

The Dynamics of Terminal Elevator Management

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. . . The Rice Grain Corporation, of which I am President, was activated in 1955 to conduct a general grain merchandising and warehousing business in one of the new Lake Calumet-Port of Chicago elevators. There are two such 6,500,000-bushel elevators. The other elevator, I might note, is operated by the Illinois Grain Corporation, a co-operative. Our Rice-Powell elevator, named in honor of the two major stockholders of the Rice Grain Corporation, opened for business in June, 1957.

It was some two years prior to that date when the opportunity to lease the then proposed grain elevators in the new port of Chicago was presented. Although the Rice organization had no elevator experience, we did have a solid cash grain and speculative background and so it was not altogether without some understanding that we explored the possibilities. The port of Chicago was designed and constructed in anticipation of the St. Lawrence Seaway. It was at that time too, which saw the start of the University of Indiana study as to the grain potential of Chicago vis-à-vis the Seaway.

I might say, our approach as to the possibility of making money from the grain elevator and merchandising business was predicated without any regard as to the potential of the Seaway. We were more concerned whether the elevator could stand on its own merits within the framework which then existed in Chicago. We felt the Seaway would be that much added fillip and opportunity. Sufficeth to say, our studies resulted in our signing a forty-year lease and our entrance into this relatively new venture.

Our first organization consisted of myself and a manila envelope. Once we were committed to the new enterprise, I sought out the best available elevator superintendent and then we were fortunate in procuring a competent grain merchandiser. The three of us were the total organization until three months prior to the opening of the elevator.

We were fully staffed on the day of the opening, our accounting procedures had been carefully worked out, and we were hungrily awaiting whatever fate had in store. Our empty elevator was practically filled in three months and, since that time, our operation has been an active and lusty one.

I would not leave you willingly with the impression that the whole procedure was like shooting ducks in a confined hunting preserve. We had more than the expected number of mechanical failures and we had more than the usual quota of bad market judgments and muffed market opportunities. As a matter of fact, we still suffer from the same diseases, but I do not think that they are either as virulent or as frequent as in the first few months of our frenetic existence.

I would like to point out that we entered into a business which was already extremely competitive and wherein the competition was experienced, able, and well entrenched. I do believe that we were able to make some sort of dent in the business and I expect our competitors think we are some type of competition.

Before any attempt is made to describe the vicissitudes of the life of a terminal elevator operator, I would like to add, that part of our long-range planning for the operation of a major water grain terminal in Chicago had to take account of the necessity for some Illinois River origins and to that end we did proceed to buy land and build one small elevator at Spring Valley, Illinois. We do own land for another house on the river but at the moment we are enjoying the spectacle of the railroad rate structure crumbling and we are delaying plans until this latter situation becomes more clearly established.

Now, let us look at the scope and the workings of a terminal grain elevator operation. First of all, let us dismiss the accounting, the internal workings at the elevator, and such factors as being very similar to other businesses. You must know your costs, you must run efficiently, and you must have competent, able, and loyal personnel. I might add here that your top elevator people must know grain extremely well and must know precisely how to mix and blend grain and how to make grades. No terminal elevator can function without a crackerjack grain man at the top.

Now let us be frank with each other. The government, possibly some of the co-ops and others, might be in the grain business because of a spirit of altruism or because of prestige or perhaps even because it builds character. We are in the terminal elevator business to make money and I have found out that my most bitter competition comes from people with the same motivation as myself.

You can theoretically make money by storing grain for the Commodity Credit Corporation or others; you can hope the futures market will provide carrying charges for you to carry grain in store, or you can go out slam-bang and buy and sell grain in order to show a profit. We, like others, are forced into all three activities. We prefer the latter, it is more fun, and if you are right, you make more money.

Once you engage in the business of merchandising grain, that is, buying at one price and selling at another, you are automatically speculating to some extent.

And so, here we are again. I started as a speculative neophyte and I went into the commercial grain business to find peace, comfort, character building, and money, and I find myself speculating again. It is frankly somewhat akin to a narcotic. One deals in goods and services whose values constantly change and anything which changes is interesting. I honestly believe that the grain business is the most interesting type of business enterprise I know of.

In referring to previous symposiums, I find that almost every warehouseman who has been given the opportunity to address this august body has perhaps justifiably spent some time in discussing the Commodity Credit Corporation and its activities. I will confine my comments to acknowledging that the government is a good customer. I think they have a tremendous problem which I personally have no solution for, and I think that we could run our operation with or without government grain storage. To forestall any questions, yet, we do have CCC grain in store and it is good bread and butter storage.

At this time, we have just passed the wheat and oat harvests and are looking forward to the corn and soybeans. Now if you were a terminal elevator operator in Chicago you would have theoretically maneuvered so that you will have sufficient space open to absorb what may be your fair share of the harvest. You would hope that you can buy some of the corn and soybeans at a good discount under the nearby future and then hedge such purchases into the nearby future, thus making at least your carrying charge and if market conditions justify, perhaps something more.

If you were really astute or if conditions at some previous time permitted, you might even have made some forward sales at some basis distinctly higher than that at which you contemplate reasonably buying such grain. This would give you added turnover and greater absorption power during the harvest.

You may have been tortured to sleep by this time with explanations on the basis, but for those of you who might find the review passable, let me briefly explain. As a warehouseman, I am not theoretically concerned with the course of futures quotations. I buy at a price relative to the future and sell the same way. This assumes a constantly hedged position and assumes I will automatically sell a future when I buy cash grain and repurchase such future when I sell the cash grain.

A practical example might be more informative than my glib and familiar way of phrasing the situation. I might buy ten thousand bushels of corn for October delivery at 7 cents under the December corn future. The price for December corn is \$1.20, thus the actual price for the cash corn is \$1.13 per bushel. Simultaneously I sell ten thousand bushels of the December future.

Some time later I might sell corn for the same position, that is October or later, at 2 cents over the December future. The December future at this time is \$1.25 per bushel. At the time of this cash sale, I buy back the December future at \$1.25. I have lost 5 cents per bushel from \$1.20 to \$1.25 on the future. I make 14 cents on the cash, that is from \$1.13 to \$1.27. Thus, as you can see, I theoretically made 9 cents a bushel on this transaction. And please, no false premises—our margins are not 9 cents per bushel. This is a consummation devoutly to be wished.

Now let us consider the possibility that some time last summer, I was doing a very good type of thinking at a time when the demand for corn was quite strong and some fellow of unusual perspicacity persuaded me that I would buy corn at a very cheap basis this fall. Influenced by such compelling factors, I might well have sold corn for fall delivery at 2 over December, bought the December future as a hedge and then waited for the soon to be started harvest, bought corn at seven under, and sold out the hedge. You will undoubtedly agree that this beats teaching school and, if continued long enough, I might set myself up in competition with the Bank of England.

Now it should be apparent that if I am situated in Chicago and I buy corn in the fall for a substantial discount under the future, I am not speculating very much, because a cheap basis would permit me to carry the grain in store and then if no satisfactory outlet asserts itself, I would be able to deliver such corn on the future contract and while I would not be proclaimed a genius, as any other idiot could make this trade, it does look good on the balance sheet. Terminal elevators and country grain merchants away from the futures market don't have quite this type of patsy to enjoy. But they have their own private vices which I am not privy to.

Moving away from dreams and the perfect, we are in a tough competitive struggle and we must constantly speculate on the basis and sometimes on the flat price to keep grain moving and to maintain profit margins. Many times, we will pay a premium rather than a discount for grain, either in hopes of selling at a larger premium or to cover a previous short sale which lacked investment characteristics. Unless you run a storage operation, you must, I repeat, must constantly be in touch with all markets, the constantly shifting basis and the jungle of competition which threatens you from all sides. We can tolerate the brave, the foolhardy, but in our organization we have no use for the meek, the timid, or those who wait for the phone to ring.

One wonderful thing about the grain business is that it is one area wherein competition works. If I am the high bidder, I will buy grain. If I am the cheap seller, I will sell the grain. When prices equalize, I expect it takes personality.

But seriously, I can remember my days at college, and in the peaceful depression days prior to World War II, I can vividly remember the lectures on so-called perfect competition in a capitalistic society.

If memory serves me correctly, I am certain that it does because I fortified my recollections with an old college textbook, this classical competition called for a great number of buyers, a great number of sellers, and an open marketplace. Gentlemen, I feel it my duty to point out to you that the grain markets, both futures and cash and they are basically one, present such circumstances. Furthermore, there is an elasticity both in supply and demand over a period of time and this about fulfills the requirements for your textbook requirements. If it were not for the government, we might even be able to draw a supply and demand chart and predetermine the price.

But, I feel that this set of circumstances is important. We do have some giant monolithic concerns in our industry. But their bigness can only influence markets temporarily, that is for the moment at which they are buying or selling. I feel that even a little fellow can survive if he competes on the basis of

knowing markets and presenting the proper services. And the beautiful part of this argument is that when the big fellows are wrong, they are really wrong. This, as they say, can be very serious because we don't play for fun. There is a permanency about this swiftly changing business which nobody has been able to change. But within this permanency, the cast of characters has changed and continues to change. A review of the terminal elevator operators in the Chicago area for the past fifty years will attest to the truth of this statement. And with the advent of the Seaway, we can logically expect a further expansion of the business in this terminal with both additions and changes in the current personalities.

I can mentally review what I have said so far and it might be that I have dispassionately but effectively disorganized any logical thoughts which you might have had about our own particular enterprise. If this is true, it is because we are a group of highly individualistic operators engaged in an intense struggle at all times. But we do perform an economic service and our role in the economy is one which, despite the best efforts of the Commodity Credit Corporation, should continue to expand.

I do not propose to justify our existence, but since this is an educational forum, I believe it right to explain our economic *raison d'être*. First of all, we are a vital link in the farm-to-market road. And until that day comes when our chemists discover the right kind of pills, I assume that farmers will seed and harvest crops each year and that in a free capitalistic society, free markets will continue to be important.

This year farmers will have harvested in excess of one billion bushels each of wheat and oats, three billion or so bushels of corn, and about five hundred million bushels of soybeans. We should also add grain sorghums and barley to the list. As you well know, harvest activity is confined to a relatively short space of time, but consumption persists in a rather even way throughout the year.

Our giant terminal elevators, in Chicago and other parts of the country, represent to a very large extent the reservoir wherein the surplus from the harvest is absorbed and then distributed throughout the consumption year. This is our storage function and while to a great extent it has been complemented or usurped as the case may be by country storage of various inadequate types, yet the best and safest and most desirable storage for grain remains the large concrete silos with accompanying head-house facilities which terminal grain elevators do have.

During the harvest season, there is always an outlet for country-run grain. Prices may not be satisfactory during periods of harvest glut, but the market is responsible for this. But there is always a bid. And I might add there is always a bid, no matter the quality of grain involved. Of course, it is logical that the various processing industries which use the various grains, will be eager to accumulate their supplies to the limit of their own storage space during the harvest. But over and above this, outside of the loan program, terminal elevators represent the best market for farmers and country elevators.

The other side of the marketing coin, of course, the corollary that during the rest of the year, terminal elevators represent an unparalleled source of supply

for the consumers. Users, both large and small, know that it is unnecessary for them to store or accumulate their supplies for an entire year because terminal elevators with their own storage and their sources for country supplies stand ready to serve them.

An integral function of the terminal elevator, bound in with the basic function of being both a market for producers and consumers, is the fact that the large, modern terminal elevator is equipped to grade, classify, improve, clean, treat, and modify country-run grain so as to satisfy the needs of the myriad consumer interests. In other words, we can take wet grain and dry it scientifically; we can blend grain, we can sort out and combine proteins in wheat, and we can assure uniformity of the raw material for other industries.

During the harvest season, farmer's grains will come to market in almost every conceivable variation from the standard grades, and it is our duty and function to manufacture uniformity from this conglomeration. Again my usual aside, that the astute terminal operator should make money doing this basic function. I might also add that one of the more recent woes of a terminal elevator is the fact that so many country driers have been installed.

Some of our customers are extremely finicky users. In the case of rye, for example, almost every distillery has a set of specifications which one must meet and, in the case of barley, the maltsters are even more selective. And so the elevator superintendent must be like a master chef, drawing a little bit from this bin, a little bit from that bin, until he has his final acceptable stew. Of course, we always hope to be compensated for the extra care and trouble required.

Now, another function of a terminal elevator which I hope to explore at some length, is considered by many to be the means rather than the end itself. I refer to the matter of transportation. As you may know, the hard core of the large terminal elevators in Chicago is capable of accepting grain by rail, truck, barge, and vessel and equally capable of shipping grain by the same means. In a sense, Chicago elevators are unique to this extent and the immediate future promises to exploit these capabilities even more fully than is now done.

This simply means no matter by what form of transportation grain originates from the country, Chicago terminal elevators are in a position to receive this grain. And with the advent of the Seaway, there is no means of bulk freight transportation beyond their capacity. To the farmer who is looking for a ready market for his grain, the ability to absorb grain in huge quantities by truck must be considered of significance. I can refer you to the weekend of July 26th past when Chicago took in almost one million bushels of wheat by truck. Much of this wheat was of high moisture and represented the product of immediate harvest activity. Without truck-receiving facilities in Chicago, country elevators within the local orbit would have been badly plugged and many farmers would have been in a serious situation with wet wheat and no home.

Further along the lines of freight being a function of a terminal elevator, I call to your attention that basically terminal elevators are located at some freight junction point or, historically, a so-called crossing point from the railroad point of view. Thus we have such gateways as Peoria, St. Louis, Kansas City,

Minneapolis, and so forth as well as Chicago. And then we have the naturally located water organization or terminal points which would accommodate the previously mentioned points as well as Toledo, Buffalo, and others. The point is that here are certain privileged geographical areas which stand at the head of a gathering stream of grain and then are in a position for distribution.

As the patterns of grain growing and grain using change, we see the positions of advantage with respect to terminal grain elevator distribution points change. As you all must well know, the changing agriculture of the south has brought with it an increased demand for feed grains. In response to this situation, cities along the inland waterways have grown mightily as grain distribution points. Memphis, Louisville, Gunterville, and Chattanooga are prime examples of this trend. Surplus Midwestern grains are channeled down and distributed to the southern chickens from these various grain sub-terminals.

But you will, I hope, pardon a transplanted Pennsylvanian for taking some measure of local pride and pointing out to you that Chicago is a unique geographical situation and that not only historical locations but aggressive, expanding economic forces suggest the greatest period of growth of our grain industry is just ahead. When the Midwest first grew to agricultural prominence and surplus, Chicago was a natural. The railroads either started or ended here and this city was the most logical economic choice for an aggregation of terminal elevators. The advent of bulk water transportation further strengthened the inherent competitive situation which Chicago has had.

And when the inland waterways began their renaissance in the 1930's, Chicago as the terminal of the Illinois waterway found again that it was a natural outlet for the growing amount of river grain. Through the inland waterways, we now find that practically all of the Mississippi River grain can find a way here. And the day is obviously not too far away when Missouri River origins will flow to this market in volume.

The final completion of the Calumet Sag channel will permit uninterrupted river tows to come directly to the elevators here, further reducing transportation costs and thus making Chicago a better market. We are the only market in the country which can naturally draw surplus winter wheat, spring wheat, corn, soybeans, rye, oats, and barley.

The beginning of the Seaway era is one of those obvious things wherein the significance can too easily be overlooked. Our organization will be more than pleased if only part of the potential which the more optimistic have predicated comes true.

I note that we have already seen the signs of a Great Lakes export business abroad. We have seen some feed grain cargoes worked directly overseas through the small foreign vessels. And we now have the beginnings of an export subsidy program which directly recognizes Great Lakes origins as against the East Coast and Gulf shipments.

I would guess the great export potential of Chicago terminal elevators lies in the export of corn and soybeans. These are the crops which can move most

advantageously to Chicago and which over a period of time tend to find the greatest export markets on their own merits. We can, of course, share in the exports of the various wheat varieties and other grains but the core of our export demand should be in these indigenous farm products.

It obviously is not going to be a case of shooting the well-known ducks sitting on the well-known log. Other lake ports will certainly be aggressive and will certainly have much to offer.

But our area of origins is so vast, our methods of transportation so advantageous that I believe Chicago will enjoy the major grain and soybean export business on the Lakes. There is also a great deal of work to be done by the industries and institutions involved to make an export program through this market work.

First of all, I would like to see immediate enactment on the part of the originating railroads of the same type of export rates to Chicago which now apply to export shipments to the Gulf and East Coast ports. There is no reason why part of Kansas, Nebraska, the Dakotas, Minnesota, Illinois, Iowa, Indiana, and part of Ohio should not be such originating territories. Certainly, this Board of Trade is cognizant of the problem and I know it is working on it. I would just like it to happen a little faster.

Then I do believe that our futures contracts should be adapted to the probability and the requirements of an export grain market. Certainly all deliveries on our futures contracts should have some aspect of water accessibility as a key feature. And it might be that our contract grades will have to be modified so as to be compatible with export requirements. I am optimistic enough to believe that my impatience will prove to be a temporary irritant for myself only and that our institution will streamline itself to adapt to new conditions.

But, in any event, I feel certain we are on the threshold of another new era in terminal elevator operation in Chicago. I hope that my own organization will have enough intelligence and daring to accept and meet the new challenges.

As I indicated originally, our basic reason for existence is to extract a profit from performing a necessary economic function in a dynamic capitalistic society. My own reading of the signs of the Zodiac and the usual other forecasting indices is that fair weather is ahead for such an existence