Customer-Driven Marketing Strategies for Different Segments of Ag Borrowers: Part 3

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Background: *In our May issue, the first article in this series introduced a new way to segment a lender's customer base by household income, wealth and other characteristics. Six groups or "segments" that comprise the U.S. Farm Household Typology were identified: Single Income Ruralpolitan (SIR), Double Income Ruralpolitan (DIR), Active Seniors (AS), Farm Operator with Spouse Working Off Farm (FOSOFF), Traditional Farm (TRAD), and Commercial Farm (COM). The first article then analyzed and the implications of their respective sources of income.*

Then, in our June issue, the second installment focused on the implications of each segment's variation in amount of capital and wealth. Now, in this third installment, the focus is on helping you, as an ag lender, to develop a customer-driven marketing strategy to the "farm business" customer segments described and discussed in the earlier articles. The fourth and final installment, scheduled for next month, will focus on helping you with marketing strategies to the "ruralpolitan" and retiring segments.

It is difficult for a lender to be "all things to all people." Attempting to provide a wide variety of products and services to any and all potential buyers, in essence, forces the lender to compete with all potential providers and undermines the competitive advantage a lender may have. Increasingly, agricultural lenders are recognizing the importance of developing a marketing strategy that recognizes differences in customers and targets specific customer segments that can be efficiently and profitably served.

Credit Needs and Characteristics of the Farm Businessmen

Table 1 summarizes some of the key characteristics and business needs of the three major farm business segments: Farm Operator with Spouse Working Off Farm, Traditional Farm, and Commercial Farm. Note that the different segments have different credit needs, different market potential, unique risks, and different collateral vulnerabilities. This summary is focused on the credit or loan product/service offering, and as noted later, there are likely different financial products and services including cash management, asset management and insurance offerings that may be attractive to different segments.

The credit needs between the farm business segments are similar except for the new venture expansion of Commercial Farms. These farm households, due in large part to their large amount of household net worth, are looking to expand. This directly impacts the increasing market potential for this group as well. Commercial Farms, along with Farm Operator with Spouse Working Off Farm, are growing in numbers. In general, the numbers of Traditional Farms or "a mom and dad working on their farm" are decreasing. Some of these farms are being purchased by Commercial Farms. Others are not selling the farm, but the spouse is now working off the farm and thus switching to the "Farm Operator with Spouse Working Off Farm" segment.

Independent producers or the non-Commercial Farm segments have relatively traditional credit needs and can be evaluated with familiar credit and risk analysis tools and techniques. In contrast, integrated and industrialized producers or Commercial Farms may have not only different credit needs (for example, they may need funds to expand a distribution system or build a processing plant), but the traditional criteria for evaluating liquidity, solvency, and other credit or collateral risks may be impractical. Psychographic analysis, which evaluates the specific buying behavior of the customer and what drives his/her buying decisions (product attributes, quality, price, service, brand, information, convenience) is now being used by progressive agricultural lenders to better understand customer decisions and segment the agricultural loan market.

So you've identified needs of a segment. Next question: Do you WANT them?

A concrete answer to the second key marketing question — Do I want them? (specific customer segments) requires definite and detailed answers to the following seven questions. The answers will vary from bank to bank, depending on your bank's history, the mix of farm segments in your market area, and your staff capabilities. We can provide the questions, but only you and your staff can provide the answers:

1) **Should this customer segment be a target?** Given the market potential and my firm's ability to deliver products consistent with that market segment's wants (i.e., to sell the experiences they want to buy), should I focus on this segment? For most agricultural lenders, the farm business group is targeted because of their larger investment in production agriculture relative to the other groups in the U.S. Farm Household Typology. For example; the Farm Operator with Spouse Working Off Farm is an appealing target because they still have a commitment to the farm and their off farm income stabilizes repayment capacity.

2) **How will I identify specific customers?** To capture a particular segment, you have to identify the specific customers and develop a unique strategy to close the sale for each of those customers. An analysis of their financial statements and a discussion with the customer concerning their business plan will assist you in identification. For example; a majority of household income being derived from the farm, a sizeable investment in farm assets, and a desire of the operator and spouse to continue to work on the farm would indicate a Traditional Farm. Tailoring

Table 1.

FARM BUSINESS CUSTOMER SEGMENTS CREDIT NEEDS AND CHARACTERISTICS

	Farm Operator with Spouse Working Off Farm	Traditional Farm	Commercial Farm
Description of Customer Segment	Primary investment in farm assets with the operator working on farm and the spouse off farm	Primary investment in farm farm assets with the operator and spouse working on farm	Largest investment in farm assets and highest total household net worth
Credit Needs	• Operating • Modernization • Incremental expansion	• Operating • Modernization • Incremental expansion	• Operating • New venture expansion
Market Potenial	• Growing volume and numbers	• Declining volume and numbers	• Growing volume and numbers
Credit Risks	• Traditional credit risks	• Traditional or manageable credit risks	• Market • Technological • Construction/startup • Regulatory • Upgraded managers
Collateral Risks	• May be small scale • Environmental hazard	• Dated technology • Environmental hazard	• Environmental hazard •Soft assets vs. hard assets

products to maintain and ensure the viability of the farm is a potential strategy for this group.

3) What specific products and services do these segments need? It is essential to identify a product or service in very specific form, including its features and benefits, rather than the generic form of operating loans, real estate loans, insurance services, etc. For example; a Commercial Farm may be interested in expanding into a non-farm business and they need a lender to advise them on how to manage their expanding portfolio (e.g. developing a business plan, discussing tax implications, asset management, etc.).

4) How will I deliver this product/service? Different products and services can be delivered with different distribution channels (by the loan officer, another bank employee, or an alliance partner on contract), with different costs. For example; advising the aforementioned Commercial Farm in expanding their portfolio through the purchase of the non-farm business, may take a lot of time by the loan officer and therefore increase the cost of delivery.

5) How will I price? Pricing depends on the cost of providing that service, competitor pricing, desired profit margins, and the customer's price responsiveness or sensitivity. Let's continue the example provided in questions 3 and 4. In order to acquire the business from the Commercial Farm, your firm must compete with other firms on price. The competitive price that the Commercial Farm in question demands does not meet your desired profit margin due in large part to the higher cost of delivery.

6) What credit standards or other qualifications will be used? Some customers can be evaluated with credit scoring models, and others might require more detailed analysis by a loan officer. For example; an operating note for the Farm Operator with Spouse Working Off Farm segment may be evaluated with a credit scoring model because of the smaller loan required to meet their farm operation's needs compared to the other groups.

7) What is the customer's lifetime value? The opportunity to sell core and related financial products and services to a customer segment over their lifetime may have a significant impact on the profit potential of a particular market segment. For example; if you are the primary source of credit for a Traditional Farm, there may be a good chance you will maintain their business throughout their lifetime. Therefore, this provides you the opportunity to provide insurance, asset management, and cash management as they 'switch' or move into retirement.

This article has continued the discussion of the U.S. Farm Household Typology and its implications for the market segmentation of today's agricultural borrower. In particular, a set of questions was presented to assist you in deciding which segments you want to pursue by developing a customer-driven marketing strategy for each segment. By answering those seven questions for each segment, your bank will know which, if not all, of the different segments in the farm business community should be pursued in your market area.

Another potential 'switch' of Traditional Farms is to the "ruralpolitan" or retiring segments. This of course depends on the availability of off farm employment, the desire and/or necessity, capability, and/or age of Traditional Farms in making this switch. These potential switches are for discussion only and each agricultural lender should assess their own market and the potential of growth or decline in their market. The next and final article in this series will apply these questions to the "ruralpolitan" and "retiring" customer segments. ◆

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