

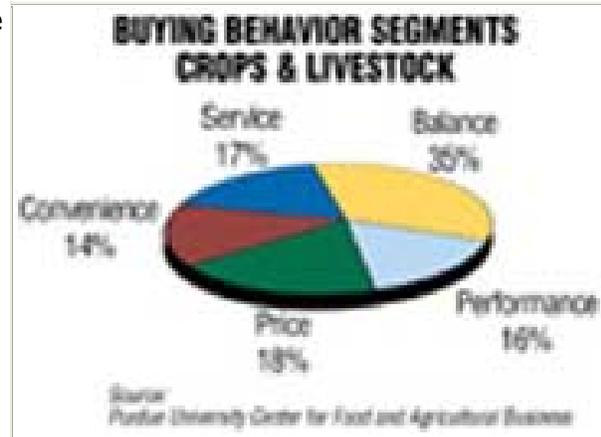


SALES/MARKETING INSIGHTS

LOCAL DEALERS OF AGRICULTURAL INPUTS: WHO'S YOUR BUYER?

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Who is the agricultural input buyer? Is the buyer profile changing? These are important questions to agricultural input salespeople. Traditionally, agricultural input salespeople and marketers categorize producers as business buyers, economic buyers and relationship buyers. Business buyers are those who give relatively equal weight to factors such as price, product performance, service and convenience when making purchase decisions. Economic buyers base a majority of their decision on the price of a product, while the decisions of relationship buyers are most heavily influenced by convenience level and customer service. In these times of tight profit margins, it seems like producers are either business buyers or economic buyers, and the relationship buyers can't afford to stay in business. In this article, we examine characteristics of agricultural input buyers, the changing relationship buyer and marketing implications.



BUYER SEGMENTS

Using data from the Commercial Producer Survey conducted by the Center for Food and Agricultural Business at Purdue University, we identified five distinct groups of producers based on their buying behaviors. The key survey question used to identify these segments was the following: "When you choose a supplier, how is your decision influenced by the following factors?" Respondents were asked to assign a percentage, out of 100 percent, to each of the following factors: a) convenience/location, b) service/information and personal factors, c) price, d) product performance, and e) support services. Based on their answers, five distinct market segments were identified: Balance, Price, Performance, Convenience, and Service.

The five market segments identified in our research give us a more detailed and insightful picture of the traditional three buying groups. Producers in the Balance segment and the Performance segment can be categorized as traditional business buyers. Producers in the Price segment can be categorized as traditional economic buyers. Finally, producers in the Convenience segment and the Service segment can be categorized as traditional relationship buyers.

Producers in the Balance segment consider all of the input supplier criteria to be equally important. They gather a large amount of information from the Internet, local

dealers, and manufacturer sales and technical representatives. In addition, they are the heaviest users of consultants and custom services, indicating that they are willing to pay for high quality information and service. They value salespeople who have a high level of technical competence.

Producers in the Performance segment choose input suppliers based on product quality and information quality. They are willing to pay more for high quality products but are very sensitive to quality differences between brands. They are always searching for a higher quality product and are often the first to try a new product. They are the most information intensive; they are the heaviest users of computers and the Internet for information gathering. These producers value salespeople who offer a high level of technical competence and who can provide them with relevant and timely information.

For producers in the Price segment, price is the ultimate consideration. They are much less interested in service and product performance. They are the least brand loyal; if a comparable product is available at a lower price, they will switch. Notably, these producers are very capable; this segment has the highest percentage of college graduates among all segments. They have the lowest use of custom services and relatively low use of consultants, indicating that they are unwilling to pay others to do what they can do themselves. They do not value local dealers and would prefer to deal directly with the manufacturer.

Producers in the Service segment place a greater emphasis on service and information from the local dealer relative to the other segments. Producers in the Service segment are the least likely to have a college degree, and consequently, they depend more on management consultants, dealers and other farmers for information and advice. They are willing to pay more for products from salespeople who offer them reliable information, are consultants to their operations and provide good follow-up service.

Producers in the Convenience segment choose suppliers based on location and service and are willing to pay more for locally supplied products. They depend on the local dealer for most of their information; they are the least likely to use the Internet to find information and the least likely to use consultants.

BUYER TRENDS

The segment trends have implications for the importance of local agricultural input dealers. The most notable trend is the dramatic shift in the characteristics of the relationship buyers. At present, the size of the Service segment is expected to increase, while the Convenience segment is declining rapidly. Consequently, tomorrow's relationship buyer is going to look like the Service buyer rather than the Convenience buyer. Both the Convenience and Service segments place a high value on the local dealer and are willing to pay more for the ability to purchase locally. However, local dealers should recognize that the Convenience segment chooses their dealer based on the dealer's location; so, Convenience customers are likely to be loyal even if they receive less-than-perfect service and information from the dealer. In contrast, the Service segment demands high quality service and information, and these customers will only be loyal if the local dealer delivers service and information at the quality they expect. The increasing importance of the Service segment is good news for local dealers because this segment values the local dealer. However, the local dealer should be aware that the changing relationship buyer is going to expect higher quality service and information. Not meeting the service and information

expectations of tomorrow's relationship buyer will cost the local dealer.

The Balance segment is the largest segment, and it is expected to remain stable in size. The Performance segment is expected to increase in size, particularly for livestock operations. Combined, these two segments make up over half the market, making this an essential group to serve. The Balance and Performance segments are very similar in terms of what they want from an input supplier. They are classic business buyers, looking for good value, which may be inexpensive generic products that offer a reasonable level of quality, or it may be expensive high quality branded products. These buyers will purchase from the supplier who can meet their information and product quality needs, and that may or may not be the local dealer. There are some differences between these segments. Balance buyers care more about service quality, while Performance buyers care more about information quality. In addition, the Performance segment is willing to pay more for product quality than the Balance segment.

The Price segment is expected to increase for crop operations and remain stable for livestock operations. They are economic buyers, and they do not see the value of the local dealer. They believe that if they can deal directly with the manufacturer then they will get a lower price. They also believe that branded products are expensive because of the brand name, not the quality of the product, and they plan to aggressively increase the use of generics. This segment is going to be the toughest segment for the local dealer to supply, and the local dealer should consider whether it is profitable for them to serve this segment.

WHO'S YOUR BUYER?

The agricultural input buyer is changing. It is important for salespeople and marketers to anticipate the changes in their customer base so that they are positioned to succeed in the future. As the preferences of these segments become more specialized, firms will need to choose which customers they will serve and then build value bundles tailored to their chosen customers.

In the next article, we will use the characteristics and trends of each of the segments to create a meaningful value bundle for each segment, one that provides the product, services and information benefits desired by the segment. **AM**

This is the first in a series about buyers of agricultural inputs and their buying behavior. The information was presented during the National Conference for Agribusiness at Purdue University, hosted by the Center for Food and Agricultural Business in November 2003. Additional information regarding the study can be found at www.agecon.purdue.edu/cab, or by calling Scott Downey at 765/494-4325.

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