

Ag Lender®

Profitable Lending to Agriculture

Vance



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What Do Farmers Want from Their Lender?

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Editor's note: This is the first half of information provided by the university authors; the second half will be in the October issue of Ag Lender.

The 2008 survey of commercial producers by Purdue University's Center for Food and Agricultural Business provides useful information for lenders and financial service providers to better understand their farmer-buyer customer base and buying behavior. The purpose of this discussion/article is to help lenders understand how to position themselves in an increasingly competitive marketplace to obtain a sustainable competitive advantage.

The Survey

The 2008 Commercial Producer Project was undertaken with

the goal of providing insight into this rapidly evolving group of commercial producers — a group that accounts for the majority of agricultural inputs purchased.

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TABLE 1. PHYSICAL UNITS DEFINING MID-SIZE, COMMERCIAL, AND LARGE ENTERPRISES

Farm Type	Mid-Size	Commercial	Large
Corn/soybeans (acres)	300–1,499	1,500+	4,600+
Wheat/barley/canola (acres)	700–3,499	3,500+	9,000+
Cotton (acres)	200–1,099	1,100+	3,000+
Dairy (cows milked/day)	40–199	200+	1,600+
Finishing Hogs (head marketed/year)	800–3,999	4,000+	25,000+
Feeder Pigs (head marketed/year)	3,300–16,499	16,500+	100,000+
Finished Cattle (head marketed/year)	150–799	800+	3,000+
Feeder/Stocker Cattle (head marketed/year)	250–1,249	1,250+	20,000+

PAID
POSTAGE
PERIODICALS

46 ADC S1 P2

#BXNMHZF *****ALL FOR ADC 46
#8103608/PB/80#
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The Purdue University Center for Food and Agricultural Business (CAB) surveyed 2,574 producers in the following enterprises: corn/soybean, wheat/barley/canola, cotton, swine, dairy, beef, and fruit/nut/vine/vegetables in early 2008. This survey is a follow-up to similar studies completed in 1993, 1998 and 2003; the project is designed to offer a broad look at changes in the farm businesses, the goals and attitudes of farmers and the buying behaviors of large commercial farming and ranching operations.

The producers-respondents were located across the U.S., with the sample selected from those key states accounting for 75 percent of total U.S. production for each of the seven enterprises represented. The focus of this study is the "commercial producer." For the purpose of this summary, producer's size is defined based on 2007 planted acres or 2007 head marketed (see Table 1).

After the responses were received and tabulated, the commercial producer category was divided further to determine if there were differences in the attitudes and opinions of the very large producers. The largest 15 percent of the commercial operations (termed "large") have been grouped together and compared with the remaining commercial producers (85 percent). A total of 252 producers were categorized "large", 1,185 were considered "commercial" with another 910 considered "mid-size".

Decision Drivers

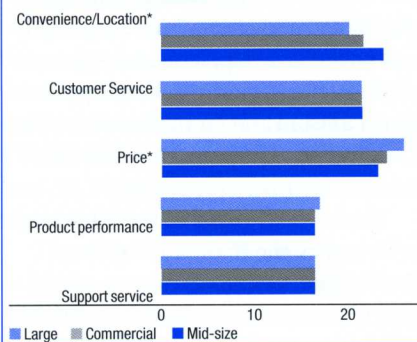
Respondents were asked to determine the relative importance of various drivers of their choice of a lender by assigning percentage points (which must add to 100) to the following drivers/factors: convenience/location, product performance, price, customer service and support service.

Price and convenience/location were ranked the highest and second highest in importance respectively, with customer service ranking next, followed by product performance and support service ranked almost equally. Price and convenience/location factors together account for almost 50 percent of the drivers of choice of a lender.

The drivers influencing the choice of financial service provider in general do not vary much by size of farming operation, with price being slightly more important for large farms and convenience/location more important for smaller farms. As to age, those under 35 care less about price and

convenience and more about product performance, customer service and support service compared to those that are 35 and older (see Figure 1). High growth producers (those expecting to grow more than 50 percent in size over the next five years) care less about price and convenience/location, but more about support service compared to those growing less rapidly.

1. HOW PURCHASE DECISIONS ARE INFLUENCED FOR FINANCIAL PRODUCTS BY SIZE

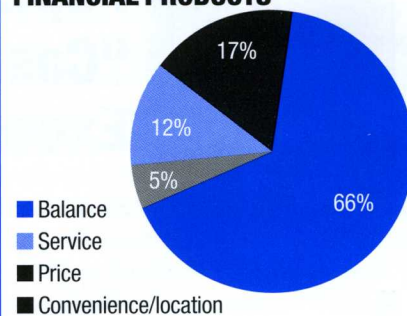


Customer Segments

Using the answer to the question presented in the above paragraph and after performing a cluster analysis (see Figure 2), we determined four buying segments for financial products as presented in Figure 3. The Balance segment represents the largest segment with 66 percent of respondents, and this segment chooses a lender based on all of the factors: convenience/location, customer service, price, performance, and support service.

The Price and Service segment each account for 12 percent of the respondents. Respondents in the Price segment are mostly interested in price which accounts for 52 percent of their decision. Respondents in the Service segment focus mostly on customer service at 46 percent of their decision, as well as convenience/location which accounts for 29 percent of their decision. Finally, the smallest segment is the Convenience segment at 5 percent of the respondents and this segment will choose a lender based almost entirely on their convenience/

3. BUYING SEGMENTS FOR FINANCIAL PRODUCTS



location, placing 92 percent of their decision on this factor.

These segments are based on the producers buying behavior for financial products, and it is important to characterize these segments based on their demographics. The Balance segment is an average of 54 years old and 23 percent of the producers in this segment have a college degree or a more advanced degree. Producers in the Balance segment are more likely to operate corn/soybean, dairy, and hog farms and are less likely to be cattle, cotton and wheat/barely/canola farms.

The Price segment is on average the most educated group and these producers tend to operate large farms. Producers in the Price segment are more likely to operate crop farms and are less likely to have livestock farms.

The Service segment is on average the youngest segment but still in their 50s, and this group tends to operate mid-sized farms with sales in the \$100 thousand to \$500 thousand range. Producers in the Service segment are more likely to operate cattle, hog, dairy and wheat/barley/canola farms and less likely to operate corn/soybean farms.

The Convenience segment is on average the oldest at 57 years of age and this group tends to operate the smallest farms with 24 percent operating farms with less than \$100 thousand in sales. Producers in the Convenience segment are more likely to operate cotton and cattle farms, and less likely to be corn/soybean, dairy, or hog operations. ♦

2. FACTOR WEIGHTS BY SEGMENT FOR FINANCIAL PRODUCTS

	Balance	Price	Service	Convenience
Convenience/location	18	12	29	92
Customer service	20	16	46	5
Price	20	52	14	2
Performance	21	11	6	0
Support services	21	9	5	1

