
CASE: GREAT PLAINS ETHANOL

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May 2002

ETHANOL CASE

Brian Cook looked over the proposal once again. As a large grain farmer, located in Southeast Kansas, he was unsure how to respond to the petition in front of him. In it, over 300 farmers in Southwestern Missouri and Southeastern Kansas had stated their desire to start a fund drive that would raise money to finance a business plan for an ethanol facility to be located somewhere in Eastern Kansas or Western Missouri. Because of his past experience in organizing a local cooperative, the group requested that Brian Cook lead this new venture from the business plan to start-up operations. The farmers in the petition said they would pledge \$1,000 each in the initial fund drive or a total of roughly \$300,000. This initial offering was expected to cover legal fees, business plan costs and a fee for Brian Cook.

The farmers represented in the petition saw several advantages to an ethanol plant located in their region. First an ethanol plant would create a new outlet for locally produced corn and sorghum. Second, ethanol production was expected to boom in coming years as demand for ethanol as a fuel additive was expected to increase. Also, government policy at both a federal and state level had been very favorable to ethanol production and use. This favorable environment was expected to continue. Finally, while there were some large players such as ADM involved in the industry, a large percentage of US ethanol production came from relatively small plants, many of them producer cooperatives due to the presence of a small producer tax credit. It seemed as though this was an industry where small, independent producers could find a role. (See "Teaching Note: The US Ethanol Industry with Comments on the Great Plains" for a complete discussion of ethanol industry dynamics).

While Brian Cook understood, and in fact shared, the enthusiasm of the farmer group, he also had some questions that made him pause. For example, the decision of where to place the plant had not been decided. Prior to developing the business plan, Brian Cook needed to come up with a preliminary site location. The group did not have any preconceived ideas on a site, but Southeastern Kansas was a favorite region discussed within the group. Brian wondered how to go about the task of selecting a site. What criteria should he use? What information should he have that would be useful? What factors drove site selection? Also, Brian wondered what really drove profitability for an ethanol plant. Was it the cost of inputs, price of the ethanol, price of the by-products or some combination of all three?

To familiarize himself with the industry, Brian obtained some information prepared by a consulting firm that described the basic economics of ethanol plants. The dry mill was seen as more appropriate for a producer cooperative because of the smaller scale of operations and lower capital requirements. (See Attachment 1 for wet and dry mill plant economics).

Brian also felt he needed some type of outlook for ethanol. The problem with thinking about future ethanol prices was that so much seemed to depend on government policy.

From a variety of government and private sources, Brian was able to come up with several different scenarios for ethanol prices (See Attachment 2).

Related to the plant location issue was the question of sourcing the feedstock (corn or sorghum) for the plant. While the farmer group said they would market their crops to the facility, there were no specific guarantees at this time. However, if the group eventually did form as a cooperative, there likely would be a guarantee of bushels delivered in proportion to the members' equity investment. Moreover, the location of the plant would likely determine how much feedstock would come from members. To gain a rough understanding of the issue, Brian prepared some price information specific to his region. (See Attachment 3).

Brian Cook knew that the time would soon come for a presentation to bankers and in preparation for this, a coherent feasibility study, business plan and strategy would need to be developed. Brian wondered how to structure this plan and what information would be relevant.