Shuttle Loaders Approaching the Saturation Point

Key Points:

- The construction of shuttle loader facilities began in the 1970s, but the period of greatest expansion coincided with the rapid increase in grain production in the 2000s.

- The objectives in building shuttle facilities differ depending on the size and reach of the firms that are building them. Middle-market cooperatives and independents desire access to larger markets and market intelligence. Multinational firms are typically more interested in grain origination.

- Since the mid-1990s, the average construction cost has risen nearly four-fold, and expected ROI per facility has declined from approximately 20 percent to roughly breakeven. Some facilities have been built with the expectation that they will be a cost center for the business.

- Among industry experts, there is a general consensus that the concentration of shuttle loaders in the Western Grain Belt is nearing the saturation point. The few remaining feasible locations represent the last 1-2 percent of worthwhile opportunities west of the Missouri River.

- Joint ventures (JVs) have emerged as a way of enabling firms to build while limiting their debt burden. JVs typically join a large commercial firm or coop with a smaller cooperative or independent.

- The concentration of shuttle facilities and the decline in ROI has heightened the level of risk associated with shuttle loader investments. For firms considering new shuttle loader ventures, a successful approach will include intensive due diligence, conservative pro-forma projections, and a willingness to entertain alternative strategies if the expected return is below acceptable levels.

Introduction

The efficiencies associated with shipping grain by shuttle train have revolutionized grain transport over the past two decades. Nearly 7 out of every 10 rail cars that are loaded with grain now originate from a shuttle loading facility. A wide spectrum of grain companies have invested in these facilities across the Midwest and Plains states, ranging from middle-market cooperatives to the largest multinational commercial firms. But as the number of shuttle loaders has increased, the cost of building them has soared and expected returns on the investments have