

Are producers always in search of cheapest price

By ALLAN GRAY and JAY AKRIDGE

Price is always a sensitive issue in the agriculture markets. The general consensus seems to be that producers are always hunting for the lowest price. This places tremendous pressure on supplier margins. Yet, one has to wonder how producers really feel about prices. Do producers always buy the lowest-priced products and services?

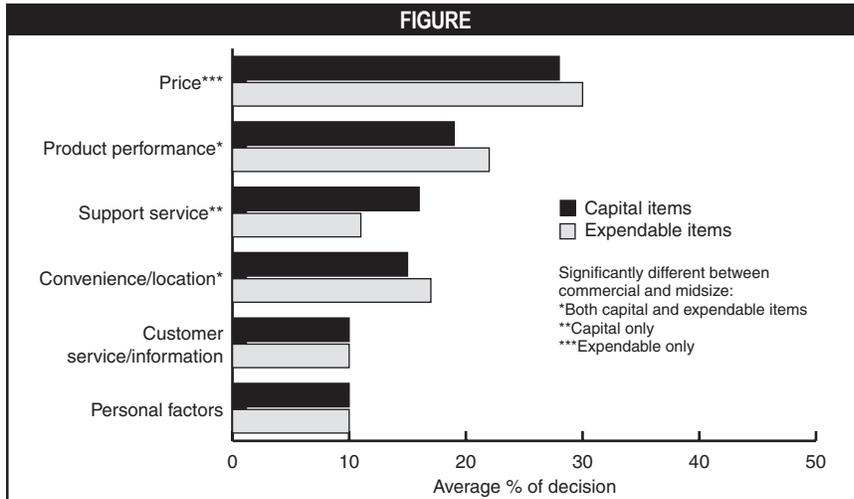
To help agribusinesses gauge their own understanding of producer attitudes, Purdue University's Center for Food & Agricultural Business conducts a comprehensive survey of commercial agricultural producers every five years. In spring 2003, approximately 2,300 midsize and commercial crop and livestock producers from across the U.S. completed a questionnaire exploring how their farm business is changing and their needs from agricultural input suppliers. As part of a series presenting key findings from the survey to *Feedstuffs* readers, this article will explore some of the attitudes commercial producers have about prices in their choice of products. We'll also provide some implications for marketers to consider as they develop their product strategies.

Results

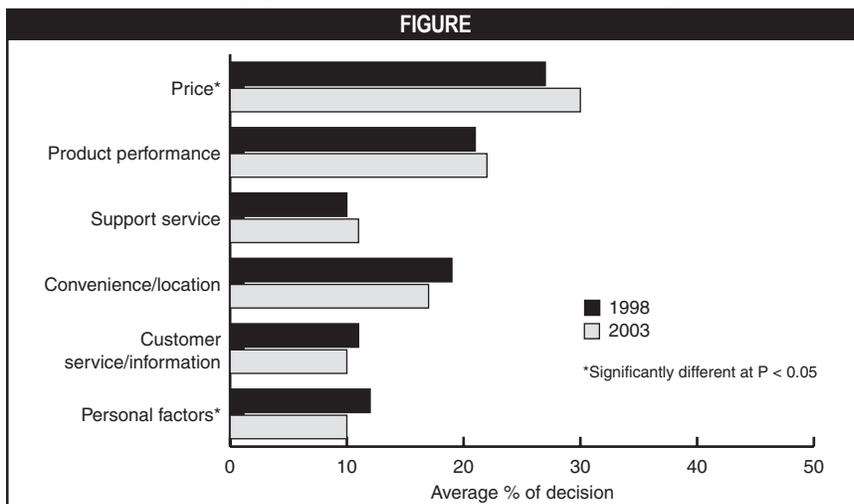
The survey asked producers the following question: When you choose a supplier for either capital items like equipment or expendable items like pesticide or feed, how is your decision influenced by the following factors: convenience/location, customer service/information, personal factors, price, product performance and support service?

Producers were asked to assign points across the factors so that the total across all factors summed to 100. Producers placed 28 out of 100 points on price in the

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1. Factors influencing purchases of items for commercial producers.



2. Change in factors influencing purchases of items for commercial producers from 1998 to 2003.

decision process for capital items and 30 points on price for expendable items (Figure 1). This weighting placed price as the most important of the factors in the producer's choice. Yet, price was only a third of the overall decision, suggesting that the other factors, particularly product performance, were also important in the decision.

Relative to 1998, price has become a more important issue for expendable items rising from 27 points to 30 points (Figure 2). This slight rise in importance of input prices is likely due to the depressed nature of markets at the time of the survey and the intense price rivalry that has occurred among input suppliers in recent

years. The increase in the importance of price came at the expense of the influence of location and personal factors in the producer's decision. Even with the increase in importance, price remains only a third of the decision, suggesting that input suppliers that can provide superior product performance, service and/or convenience can attract producers even if prices are higher. Nonetheless, because price is an important consideration in the purchase decision, we should examine producer's attitudes about prices.

Producers were asked whether or not they usually purchased the lowest-priced products. When focusing on expendable items, only about 25% of producers agreed

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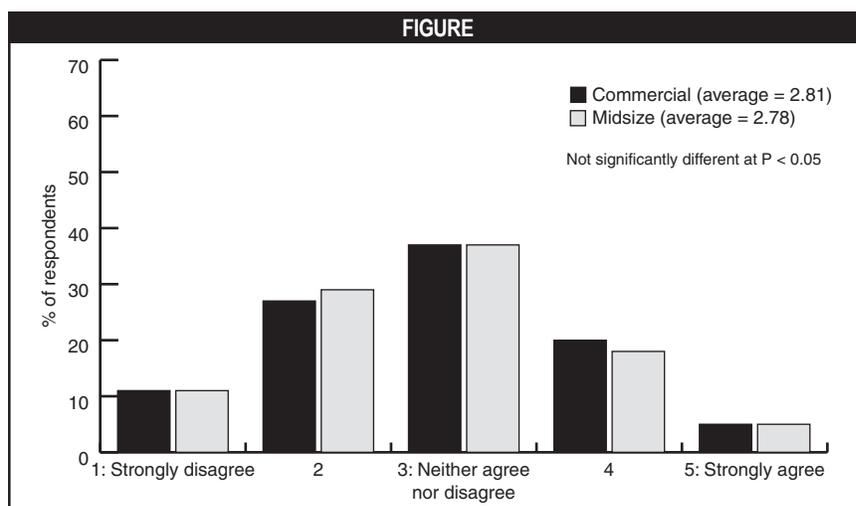
or strongly agreed with this statement while nearly 40% either disagreed or strongly disagreed (Figure 3). This result was consistent regardless of the size of the operation or the age of the operator. When asked about capital items, producers were in even stronger disagreement, with 49% of midsize producers and 44% of commercial producers disagreeing with the statement (Figure 4). Cotton and dairy producers were more likely to purchase the lowest-priced products while hog producers were the least likely to agree with the statement. Interestingly, fewer producers said they would buy the lowest-priced product in the 2003 survey relative to the 1998 survey. Despite the rise in importance of price in the decision, producers admit that increasingly they are not choosing products solely based on prices but are factoring in other product/service attributes as well.

The survey also explored producers' opinions about price differences for similar products among suppliers. More than 60% of midsize and commercial producers agreed or strongly agreed that there were often significant price differences among local suppliers of expendable items (Figure 5). For capital items, more than 70% of midsize and commercial producers said they believe there are significant differences in prices among suppliers. This result suggests that producers clearly see the difference in prices. Yet, when you combine this with the answer for purchasing the lowest-priced products, one can infer that producers don't necessarily buy from the lowest-priced local supplier. This would suggest that local suppliers have the ability to differentiate in ways other than price to attract producers to purchase from them.

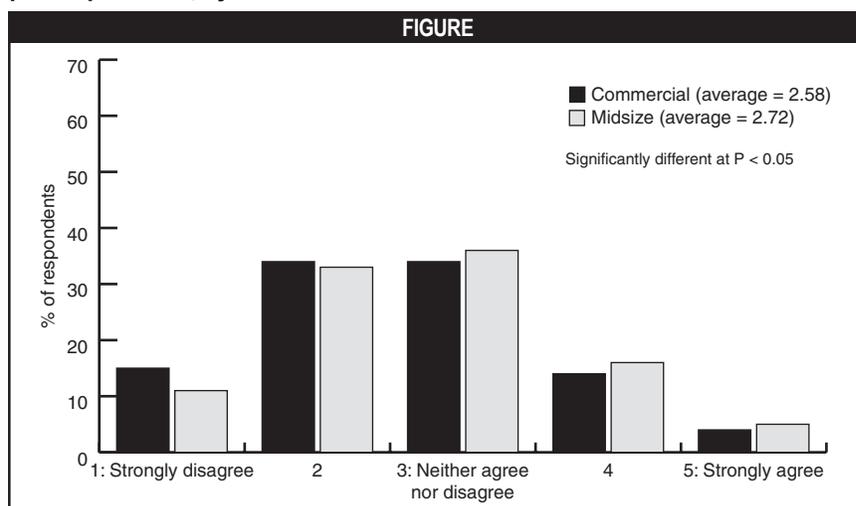
Implications

Price continues to be a critical factor in a producer's purchasing decisions, but price is still only one-third of the overall decision-making process on a purchase. Suppliers should take comfort in the fact that less than 25% of producers look for the lowest price, suggesting some room for margin. While this may at first seem contradictory with the results on the importance of price, there is a clear difference between the importance of price in the decision and purchasing the lowest-priced product. These results suggest that prices are important but the producers, generally, recognize the trade-off between price and other features of a product such as performance and service.

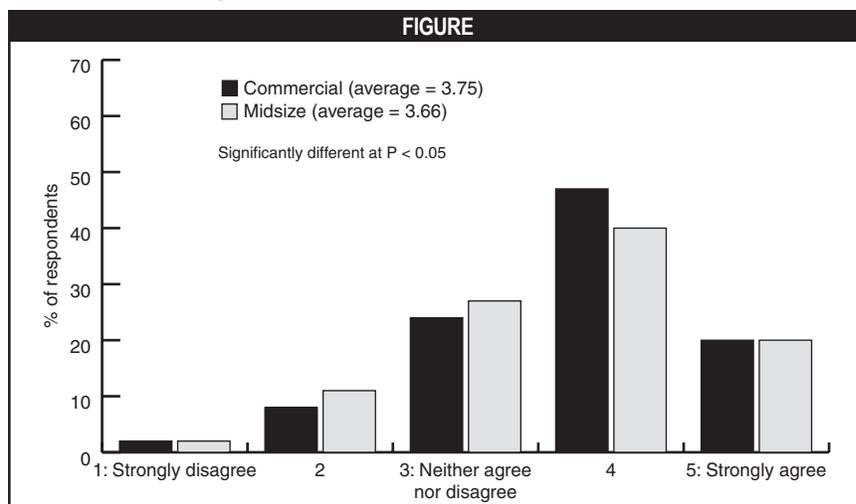
Successful agribusinesses will have to remain cognizant of their competitors' prices for similar products. Producers at least perceive that many times there are significant differences among prices for similar products. If suppliers cannot differentiate the products in a meaningful way on features such as performance, service and/or convenience, then it is



3. Response to: When buying expending items, I usually purchase the lowest-priced products, by size.



4. Response to: When buying capital items, I usually purchase the lowest-priced products, by size.



5. Response to: For expendables, there are often significant price differences for similar products from one supplier to another, by size.

likely the key decision for the producer will be price differences. This is particularly the case for readily available, easy-to-use, non-differentiated products such as fertilizer. As producers' margins continue to be pressured, it will become in-

creasingly important for suppliers to keep their prices on similar products competitive and to clearly explain to producers the differences and value that differentially priced products bring over other competitors.