

THE OTHER COMMODITY BROKER

Ask twenty people what a Commodity Broker is and to a person the answer will be, "Someone on Wall Street who speculates in commodities."

Ask them, "What do they speculate in?" The answer will be more varied, but many will say -corn, wheat, soybeans, sugar, coffee, and cocoa. A few will say gold, silver, and maybe currencies.

They're right!! But those Commodity Brokers are Futures Commodity Brokers. For the most part these people sit in front of a screen and trade futures in everything from soup to nuts working with speculators who, through trading programs and computers are trying to make a profit from the various markets through short range strategies and technical considerations. These brokers work with the Doctor, Lawyer, and Indian Chief who speculate in one or many futures' markets hoping to make a dollar through trading.

That's not to be critical of the "Futures Brokers" as they also provide the professionals a vehicle to hedge and price product forward for their companies on important ingredients they use to make products they sell. They provide a very important function in the overall scheme of things in commodities.

However, today I'd like to talk about the "Other Commodity Broker" and the type of work we do. What's the Other Commodity Broker? Its far less glamorous, but equally as challenging, and works in a different arena. Its the Physicals' Commodity Broker. The obvious question is, "What is a Physicals' Commodity Broker? Let me try to answer that question.

First, they work in the area between the raw material processor and the companies who make food and beverage products. They work with the processor who turns sugar beets, cane, and field corn into refined sugar; the refiner who crushes soybeans, cotton, peanut, and palm into refined edible oils; and the miller who turns wheat into flour, and helps sell that physical edible product to the companies that make all types of food and beverage products. These are companies that make bread, cake, cereals, ice cream, soft drinks, cake mixes, and on and on. The names are familiar like Coca-Cola, Pepsi, Hershey, Nestle', Wonder Bread, Sara Lee, Del Monte, and Nabisco who produce every type of edible food and beverage we consume morning, noon, and night.

The raw material processor doesn't have as high a profile as the food maker but many will recognize names like C &H, Holly, and Spreckels Sugar, Cargill and Kraft oils, Corn Products, and Pillsbury flour. These are the types of companies the Physicals Commodity Broker works with each day, helping one side of the equation sell ingredients to others who blend, mix, bake, and process these ingredients into foods we buy in stores every day.

O.K. --We know who the Other Commodity Broker is, the area they operate in and who they deal with, but why are they needed and what do they do? The need they fill is simple. They sell products and provide information. There are very few things in commerce that don't require selling, and certainly in the commodity business, there is a need to sell these ingredients to food makers. Competition is fierce and whether the processor uses a direct selling staff or a brokerage force or both, products need to be sold. I might add at this point that whether direct sales representatives are used or brokers are used, there is still a sales cost to do business.

Fine, but the shortest distance between two points is a straight line. Why use a broker? Why not go directly from the ingredient processor to the food producer? Basically, the answer is two words --Value Added. The broker must provide things beyond the normal buy/sell relationship that both the buyer and seller of a product look for.

Again, two words cover the two most important areas that these people must provide -- they are information and service.

Let's talk about information first. Both the buyer and seller need information to make intelligent buying and selling decisions. The information has to be dependable, accurate, timely, and most importantly, totally without bias. By definition, sellers look at buyers (and vice versa) with a tad of skepticism. Buyers are charged with keeping down costs and sellers are asked to maximize profits. As a result, both are looking for confirmation of what is really correct. The independent voice of the trusted broker is a natural to turn to. Both look for many things. Just to name a few --crop plantings, not only locally in the U.S. but around the world where many countries produce the same raw materials --crop conditions, expected yields, trends, and weather are just a few of the basic needs. From this, they get surveys, forecasts, and position papers that paint a picture of each raw material they will be using in their plants to produce their goods. The broker has the ability to collect and collate information from every nook and cranny of the market and turn it into useful knowledge that both the buyer and seller can use to their benefit. Because the broker deals in many markets, a synergism is built that is hard to duplicate by the direct seller for just one company or product. In addition, brokerage companies can provide engineering skills that help both buyers and sellers handle these physical products in bulk form conveniently, economically, and in more diverse ways.

The second aspect of value added is service. The broker has to be an extension of both buyer and seller to facilitate every aspect of a sale from contracting and pricing to delivery on time and quality of product that meets specifications. They make sure that the right product is shipped, with the proper transit time allowed, that railroad and trucking companies provide the right equipment to handle product, that invoicing, terms, and prices are correct, and all the other aspects of follow-up are done and done well. Both the buyer and seller must feel confident and comfortable that all these services are handled well, so they can carry on with their priority responsibilities of buying and selling.

The role of the "Other Commodity Broker," while not part of the Wall Street image, is challenging and rewarding none the less.

By now I hope you have a better picture of who the Physicals Commodity Broker is, what they do, where they fit in the process, the area they work in, who they sell for, and who they sell to.

The food chain starts in fields all over the world, winds its way through many turns, including over oceans and across plains to plants that turn raw material into goods we eat and drink. It's a fascinating business that I have been connected with, in one way or another, for thirty years. I enjoy being a part of it and appreciate having the opportunity to describe to you one small aspect of that chain.

. *Mike Ruffolo, McKeany-Flavell Company, speech at San Francisco State*