

SERVING MULTIPLE MARKET SEGMENTS EFFECTIVELY

by Joan Fulton

While the number of large farm operations is increasing, agribusiness firms still depend upon business from all segments to remain profitable.

The concepts surrounding market segmentation sound easy and straightforward when studied in theory in the classroom. However, when one moves from theory to practice, what was once a straightforward concept becomes a complex management phenomenon. In today's market environment, managing multiple market segments is a reality — it is not a choice.

The business marketplace is changing. Managers who serve farmers know all too well how the size distribution of farmers is shifting towards fewer and fewer small farms, while the number of large farms increases and the total number of farms decreases. So, one conclusion when considering this phenomenon is that larger, or commercial, producers are becoming more important and agribusinesses will be well served by

focusing attention toward them. However, this would not be an effective strategy.

An Internet survey of agribusiness representatives was conducted by Purdue's Center for Food and Agricultural Business in the fall of 2003. Respondents were asked to indicate the percent of total profit or gross margin that they receive from doing business with customers in different size categories. Considering the farm operations with sales of over \$2.5 million, more than 80 percent of the agribusiness survey respondents indicated they received less than one-fourth of their profits or gross margins from this group. It is also interesting to note that less than 5 percent of respondents indicated that these large or commercial farm operations yielded over 75 percent of their profits or gross margins. So, while the number of large farm opera-

tions is increasing, agribusiness firms still depend upon business from all segments to remain profitable.

What does serving multiple market segments really involve? First, consider your customers: how do you identify needs, develop and deliver unique value propositions and channel these through sales to multiple segments? Second, there are questions related to your business:

- How do you implement systems to deliver to multiple market segments?
- How do you devise flexibility for company representatives in the fields?
- How do you handle the internal politics within your company?
- How do you handle questions related to differential pricing of the same products and marketing one brand to different segments?
- What do you do when questions of integrity arise related to the fact that you are treating some customers (in one market segment) differently than other customers (in another market segment)?
- How do you serve smaller clients economically? In other words, can you actually deliver to multiple segments at the same time?
- Another overriding question is: when does too much complexity impact effectiveness?

Figure 1 INFORMATION RETENTION FOR COMMERCIAL PRODUCERS VS. OTHERS BY SIZE OF FIRM

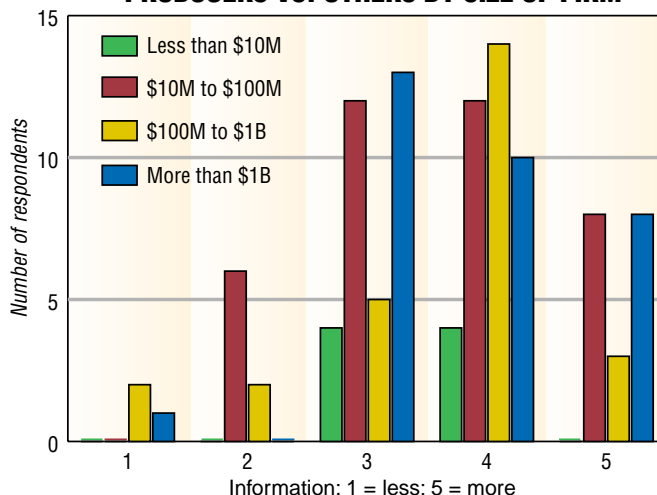
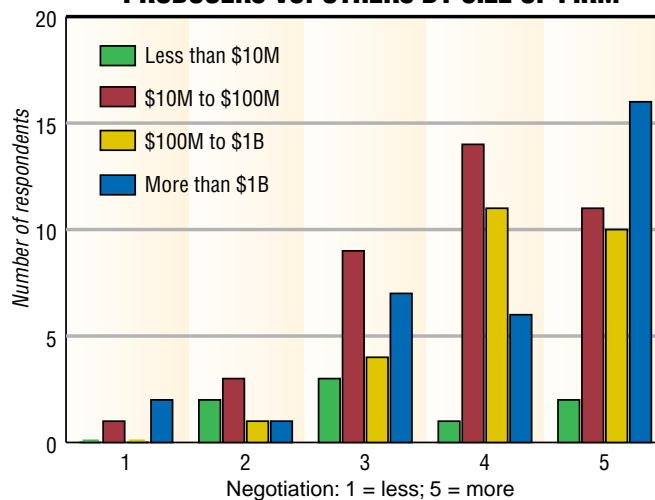


Figure 2 EXTENT OF NEGOTIATION WITH COMMERCIAL PRODUCERS VS. OTHERS BY SIZE OF FIRM



HANDLING MULTIPLE MARKET SEGMENTS

As noted above, size is an important and often-used method of segmenting different markets. In the Internet survey mentioned previously, respondents were asked how they interacted differently with large (or commercial) producers versus other producers. Figure 1 illustrates how the respondents maintained information on commercial producers versus other producers by respondent firm size. In the graph, the categories on the vertical axis correspond to collecting different amounts of information (1=less; 5=more) on commercial producers compared to other producers. The four bars in each category correspond to the size (in annual sales) of the responding firms. In general, respondents kept more information on commercial producers than other producers.

Figure 2 illustrates how respondents felt they negotiated with commercial producers compared to other producers. The same five categories (1=less; 5=more) and the same four firm size categories hold as described for Figure 1. Respondents indicated that they negotiated to a greater extent with com-

mercial producers compared to other producers. The responses to other questions provided consistent results: respondents were more likely to have frequent contact with commercial producers compared to other producers, and they were more likely to have personal relationships.

DEALING EFFECTIVELY WITH MULTIPLE MARKET SEGMENTS

Dealing effectively with multiple market segments is consistent with good strategic business planning. Begin by identifying who you are and what your business is. Referring back to your vision and mission statement is a great strategy here. Evaluate your business strengths and assess your competitors' strengths and weaknesses. After evaluating your customer base you will be able to determine logical breaks or customer segments. Next, develop your marketing strategy around your strengths and consistent with the logical breaks or segments. However, Andy Miller of Weaver Popcorn, Indianapolis, provided an important caveat during his presentation at Purdue's 2003 National Conference for Agribusiness. He noted that a difficult part of developing

your strategy is deciding which customers/ groups/ segments you are willing to walk away from or ignore.

Tim Kavanaugh, general manager of Federated Co-ops Inc. in east central Minnesota and western Wisconsin, is successfully serving multiple market segments in a diversified supply cooperative. While speaking at Purdue University's National Conference for Agribusiness, he provided some specific ideas. In particular, he found that profitably serving the lifestyle farmer required being open later hours, employing a different kind of employee for the weekend business, and having better storefronts that had the feel of a farm store but the look and convenience of a city store.

As you are planning your strategy for dealing with multiple market segments consider the following questions:

- What is your company's mission/core and secondary business?
- What is the nature of your customer base and what are the logical segments?
- What are the strengths and weaknesses of your competitors?
- What opportunities are afforded to you in this marketplace?
- What customer segments do you need to walk away from?
- What products and services can you offer that provide unique service to your target customer segments and afford you a competitive advantage?

Remember that managing multiple market segments is not a choice — it's a reality! **AM**

Dr. Joan Fulton is an associate professor, Center for Food and Agricultural Business, Department of Agricultural Economics, Purdue University.

A difficult part of developing your strategy is deciding which customers/ groups/ segments you are willing to walk away from or ignore.

— Andy Miller, Weaver Popcorn