

Local Firm Profiting From e-contracts for Grain

By **TIM LANDIS**
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Springfield-based King Technology Inc. is playing a bigger role than ever in the growing field of e-contracts for grain.

King, which five years ago was Illinois' only provider of Internet-based pricing contracts for grain, now deals with a dozen different grains and is working in 48 states instead of one.

The U.S. Patent and Trademark Office also approved a patent early last month for the eGrain System.

Online pricing contracts and grain-elevator receipts have a long way to go before they replace the bushels of paperwork farmers, elevators, bankers and farm managers use to buy and sell billions of dollars worth of commodities. It's not uncommon for individual farmers, grain elevators and warehouses to go through thousands of paper receipts and contracts for grain each harvest season.

But the creators and managers of the system say it's inevitable that a shift will take place toward virtual contracts for those truckloads of corn and soybeans that come and go in a steady stream each fall.

"Our big customers are the banks. I'm working right now with 14 banks," said Drew Earles, vice president of eGrain Inc., a division of King Technology.

Clients, including banks, grain dealers and warehouses, pay an annual subscription fee.

In the world of agricultural finance, price contracts and warehouse receipts for stored grain serve as collateral for loans, just as a home would for a mortgage. Traditionally, each step of a transaction -- harvest, sell, store and trade -- requires a paper trail, starting down on the farm and running all the way to the local loan officer.

State and federal farm agencies also use the paperwork for dozens of agricultural programs.



Drew Earles, vice president of eGrain Inc, was recently named a member of the 2012 class of The Illinois Agricultural Leadership Foundation. Earles stands for a portrait in eGrain's downtown Springfield offices on Wednesday December 22, 2010. David Spencer/The State Journal-Register

"The elevator will sell the grain to the bank. The bank will send the money to the elevator to use as operating capital, with agreement six months down the road to sell the grain back to capture that (price) margin," said Earles. "Our process makes those transactions more efficient." The system provides e-mail confirmation of contracts, speeding up the processing of farm loans.

Started with rice

King Technology founder Rich King said it took a two-year pilot project with rice contracts and receipts to refine the system. Using that work, the company obtained a license from the U.S. Department of Agriculture. The company is licensed to operate in every state but Louisiana and South Dakota, which are still working on rules for electronic receipts.

Rice was used for the pilot project because it was considered manageable before moving on to larger crops, such as corn, soybeans and wheat. The system since has expanded to include flaxseed, barley, canola, oats, rye, sorghum, sunflower seeds and triticale (a wheat hybrid).

King began to look into the possibilities after a 2003 rewrite of the Illinois agricultural code authorized use of electronic transactions. “As the banks started to get interested in electronic receipts, they began encouraging the grain companies to subscribe to the system,” said King. “They wanted to get away from the paper receipts.”

According to a 2009 annual report by the Illinois Department of Agriculture, Illinois has more than 300 licensed grain dealers who operate in 1,000 locations. The total storage capacity of the network is 1.2 billion bushels.

Electronic contracts seemed a natural extension of the technology and consulting business that King and his wife, Kay, started in 1990. Their two sons, Isaac and Micah, are executives with the company. Isaac King said eGrain has been one of the faster growing pieces of the business in the last few years.

“It’s getting a lot of the attention, especially from the banks,” he said. King Technology now has about a dozen employees at its headquarters on Old Capitol Plaza.

Letting go of paper

Earles said it isn’t easy for farmers and grain elevators to make the switch to electronic transactions after decades of relying on paper.

“When you’re dealing with an older generation of farmer, they still like to hold that paper document in their hand,” he said.

But at age 28, Earles grew up with the Internet, e-mail and electronic transactions. Earles worked for two years at the Chicago Board of Trade before joining King Technology and eGrain Inc.

Though he spends much of his day on the phone or at the computer, Earles said he returns to his home near the family grain and livestock farm at Mechanicsburg after work. There, he still helps out with the daily chores. “It’s mostly just feeding livestock and whatever else needs to be done,” said Earles.

Rich King said the company is working with the USDA on an electronic licensing system for grain-elevator employees involved in weighing and processing grain. He said the paper licensing can take about a month.

“What we’ve done is set up e-licensing, where the candidate applies through our systems,” said King. “They send it to USDA, it’s sent back to the company, and the company pays us a fee.” Such a transaction could take as little as a day, he added.

King, too, said it takes even some larger clients time to accept complicated transactions without the paper.

“There’s still a lot of companies out there with paper. They just can’t give it up,” he said.