increase investments in some aspect of their business.

**Longer Term Responses to Enhanced Output Attributes**

The second market structure focused eight to twelve years in the future and concentrated on a market structure where 40-50% of the market is sold as differentiated output traits. The respondents were told that the premium now lies in the value added nature of the product. Of the 30 respondents, 80% thought that the scenario realistic; 20% thought that the scenario not realistic.

Note that those who said that they were prepared or already preparing are included in the number of respondents who said that their behaviors and decisions would not change.
The responses about what would have to occur for the scenario to take place were similar to those given in the first scenario. They are as follows:

1) For the market to be heavily concentrated with differentiated output traits, there must be consumer demand for the products. Additionally, the consumer must realize some value in the product and have few or more expensive substitutes. Many respondents thought that the traits would be niche markets driven by lifestyle or preference changes.

2) There must be an available supply of technology to grow the differentiated output traits. Biotechnology developers must have the incentive to supply products that are worthwhile and useful for a long period of time.

3) There will be a continued trend of market structure change. Respondents talked about consolidation, which has led to a high level of alliance both horizontally and vertically along the supply chain.

4) There must be a method of “insurance” against loss to the environment, misproduction, or commingling of high-value differentiated output products.

5) Issues of difficulty of segregation and purity must be resolved.

6) International trade concerns surrounding biotechnology and “American science” must be resolved.

Respondents were asked how their decisions and behaviors would change in response to a market structure where 40-50% of corn and soybeans were marketed with differentiated output traits. Of the 30 respondents, 67% (2/3) said that their behaviors and decisions would change; 33% (1/3) said that they would not change; and 20% said that they were already prepared or preparing for this scenario. The behavior and decisions changes were once again much like those that were discussed in the first scenario. The major behavior and decision changes that were discussed were as follows:

1) Respondents said that this market would force them to form new relationships with other members of the supply chain. Many saw their firm consolidating or forming alliances with other firms.

2) In response to the potential for new markets, management would need to facilitate these opportunities.

3) To provide segregation, new services, new products or other functions necessary to this market, respondents said that they would need to increase investment in some aspect of their business.
4) Respondents said that in this sort of structure, there would be a need to establish a better infrastructure throughout the supply chain.

**Scenario Analysis**

There are many factors pushing the grain and oilseeds markets toward specific trait products but there are many obstacles as well. Although the grain system will likely change in the future, predicting exactly how those changes will occur is nearly impossible. Instead it is useful to look at some potential scenarios of the future. The scenarios presented are not meant to be predictions of the future but rather illustrations to help stimulate thinking about the future of the grain industry and the implications of biotech.

For each scenario, the expected market structure is described for those timeframes as though they had actually occurred. Two future scenarios are explored:

**Scenario 1—Dramatic Shift Caused by Biotech Traits and Demand for Traceability**

**Scenario 2—Gradual Change over Time Through Traditional Traits**

These scenarios fall into the “all versus nothing” approach to looking at the future of biotech. If biotech is accepted, it will be accepted broadly and biotech traits will be used in many applications. If biotech is not accepted, public and regulatory pressure as well as concerns about segmentation will restrict it from nearly all applications. (As is typical in scenario analysis, this extreme specification is useful to frame the discussion. This does not mean that a “mixed” future is not possible.) Scenario 1 assumes biotech enhanced crops will be widely accepted. If they are accepted, a rapid segmentation of the crop market into specific use traits is likely to occur. Scenario 2 assumes that biotech traits are not accepted. Under Scenario 2, gradual segmentation of the market continues with traditional trait development as it has in the past. Table 2 highlights the major background characteristics of the scenarios.

**Table 2: Future Scenario Background Summary**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Scenario 1 Dramatic Shift through Biotech</th>
<th>Scenario 2 Gradual Change without Biotech</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biotechnology enhanced traits</td>
<td>The number of traits explodes.</td>
<td>Developments cease.</td>
</tr>
<tr>
<td>Biotechnology acceptance</td>
<td>Broadly accepted,</td>
<td>Not accepted</td>
</tr>
</tbody>
</table>

Note that those who said that they were prepared or already preparing are included in the number of respondents who said that their behaviors and decisions would not change.
In Scenario 1, (Figure 5) the benefits of biotech and the demands of the public will be the primary drivers pushing the handling and transportation infrastructure to change rapidly. Assuming that the specialty and IP channels are further subdivided, this scenario will require radical change to the handling and transportation system.

**Figure 5. Scenario 1—Dramatic Shift Caused by Biotech Traits and Demand for Traceability.**

If this scenario occurred, the transportation and handling system would have to be changed dramatically from what it is today. Nearly every channel would push towards the utilization of small to medium grain flow configurations. Taken collectively, this suggests:

- No storage at terminal elevators
- High utilization of on-farm storage
- No barge utilization
- High utilization of trucks
- High utilization of testing
• Pressure to produce specialty grains near the respective end user

Thus, if market pressures (e.g. the value from biotech grains is sufficiently high) drive the industry in this direction, the handling and transportation infrastructure will need to change in the following ways:

• Terminal elevators will need to be able to segregate into at least a few different channels.

• On-farm storage will need to increase.

• Barge transportation must adopt to handle multiple channels, either through coordination (each barge hold has a separate product), or through the use of some type of containerization.

• Trucking capacity must increase.

• Testing methods must be developed that are accurate, fast, economical, and have the confidence of all parties involved.

• End users must strategically locate in areas where they can secure adequate amounts of the specialty grain that they need while having access to outbound transportation for their output.

Scenario 2 (Figure 6) ends up in the same position as does Scenario 1, in terms of the share of the market held by each channel. However, the pace at which the commodity channel is supplanted is considerably slower than in Scenario 1. Therefore at the end of the period, one could expect similar implications with on-farm storage and truck transport increasing at the expense of large-scale high volume commodity-oriented mechanisms.

Figure 6. Scenario 2—Gradual Change over Time Through Traditional Traits.

Although transportation, handling and logistical infrastructures will need to adjust, the speed of change can occur at a moderate pace. As the normal replacement of infrastructure occurs, in combination with advances in
technology, systems that can accommodate the more precise requirements of IP, Specialty and Super Commodity grains will evolve. Regionalized production will emerge around the locales where systems capabilities exist. In contrast with Scenario 1 where infrastructure retarded the pace of change, in Scenario 2 infrastructure investment will at times act to lead the evolution in channels.

SUMMARY

In this study, three types of analyses are employed and integrated. The dynamics of change in commodity markets are explored through application of system dynamics. Second, in-depth futuring exercises with sector decision makers solicit expert opinion regarding the evolution of alternative market channels. Third, scenario analysis is employed to investigate the managerial implications of potential adoption of bio-engineered crops and market channel change.

Results of these analyses can be summarized into three general findings. First, to effectively produce and deliver grains and oils with differentiated traits to customers, alternative market channel mechanisms and infrastructure will be needed to extend the capabilities of today’s commodity system. A typology of alternative market channels is specified in this report. These alternatives bracket the plausible range of expected needs. The alternative channels are categorized in terms of eight distinguishing characteristics deemed important to industry participants. Each of the alternatives is plausible today, although expected advances in measurement technology and scale efficiencies will reduce future costs. Therefore, mechanisms do exist (or could be expected to rapidly emerge) by which a whole range of differentiated output could be marketed. Further, because of differing requirements and value opportunities, bioengineered grains and oilseeds may be marketed in each of the alternative channels. And some output types may be marketed in more than one channel.

Second, there is a fundamental mismatch in the decision expectations between investing in biotechnology and investing in transportation, handling, and logistical infrastructure. Yet if grains and oils with differentiated output traits through biotechnology are to be effectively provided in the marketplace, investment in transportation, handling, and logistical infrastructure also is essential.

Scenario analysis was employed to explore these investment dynamics. Results of two scenarios are of particular interest. In the scenario where widespread consumer acceptance in the future is assumed, advances in biotechnology drive relatively rapid and substantial change. Existing market system infrastructure, which is economically viable but not well suited to differentiated output traits, acts to slow the rate of change. One expected
result of this conflict would be considerable pressure for biotechnology stakeholders to establish dedicated, vertically coordinated systems outside the existing organizational structures. To optimize these new structures, production of the products with differentiated output is likely to be regionally localized. Advances in measurement technology are not a significant impediment to change as organizational structures partially substitute for the need for measurement capabilities.

In the scenario where biotechnology is assumed to have limited acceptance, the pace of change is relatively slow as biotechnology does not act as a driving force. The slower pace of change in this scenario allows marketing system infrastructure to evolve at a rate that is more consistent with the normal investment patterns. Indeed investment in system infrastructure in a particular region may be a force that leads differentiated trait production in that region. The rate at which measurement technology advances will be a larger determinant of the rate of change in this setting, as it will facilitate low cost transactions in less tightly controlled vertical systems.

The third general implication of the research is that relationships along the agricultural supply chain will need to change substantially. An intensive qualitative analysis of decision maker responses to biotechnology in agriculture identified several different types of relationship change. The most visible of these changes is horizontal and vertical consolidation, as well as alliances, among agricultural firms. Several respondents discussed farmer-input supplier and farmer-grain handler relationships changing because of the Internet and the options available in contracting and specialization. Intriguingly, new forms and types of relationships with final consumers also are expected. All participants stressed the emerging role of the consumer at some point during their interview.

REFERENCES
Boehlje, Michael D., Steven L. Hofing and R. Christopher Schroeder. “Farming in the 21st Century.” Staff Paper #99-9, Department of Agricultural Economics, Purdue University, August 31, 1999.


