SERVING COMMERCIAL PRODUCERS: MEETING NEEDS, ADDING VALUE

Themes from the 2003
Commercial Producer Project

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Dept. of Agricultural Economics

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Abstract

In this report of the 2003 Commercial Producer Project, we will share some information on the changing nature of the commercial farm businesses that may trigger additional thinking about your own customer base. The overall objective of this study was to better understand commercial producers' farm businesses and the fundamental attitudes that underlie their buying behavior in order to provide information to input suppliers and first-handlers as they shape their marketing and sales strategies.

Keywords: Commercial Producers, Marketing, Sales, Producer Buying Behavior

Preface

Understanding customer needs, values, buying behaviors, and decision-making processes is central to any successful marketing strategy. This information becomes the basis for product and service development and design, pricing strategies, determining the most effective distribution systems, and creating the most effective methods for communicating with customers. The most successful firms are those who seek to better understand their customers and pro-actively adapt their strategies to their customer's needs.

Extremely rapid changes in agriculture have made this a formidable task for the agricultural inputs industry. New production technologies such as bio-technology and site-specific agriculture accompanied by wide-spread adoption of information technology, including the Internet, have created a dramatically different market place. The impact of government subsidies, increased environment and food safety pressures, the globalization of markets, and the rapid consolidation of suppliers have also complicated the market environment. Due in part to all of these drivers of change, even the structure of production agriculture has fundamentally changed. Today's input suppliers face agricultural customers who are larger, more sophisticated, and more demanding than ever before.

With the commercial producer customer changing at an unprecedented rate, input suppliers are faced with the challenge of understanding these changes. The *2003 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. A follow-up to similar studies completed in 1993 and 1998, this project was designed to offer a broad look at changes in the farm businesses, the goals and attitudes, and the buying behaviors of large commercial farming and ranching operations. In this report we summarize 14 of the key themes emanating from the more than 2,400 farm operator responses to a six-page questionnaire completed in the late winter and early spring of 2003. In addition to the results in this report, more results are available in a 500 PowerPoint slide presentation and in other formats from the Center for Food and Agricultural Business. If you are interested please contact Scott Downey at downeyws@purdue.edu.

In the end, a study such as this raises as many questions as it answers. However, we hope that you find both the insights we offer and the questions we raise useful as you make the decisions which will position your organization to be the supplier of choice for these commercial farm businesses.

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Executive Summary: 14 Key Themes

In this report of the *2003 Commercial Producer Project*, we will share some information on the changing nature of the commercial farm businesses that may trigger additional thinking about your own customer base. The overall objective of this study was to better understand commercial producers' farm businesses and the fundamental attitudes that underlie their buying behavior in order to provide information to input suppliers and first-handlers as they shape their marketing and sales strategies.

To help agribusinesses better understand the commercial agricultural producer, the Purdue University Center for Food and Agricultural Business surveyed more than 2,400 producers in the corn/soybean, wheat/barley/canola, cotton, swine, dairy, beef, and fruit/nut/vine/vegetable (FNVV) segments of the marketplace in early 2003. More than 1,100 producers were categorized as commercial with another 1,000 considered midsize. The remaining 100+ respondents were from a first time sample of fruit/nut/vine/vegetable producers. These producers 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. For example, because 75 percent of the cotton marketed in the U.S. is produced in five states (Georgia, Louisiana, Mississippi, North Carolina, and Texas); the targeted cotton sample was drawn from these states.

Below, we highlight 14 key themes that have emerged from our analysis of the data. These themes are: 1) Age Demographics of Commercial Producers; 2) General Attitudes of Commercial Producers; 3) Growth Plans of Commercial Producers; 4) The Contract Conundrum and Producer Expectations for Value Enhanced Agriculture; 5) Impacts of Government Policy; 6) The Role of Price in the Producer's Decision; 7) Producer Attitudes toward Brands versus Private Label and Generic Products; 8) Producer Preferences for Bundling Products, Information, and Services; 9) Producer Use of the Internet; 10) Producer Preferences for Information Sources; 11) Decision Makers and Their Influences; 12) The Role of the Dealer; 13) Importance of the Sales Person to Producers; and 14) Segmenting Producers According to the Value Bundle. We will offer some thoughts on the implications of these themes for input suppliers and first handlers. Through the report we will look at the differences between producers of different sizes, ages, and growth plans. We also look at differences amongst crop and livestock producers and differences among the enterprises as well as a comparison of FNVV and commercial crop producers. Some additional analysis was completed concerning expendable brand loyalty among commercial producers and a comparison of high growth producers to others. Brand loyalty was defined as anyone that agreed or strongly agreed to the question concerning loyalty to expendable brands. High-growth producers were defined as fastest growing 20 percent of the respondents in each enterprise. Finally, many of the themes look at how producer's responses have changed over time from the 1993 to 1998 to 2003 surveys. We hope you find the information presented in this report useful as you position your firm or organization to serve the needs of this rapidly changing group. In addition to the results in this report, more results are available in a 500 PowerPoint slide presentation and in other formats from the Center for Food and Agricultural Business. If you are interested please contact Scott Downey at downeyws@purdue.edu.

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Introduction

The size of the commercial farm segment in the United States is increasing. This segment accounts for a larger proportion of total agricultural production each year, and correspondingly, a larger proportion of inputs purchased each year. Not only does this segment account for a large proportion of both production and inputs purchased, but also, many large commercial operators are well respected in their communities and beyond and serve as opinion leaders for smaller operators. Without a doubt, the companies who supply farm inputs have increasingly focused on this important segment over the past decade.

Given the increasing prominence of this segment and its importance to agribusinesses, Purdue University's Center for Food and Agricultural Business has conducted the *Commercial Producer Project* to measure the fundamental attitudes and buying behaviors of commercial producers. The project, which is a follow-up to a benchmark study first conducted in 1993 and then again in 1998, also tracks some of the changes producers have made in the past 10 years and explores some of the changes producers plan to make in their farming operations in the next five years. Where direct comparison between the three surveys can be made, this report will point out the important trends.

The project committee compromised of faculty and staff from Purdue University developed a 35-question written questionnaire with input from the following consortium members:

- Agrium Incorporated
- Dow AgroSciences
- Farm Journal, Inc., publishers of *Top Producer* magazine
- Monsanto Company
- Pioneer Hi-Bred International, Inc.

The resulting six-page questionnaire was mailed to 14,301 producers during February 2003 by Purdue University. It carried the logos of Purdue University and *Top Producer* magazine. Summary results from the survey for both midsize and commercial producers can be found in the appendix of this document.

Producers were asked to return the questionnaire in a postage-paid envelope, and could also send a reply card requesting a copy of the results. Reminder cards were mailed to potential respondents approximately one week after the initial mailing. Two weeks after the initial mailing another round of questionnaires were mailed to the same sample. Telephone contacts and email were used to increase the response rate in specific segments.

Using names from the Farm Journal, Inc. database of producers, the survey was specifically targeted to reach midsize and large producers in seven enterprise classes: corn/soybeans, wheat/barley/canola, cotton, dairy, swine, beef, and fruit/nut/vine/vegetable. (It should be noted that this survey was a first attempt at gaining information from the fruit/nut/vine/vegetable producers.) State quotas were set for the number of questionnaires to be mailed so that the sample targeted producers in states that accounted for 75 percent of 2002 U.S. production in each of the seven target enterprise classes.

The focus of this study was the commercial producer. For the purposes of this summary, all producers with $500,000 or more of gross sales in at least one enterprise class are referred to as commercial producers. Midsize producers are producers with gross sales in at least one enterprise from $100,000 to $499,999.

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) called commercial-T or typical commercial producers. Figures 1 and 2 show the physical units defining both midsize and commercial enterprises as well as the split of commercial enterprises into large and commercial-T categories. These physical units represent the minimum size that an operation must achieve, in the given enterprise segment, to be considered a part of that category.

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Physical Units Defining Mid-Size, Commercial, and Large Crop Enterprises

Farm Type	Midsize	Commercial	Large
Corn/soybeans (acres)	300-1499	1500+	4600+
Wheat/barley/canola (acres)	700-3499	3500+	9000+
Cotton (acres)	200-1099	1100+	3000+

* Commercial-T segment is within Commercial excluding the Large segment

Figure 1: Physical size of crop enterprises

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Physical Units Defining Mid-Size, Commercial, and Large Livestock Enterprises

Farm Type	Midsize	Commercial	Large
Dairy (cows milked/day)	40-199	200+	1600+
Finishing Hogs (head marketed/year)	800-3999	4000+	25000+
Feeder Pigs (head marketed/year)	3300-16499	16500+	100000+
Finished Cattle (head marketed/year)	150-799	800+	3000+
Feeder/Stocker Cattle (head marketed/year)	250-1249	1250+	20000+

* Commercial-T segment is within Commercial excluding the Large segment

Figure 2: Physical size of livestock enterprises

Of the 14,301 questionnaires mailed, 2,424 were returned and useable. Overall there was a 17 percent response rate for the survey. On a statistical note, the final data were weighted to the 1997 U.S. Census of Agriculture figures (the most recent available at the time of the analysis) so that the survey results could provide a statistically representative profile of U.S. producers in these six enterprises (this excludes the FNNV segment). Also, unless otherwise noted, all differences between specific groups that are discussed in this report are statistically significant at the 95 percent level, with most analysis performed using either cross-tabulations and a Chi-square or an Anova test of means. Figure 3 shows the average acreage/head of each enterprise segment

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Average Size of Current Primary Operations

	Midsize	Commercial-T	Large
Corn/soybeans (acres)	771	2,378	8,270
Wheat/barley (acres)	1,624	5,535	12,250
Cotton (acres)	606	1,641	4,650
Dairy (head)	94	721	3,007
Finish Hogs (head)	2,233	10,405	39,295
Feeder Pigs (head)	10,125	39,875	400,000
Finished Cattle (head)	438	2,077	30,091
Fed Cattle (head)	591	2,666	25,000

Figure 3: Average size of primary operations

(corn/soybeans, wheat/barley/canola, cotton, dairy, swine, and beef) broken down by our definition of size. Compared to Figures 1 and 2, this figure allows for a better indication of the relative size of each size segment in the survey. While fruit, nut, vine, and vegetable producers are not included in these summary tables they were analyzed in specific areas noted throughout the report. Potatoes and tomatoes were the top two crops with average sizes of 379 and 85 acres respectively. The remaining fruit, nut, vine, and vegetable responses had an average size of 471 acres.

In addition to looking at the differences in responses of producers in the survey by size of the operation, this report will also look at the results of the survey from several other perspectives. For example, in some areas the survey results indicate differences in responses for producers that plan to grow aggressively over the next five years compared to other producers. In other cases, differences in age of the producer result in different responses among producers. Interestingly, producers that consider themselves loyal to certain brands and/or local dealers show differing opinions from producers that are not loyal. Producers that use consultants or use the Internet more heavily in their business also some differences in responses relative to their counterparts. Throughout the remainder of this report, we will share some of the differences among producers from these various perspectives. We hope that this helps you think about your targeted customer groups from various perspectives as you refine your marketing strategies.

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I: Age Demographics of Commercial Producers

Topic/Issue: In the 1998 survey, age of the operator was important in explaining a number of differences in buying preferences for producers. Is age still a significant determinant of buying preferences? Do younger producers differ in their approach to purchasing inputs? Which age groups are less/more price sensitive?

Results: Figure 4 shows the age distribution of respondents to the 2003 survey by size of operation. This distribution is very similar to the age distribution of respondents from the 1998 survey, suggesting that the target group of this survey is not aging. In fact, more than 60 percent of each of the size groups is under 54 years of age. Significantly fewer cotton and wheat/barley/canola producers were under 35 while significantly more corn/soybean and hog producers were under 35.

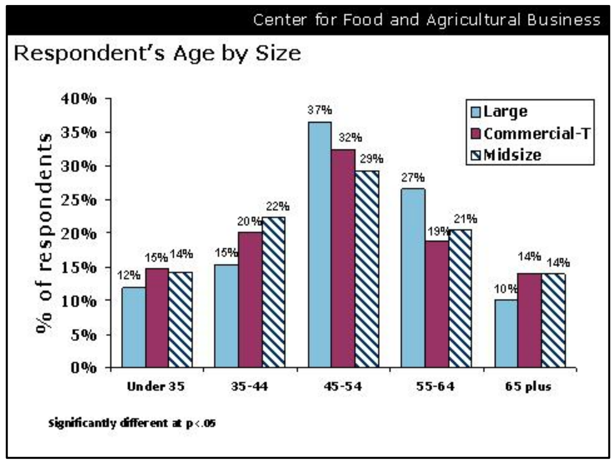

Figure 4: Respondent's age by size

Age is a significant indicator of differences in producers' attitudes about a number of factors. Younger producers, particularly those under 44 years of age have more aggressive growth plans, are most confident in their abilities, and are the most optimistic about the future of agriculture. The data indicate that middle age and younger producers seek out more educational opportunities, do more written planning, and are more likely to use computers and the Internet as management tools in their operations (Figure 5). There appear to be significant differences in the risk management tools used by producers in different age groups, as well. Older producers lean toward the use of crop insurance and forward price contracts, middle-aged producers are more likely to be using some combination of hedging and futures to manage price risk, young producers are more likely to be using contracting as a key source of risk management on their operations. Not surprisingly, producers in the middle aged and younger categories have the most debt. However debt doesn't seem to concern the younger producers as much as the middle age group.

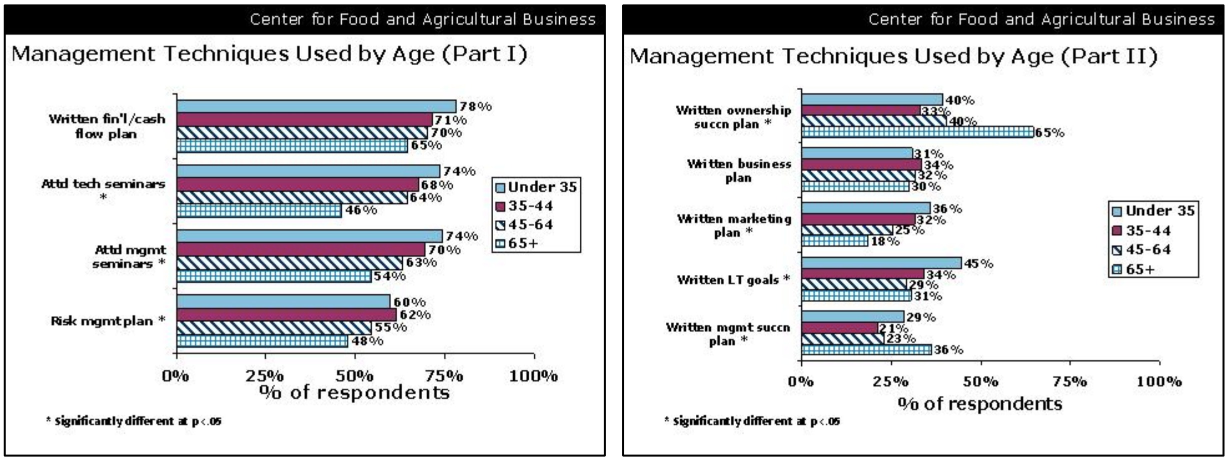

Figure 5: Management techniques used by age (2 charts)

While not as pronounced as in the 1998 survey, producers of different ages in this survey do indicate significant differences in buying preferences and behaviors. For example, younger producers are more likely to look at customer service as an important component when choosing a supplier for capital items while those over 65 are more likely to place more weight on product performance for capital items relative to other producers (Figure 6). The survey results also indicate that those between 35 and 44 would place more weight on product performance when choosing a supplier for expendable items such as seed, fertilizer, animal nutrition products, etc.

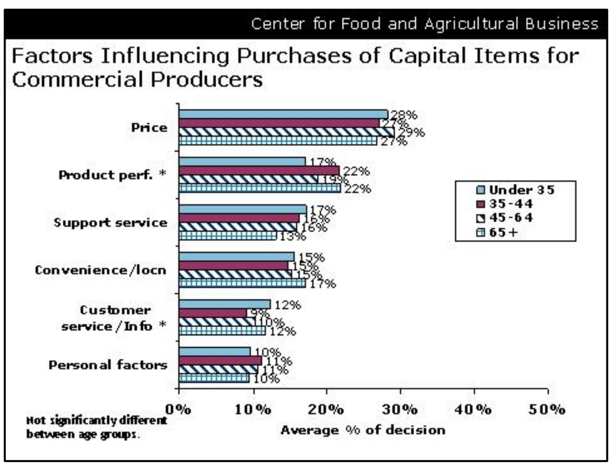

Figure 6: Factors influencing purchases of capital items by commercial producers

Another key difference among age groups centered on the decision making process. Older producers (65 or greater) tend to be less influenced by those outside the farming operation and are most likely to be influenced by other family members in the business when making decisions. The youngest producers tend to believe that they make decisions more independently than most other producers (yet, almost 80 percent of the less than 35 age group indicated they were not the primary decision maker on the farm). When considering off-farm influencers, all age groups are most heavily influenced by the local dealer followed by the manufacturer representative. Relative to other age groups, the 35-44 year old age group is more inclined to be influenced by other farmers while the oldest age group was least likely to be influenced by other farmers (Figure 7).

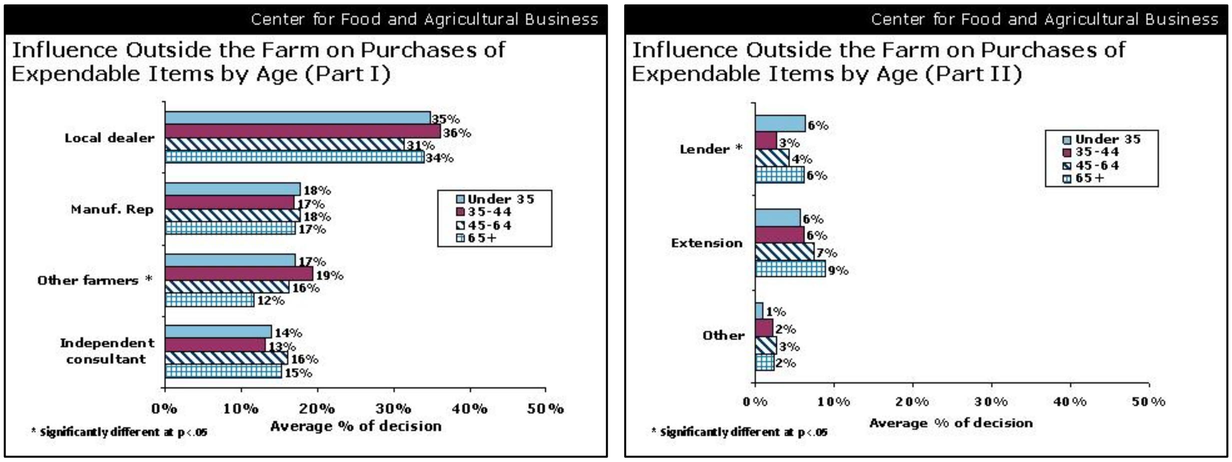

Figure 7: Outside influence on expendable purchases by age (2 charts)

Implications: Understanding the life cycle of commercial producers is an important component to developing a successful marketing plan. Producers at different stages of their life have different perspectives, goals, and objectives. These different attitudes and outlooks result in a different set of needs for producers in different age groups. Often, today's farming operations contain more than one generation in managerial positions. This complicates the marketing plan since you must discover solutions that can meet the needs of potentially multiple sets of people with differing needs.

Often an input supplier will be faced with delivering value to the generation currently in charge while realizing it may not be the best solution for the next generation, which is likely to be the more important customer in the longer run. Results in the survey suggest that the younger group of producers wants to be aggressive and may desire to make independent decisions but may be unable to influence the older generation to see their point of view. A possible strategy might be for the input supplier to work with the younger generation to a) help them see why the older generations approach is best or b) provide the younger generation with facts and examples to help them illustrate the benefits of their approach to the older generation. Finally, it will be very important for input suppliers and first-handlers to monitor changes in behavior over time: are differences in attitudes across age classes a function of a life-cycle effect, with today's younger generation having middle-aged attitudes in 10 years? Or, is the new generation of commercial producers truly a next generation with differences in attitudes that will follow them through their careers?

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II: General Attitudes of Commercial Producers

Topic/Issue: Most would describe the relationship between input supplier and commercial producer as business-to-business. And, in business-to-business relationships, the economics of the transaction tend to dominate. Benefits (yield improvement, enhanced performance, lower maintenance costs, etc.) and costs (price, set-up cost, service rates, etc.) tend to be the focus of both supplier and customer. However, as owner-managed businesses, the attitudes and beliefs of the primary decision makers on commercial farm businesses are still important factors to consider as sales strategies are framed, and marketing communication messages polished. The attitudes and beliefs of decision makers may also shed insight into new product and service opportunities. The *2003 Commercial Producer Project* survey results support the notion that both the economics of the offer and the mind-set of the decision maker are important to input suppliers: 65 percent of the commercial producers responding to the survey indicated that farming was equally a business and a way of life, and this figure was up from 58 percent in 1998. This section will explore some of the attitudes of commercial producers about the broader market, their own abilities, and their performance. In addition, some focus will be given to important management challenges commercial producers are thinking about, as well as some of the management tools and techniques they use to address these challenges.

Results: Starting with attitudes about the broader market environment, producers were asked to respond to the statement, "I am very optimistic about the future of farming." A total of 42 percent of the commercial producers agreed with this statement, with another 31 percent neutral on the statement. These figures were slightly lower than those reported in 1998, indicating producers in 2003 were less optimistic about the future than they were in 1998. There were no differences in response across the size classes. However, there were some important differences across age classes, with younger producers (under 35) and older producers (65 plus) more optimistic than those in the 35-64 age classes (Figure 8). A total of 55 percent of the under 35 producers were optimistic about the future of farming compared to 37 percent of the producers 45-64 years old. Likewise, brand loyal producers were more optimistic compared to those who indicated they were not brand loyal, and high growth farms were more optimistic than those in more modest growth classes.

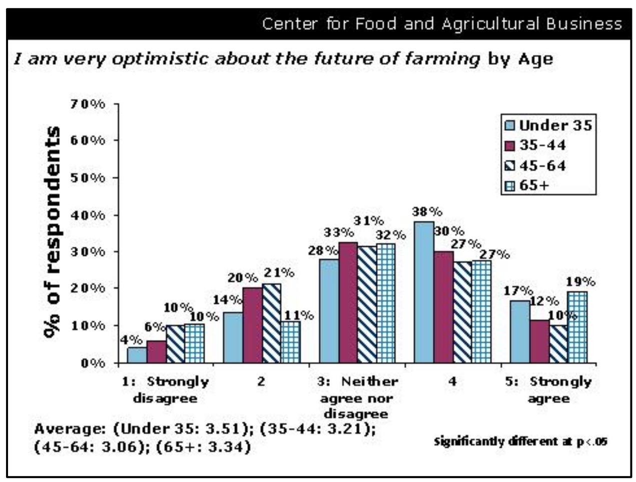

Figure 8: Producer opinion – optimism on future of farming by age

While guarded optimism may characterize producers' view of the future, they are very clear in their assessment of their own managerial skills – commercial producers are a confident group, and a group that other producers seek out for their opinions on new products. A total of 85 percent of the large producers indicated they were very confident in their own abilities. The figure was 79percent for midsize producers. And, producers are even more confident in their own abilities in 2003 than they were in 1998. Younger producers tend to be the most confident, and then confidence tends to decline as producers mature (Figure 9). This could be a function of older producers having more experience with the realties of running a farm business. Or, younger producers may just feel better equipped to deal with the realities of a new agriculture.

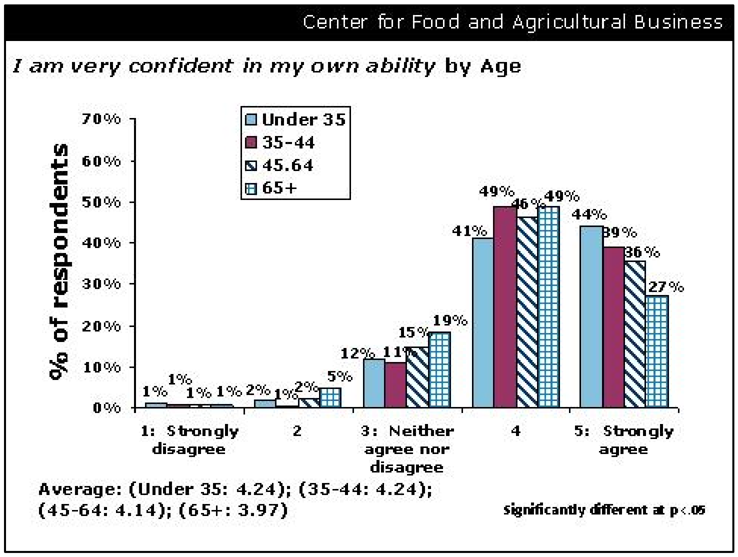

Figure 9: Producer opinion – confidence in own ability by age

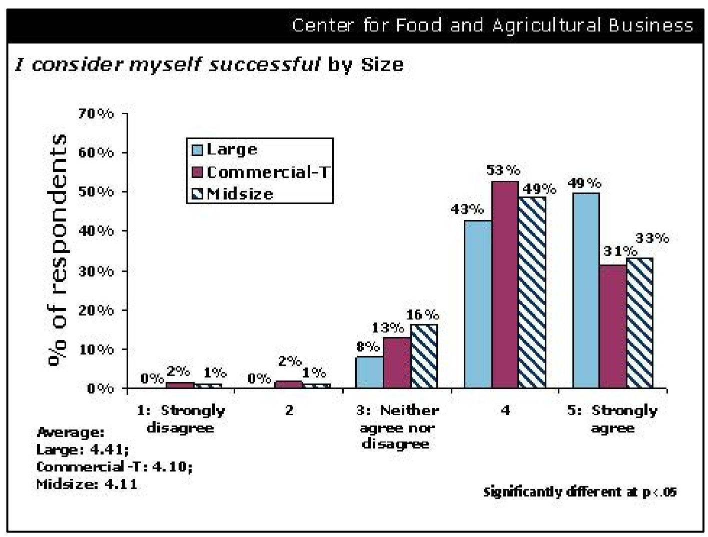

Figure 10: Producer opinion – personal success by size

Given their confidence level, it is not surprising to find that 92 percent of the large producers indicated that they considered themselves successful while 82 percent of the midsize producers believe themselves successful (Figure 9). This finding was quite broad, with no differences across growth, age, or enterprise classes. It is also not surprising to find that 71 percent of the large producers believe they are achieving most of their goals, while 58 percent of the midsize producers agreed with this statement. Brand loyal and younger producers were also more likely to feel they were achieving most of their goals, relative to other groups.

This confidence and success is not lost on others in their locale as 74 percent of the large producers indicated that other producers often ask their opinion about new products (Figure 11). High growth producers are also regularly sought out for their opinions, but there were no differences by loyalty class or age of producer. Producers in 2003 indicated that others were more likely to ask their opinions than they were in 1998. Given that farmers as outside influencers have tended to become a bit less important to commercial producers in general over the past five years, this finding suggests that larger producers are an increasingly important influencer to the smaller producers in any given area.

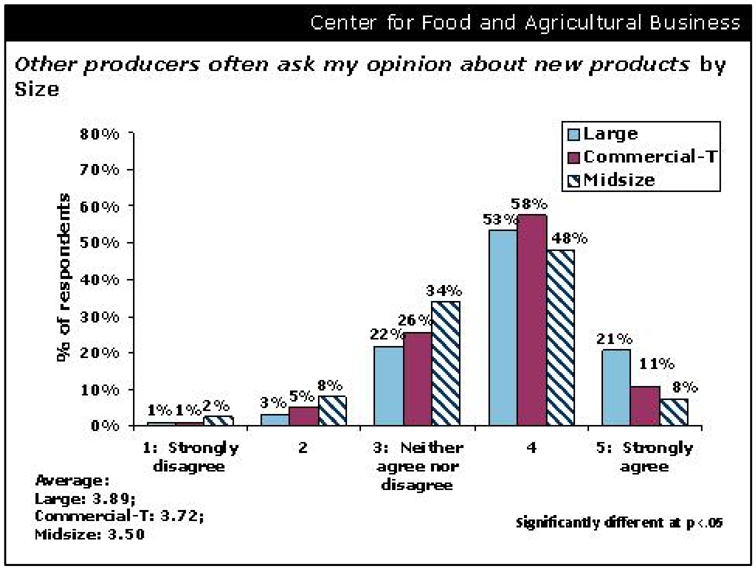

Figure 11: Producer opinion – information source to other producers by size

Turning to issues that these producers consider challenges, there was one open-ended question on the survey: "Over the next five years, describe the single biggest management challenge facing farming operations like yours?" Profitability issues (managing costs, low prices/margins, making capital investments, etc.) and environmental issues (regulations, manure management, GMOs, etc.) dominated the list of concerns for commercial producers (Figure 12). Midsize producers were even more concerned than commercial producers about profitability issues, and much less concerned about environmental issues. Opinions on other management issues were similar between the two groups, with general management issues (a collection of general management concerns); government issues (Farm Bill, tax policy, reduced political power, etc.); marketing issues (niche marketing, value-added, market access, etc.); expansion issues (land, profitable growth, diversification, etc.); and competition (international competition, trade policy, contracting, etc.) rounding out the set of challenges producers are most concerned about.

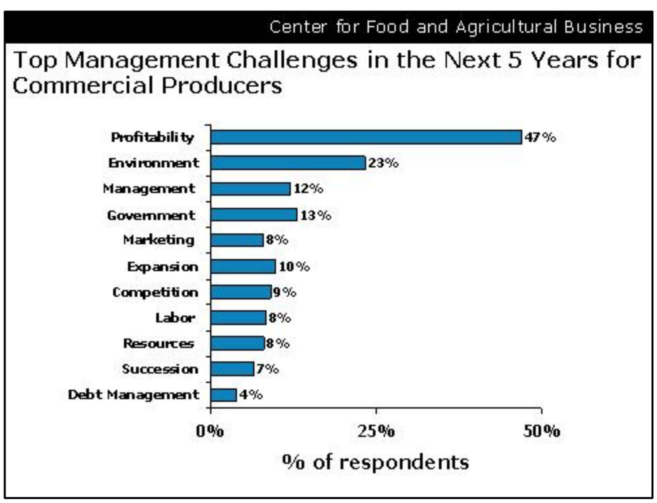

Figure 12: Top management challenges in the next 5 years for commercial producers

Finally, the types of management tools and techniques that producers are using to help achieve their goals and address the above management challenges were explored. A total of nine different tools and techniques were considered. Written cash flow/financial plans, attending technical seminars, attending management seminars, and an active risk management plan were the most frequently cited by producers with more than 50 percent of the commercial producers using these in their farm business (Figure 13). Some of the focus on financial planning is likely tied to working relationships with lenders and other sources of financing. While these tools were in widespread use among large producers, only 39 percent of the large producers had a written business plan, and only 31 percent had a written management succession plan.

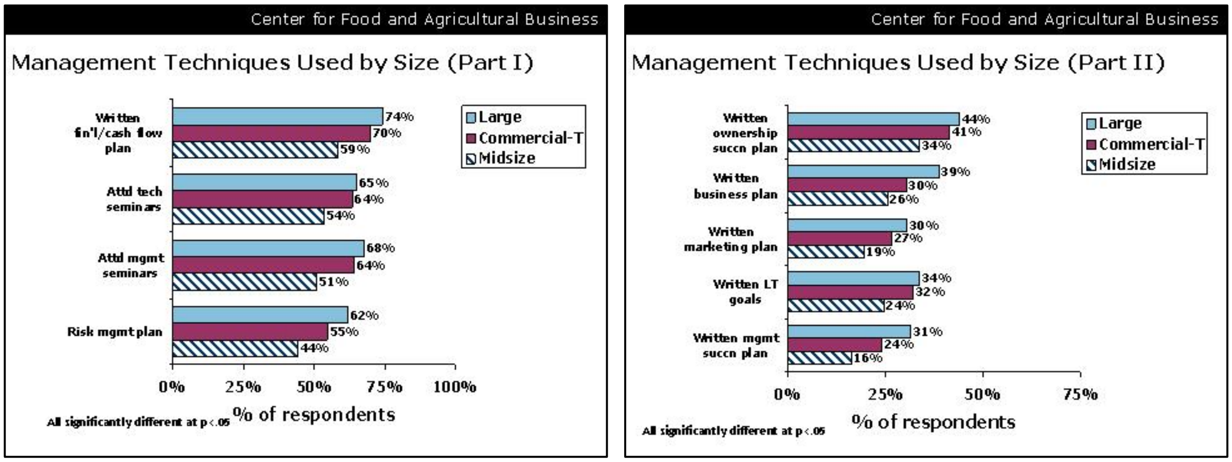

Figure 13: Management techniques used by size (2 charts)

In every case, the larger the farm business, the more likely they were to use a specific tool/technique. Younger producers (under 35) were more likely to attend management/business seminars and technical seminars, and more likely to have written marketing plans and written long-term goals. Those producers over 65 were more likely to have written management and ownership succession plans. High growth producers were more likely to use almost all of these tools and techniques. Use of many of these tools and techniques has increased over time: relative to 1998, producers have increased their use of risk management plans, long term goals, ownership and management succession plans, and marketing plans.

<u>Implications:</u> Commercial producers have mixed perspectives on the future of farming, and most are guarded with their optimism. At the same time, most commercial and midsize producers are quite confident in their own abilities and feel they are reaching their goals. Younger producers are more optimistic and more confident than producers further along in their farming careers. Such attitudes have important implications for the sales and marketing strategies of suppliers. Producers are likely to welcome products/services/information that help them sort out the uncertain future of agriculture. They are confident about what they can control, and much less confident about what they can't. What can suppliers do to clarify this future; help them manage the risk; and provide assurances that they can be viable businesses over time?

At the same time, these confident managers will demand an equally confident supplier. They view themselves as competent and successful, and aren't likely to develop a deep relationship with a salesperson who does not share these traits. Reaffirming their success and finding ways to help them become even more successful seems key to effective relationship building. It is also clear these producers, especially the larger ones, are important influencers. Getting a new product on their farms is likely to generate word of mouth promotion benefits with other producers who watch them. And, the larger the operation, the more closely they are watched.

Producers put to work a variety of management techniques in their farm businesses. The larger the operator, the more likely they are to be using more formal planning processes and the more likely they are to be seeking out educational activities. Serving such producers means knowing what techniques they are using to manage their farm businesses and knowing how you can best integrate with their planning approaches. At the same time, the majority of producers do not use these management tools and techniques. This creates some opportunities for more education and consultation to put these tools to work in farm businesses trying to remain profitable in a challenging business environment. As producers grow, it is clear there is a tendency to use more of these tools. So, rapidly growing producers will be especially good candidates for seminars, short courses, or just informal consultation on their use.

Economics are fundamental in business to business relationships. But, input suppliers also need to understand the mind set of their commercial producer customers as they frame marketing strategies and sales approaches. Matching economics with strong personal connections supported by a deep understanding of attitudes likely leads to the long-term, profitable relationships suppliers want to build.

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III: Growth Plans of Commercial Producers

Topic/Issue: The growth plans of commercial crop and livestock producers are critical to anticipating the changing needs of a diverse customer base. Successful agribusinesses will not only understand their customer's current needs but will be able to anticipate changes in those needs as these key customers seek to expand their operations. How does growth affect customer's needs from their supplier?

Results: Commercial corn and soybean producers expect significant growth over the next five years and on average expect to increase the size of their operations by roughly 30 percent by 2008. This contrasts to the 21 percent growth expected among commercial cotton farmers and the seven percent growth expected by wheat/barley/canola producers. Of some note is that commercial corn and soybean producers have increased their five-year growth projections during every cycle of the survey, from 19 percent in 1993, to 27 percent in 1998, to the 30 percent growth projected in 2003 (Figure 14). Large corn/soybean producers are growing less on a percentage basis than midsize or commercial-T producers but their planned 28 percent growth represents almost 2,800 acres (the size of a commercial-T operation). Similar results are found in the cotton and wheat/barley/canola farms suggesting that the large operations are remaining aggressive in their growth plans (Figure 15).

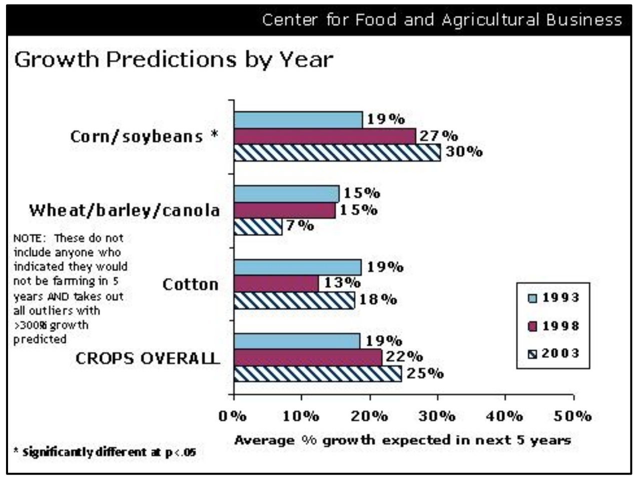


Figure 14: Crop producer growth prediction by year

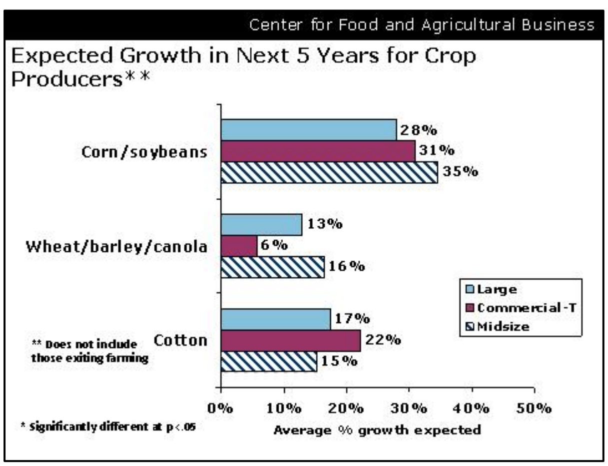


Figure 15: Expected growth of crop producers in 5 years by size

Relative to 1993, commercial pork producers are slowing their growth plans. In 1993, commercial pork producers indicated they would expand their operations by 51 percent over the next five years. In 1998, this planned growth had slipped to 29 percent, and in 2003 was a modest 18 percent. (Note that these results do not include the growth plans for the largest pork integrators and vertical pork processing/production companies.) Changes among midsize pork producers were more dramatic, with five-year growth plans dropping from 39 percent in 1998 to zero percent in 2003. Among commercial livestock producers, dairy producers report the most ambitious five-year growth plans with anticipated growth of 36 percent over the next five years. This figure is down from the

49 percent five-year growth figure commercial dairy producers reported in 1998 (Figure 16). However, Figure 17 shows that the largest dairy and hog farms still have aggressive growth plans. In fact, large dairy farms, averaging over 3,000 head, are planning to grow 41 percent over the next five years.

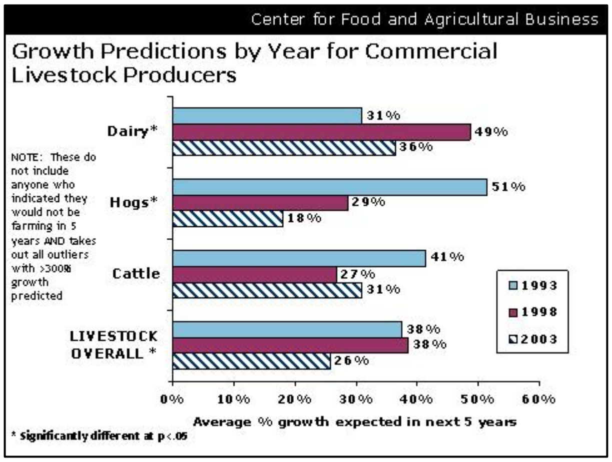


Figure 16: Livestock producer growth predictions by year

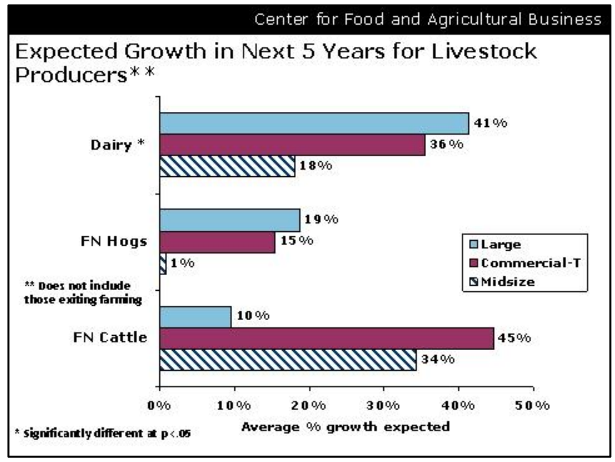


Figure 17: Expected growth of livestock producers in five years by size

Results of the survey were analyzed by looking at only the fastest growing 20 percent of the producers in each enterprise. These high-growth producers tended to be younger, confident in their own abilities and optimistic about the future of agriculture. When asked about their biggest concerns over the next five years, this group was most concerned about expansion and the associated management challenges and not profitability, or regulations, or low prices like many other producers. The results for this high growth group also indicate that high-growth producers have different needs than other producers in several areas. In particular, high-growth producers rely heavily on local information sources, particularly sales/tech reps, yet are seeking a more direct relationship with the manufacturer for both capital and expendable item purchases. Finally, high-growth producers consistently pursue opportunities to improve the management of their businesses through attending seminars, establishing written long-term goals, and producing written plans for cash flows, marketing, and the business in general.

<u>Implications:</u> Understanding the needs of high-growth producers is critical to a successful marketing plan. As producers grow, agribusinesses hope to grow with them as their supplier of choice. The results of the survey suggest that marketers should be keenly aware of the high-growth producer's need for information, written plans, and ways to improve the management of the business. Local dealers have a critical role to play with this high-growth group but will have to contend with this producer's desire to have a more direct link to the manufacturer. Having timely and accurate information and an ability to deliver larger quantities of products and services in a timely fashion will probably be key to gaining much of this time sensitive segments business.

IV: Contract Conundrum and Producer Expectation for Value Enhanced Agriculture

Topic/Issues: Agricultural producers have the potential to use a number of strategies to reduce risk and enhance income in their farming operation. What tools and techniques are producers using to manage risk? What about producer's attitudes towards and participation in contract and value-enhanced production activities?

Results: Larger scale or commercial producers more frequently use contracting, futures and forward pricing strategies as a means to reduce their risk compared to midsize producers. For example, almost 60 percent of commercial producers use forward pricing as part of their risk management strategy (Figure 18). Use of crop insurance as a risk management strategy is very high for all producer respondents with almost 90 percent acquiring some form of crop insurance. Contracting arrangements are more commonly used by younger producers to manage risk with 40 percent of those under 35 using some form of contract compared to only 25 percent for those who are 65 or older. Fruit, nut, vine, and vegetable producers use contracting more frequently as a risk management strategy compared to other crop and livestock producers, but they use futures, forward pricing, and insurance strategies much less frequently than other producers.

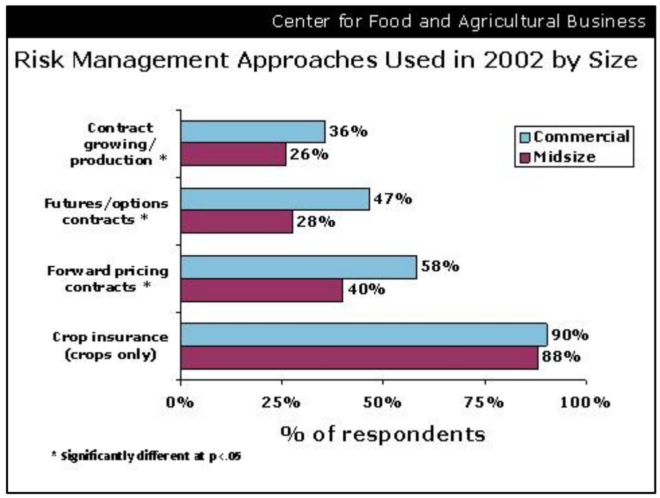
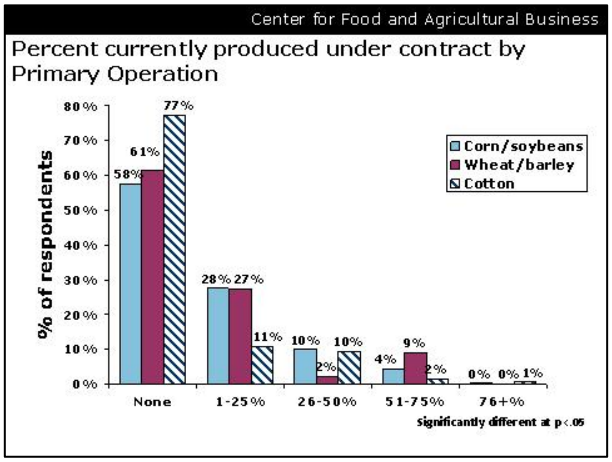
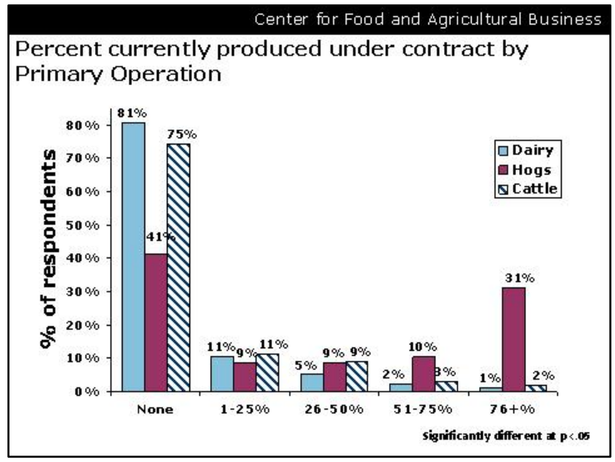


Figure 18: Risk management approaches by size

Traditional crop producers have only a modest amount of their production under contract – almost 90 percent have 25 percent of their acreage or less under contract production and approximately 65 percent have no contract production. For crop farms, contract production is more common for corn/soybean and wheat/barley/canola producers than cotton producers (Figure 19). Contract production is even less common in the livestock industry with 70-80 percent of the producers having no livestock produced under a contract. For livestock producers, commercial size operations are more likely to have some contract production, and hog producers are much more likely to be producing under a contract compared to dairy and cattle producers (Figure 20).



Figures 19: Total crop production under contract by enterprise



Figures 20: Total livestock production under contract by enterprise

As to their expectations of the future, 55-60 percent of crop producers agree or strongly agree that more agricultural products will be produced to specification under contracts; cotton producers express less agreement with this statement than corn/soybean and wheat/barley/canola producers (Figure 21). Similar expectations about the future of contract production are expressed by livestock producers, with hog producers expressing more agreement that contract production will increase in the future compared to dairy or cattle producers (Figure 22).

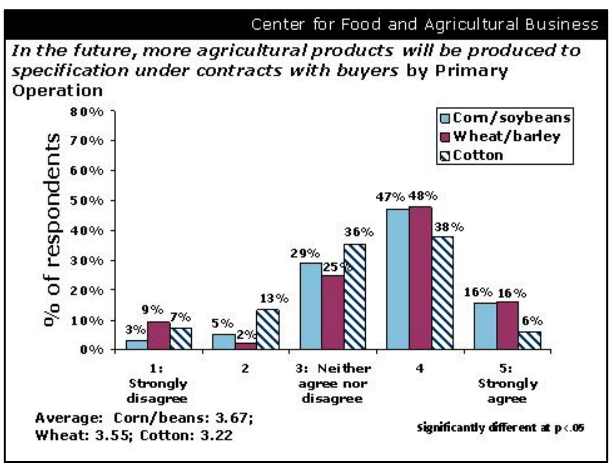


Figure 21: Producer opinion - the future of contracting for crop producers

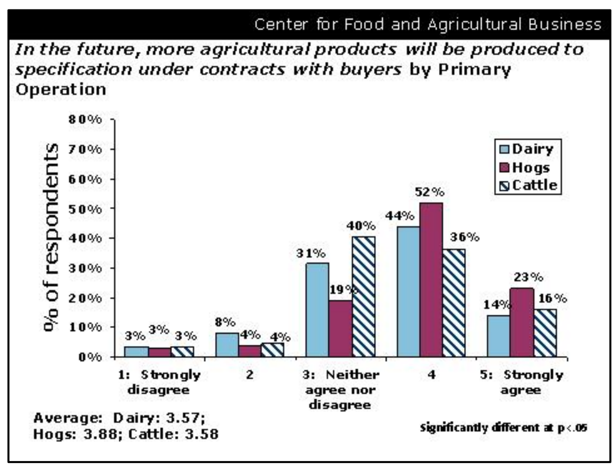


Figure 22: Producer opinion - the future of contracting for livestock producers

When asked to indicate whether they expect to produce under contract, the respondents expressed less personal commitment to contract production; less than a third of the producers agree or strongly agree that they anticipate producing more products under contract in the future. Larger scale producers were more inclined to agree that they will be involved in more contract production in their own operation by a modest amount compared to midsize producers. Wheat/barley/canola producers and hog producers were more likely to agree that they would be producing more products under contract than the other segments (Figure 23).

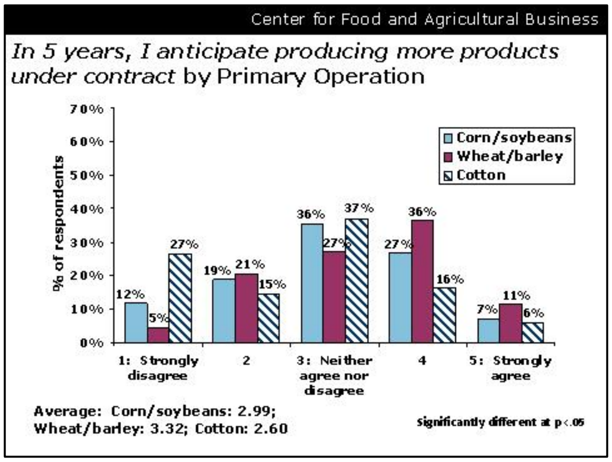


Figure 23: Producer opinion – crop producer contracting intentions

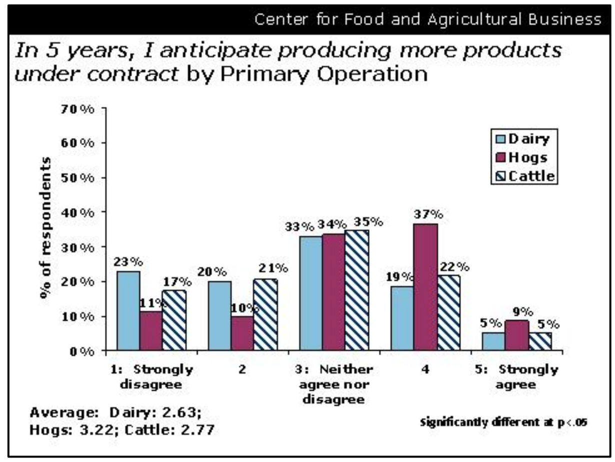


Figure 24: Producer opinion – livestock producer contracting intentions

Younger producers, particularly those under 35, are more likely to currently produce under contract than older producers, and those producers who are more growth oriented and brand loyal expect more contract production, and also anticipate that they will be participating to a higher degree in contract production in their farming operation in the next five years.

Both crop and livestock producers currently participate only to a modest degree in value-enhanced production. For midsize crop producers, 83 percent do not produce value-enhanced crops; seven percent produce only one to 25 percent of their sales as value-enhanced crops and the remaining 10 percent produce a higher proportion of sales as value-enhanced production. As to the future, crop producers anticipate value-enhanced production to increase (Figure 25), but it will not become the dominant production activity in their business by 2008. Larger producers are more involved with value-enhanced crop production than smaller producers and corn/soybean producers currently have and expect in the future to have more value-enhanced production compared to wheat/barley/canola and cotton producers.

Even a larger proportion of livestock producers do not currently participate or expect value-enhanced production to become a major part of their farming operation in the future; 88 percent of commercial livestock producers currently do not participate in value-enhanced production, and by 2008 this percentage declines to 71 percent with the increase in value-enhanced production being almost all in the category that expect to produce one to 25 percent of their gross sales as value-enhanced products (Figure 26). Fruit, nut, vegetable, and vine producers exhibit similar expectations of expansion compared to those expressed by other crop and livestock producers. In general, those producers with high growth expectations anticipate more participation in value-enhanced production than those with lower growth expectations.

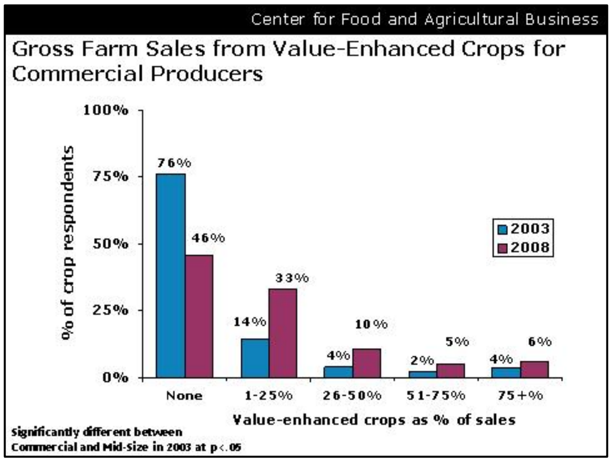


Figure 25: Gross farm sales from value-enhanced crops

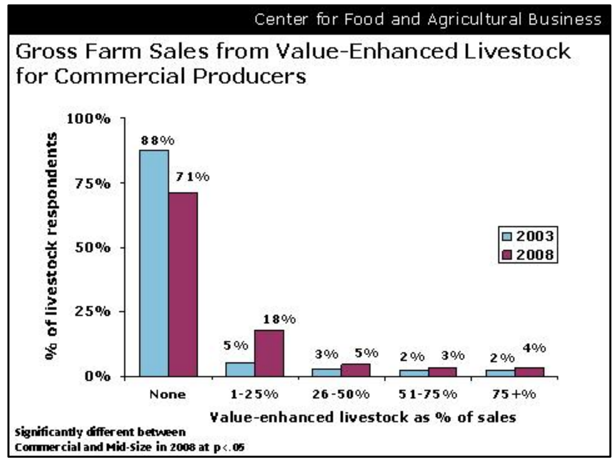


Figure 26: Gross farm sales from value-enhanced livestock

Implications: These results suggest that crop insurance is the major strategy that producers are using to manage risk with only moderate use of forward pricing, futures contracts, and contract growing/production. Producers expect that contract production will be increasingly common in the crop (particularly corn/soybean and wheat/barley/canola) and livestock (particularly hogs) industries, but they are not expecting to personally participate in contracting to the same degree that they expect the market to grow. Large producers and producers who have a higher growth orientation are expecting to participate to a higher degree in the contract production market. As to value-enhanced production, producers currently have very modest participation in that market, and they expect their participation to grow only incrementally in the future. Again, high growth and larger producers currently have more value-enhanced production, and expect value-enhanced products to be a larger part of their business in the future compared to smaller and lower growth oriented producers. In general, these results suggest that there is a relatively large group of commercial producers open to value-enhanced and contract production, but intense and widespread moves here will depend on the economics of specific opportunities.

Producers seek a variety of risk management strategies including traditional tools, contracts, and diversification into value-enhanced products. As agricultural markets continue to find ways to differentiate, producers will seek areas that not only provide opportunities for good returns but also allow them to manage their operations. Agribusinesses with a solid understanding of their producers' risk profiles and strategies for managing risk may find attractive opportunities to broaden their product offerings and deepen relationships.

V: Impacts of Government Policy

Topic/Issue: The government has as much if not more influence over the agricultural industry than any other industry. Producers interact with the government on everything from environmental regulations, to food safety and traceability issues, to commodity subsidies. But, how do these interactions affect producers' decisions about the inputs they purchase?

Results: The survey asked producers about their opinions regarding the impact of environmental regulation on their input purchasing decisions and their choice of suppliers (Figures 27, 28, and 29).

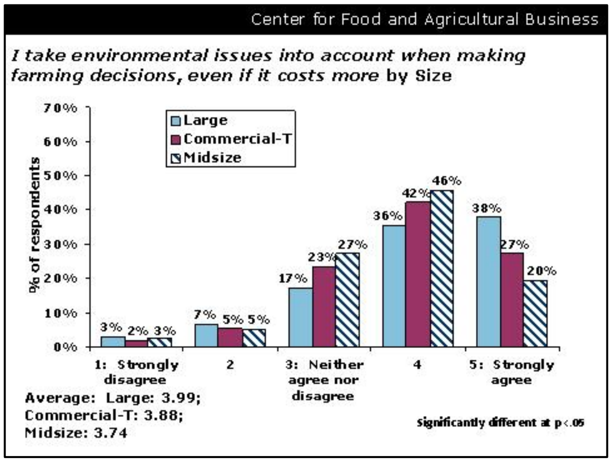


Figure 27: Producer opinion – impact of environmental issues on input purchases

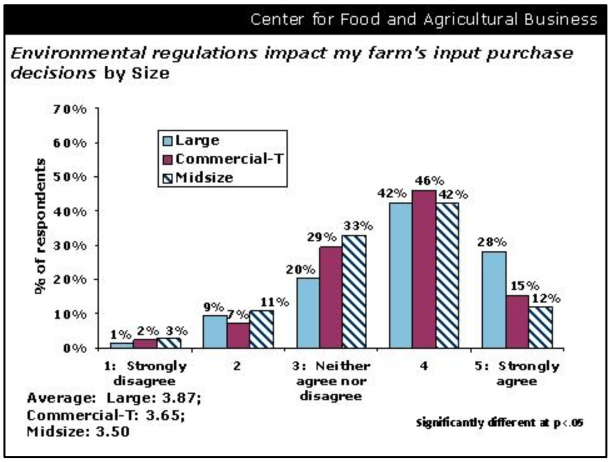


Figure 28: Producer opinion – impact of environmental regulations on input purchases

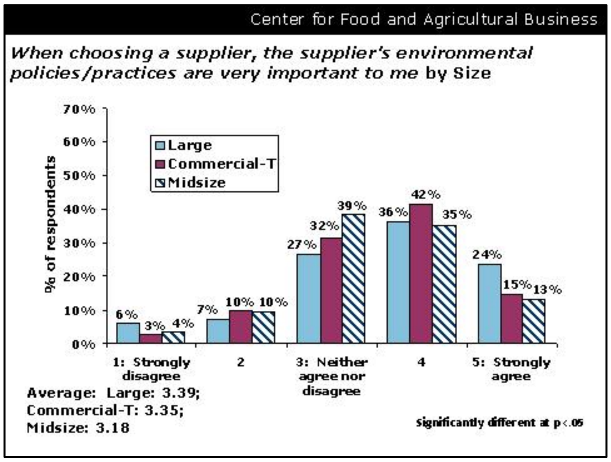


Figure 29: Producer opinion - impact of supplier's environmental policies on choice of supplier

Results indicated that 70 percent of commercial producers say they consider environmental regulations when purchasing inputs, even if it costs more. The 65+ age group was most concerned with their suppliers' environmental policies when choosing which suppliers to do business with. Interestingly, high growth producers are not as concerned with the environment and their suppliers' environmental policies as their counterparts. Compared to other crop producers, fruit, nut, vegetable and vine growers were more worried about environmental regulations and more likely to agree that environmental regulations impact expendable purchases. In 2003, environmental issues appear to have less impact on purchase decisions than in 1998 with less agreement about the impact of environmental regulations on input purchases and selection of a supplier.

Producers were also asked if food safety regulations or food labeling/traceability issues impacted their purchase decisions. Figure 30 indicates that food safety and security is becoming increasingly important with 57 percent of commercial-T producers being affected by food safety regulations. The survey shows that 32 percent of commercial-T producers feel that food labeling and traceability affects their input purchase decisions (Figure 31). As expected food safety/security and food labeling impact FNVV producer purchases more than other crop producers.

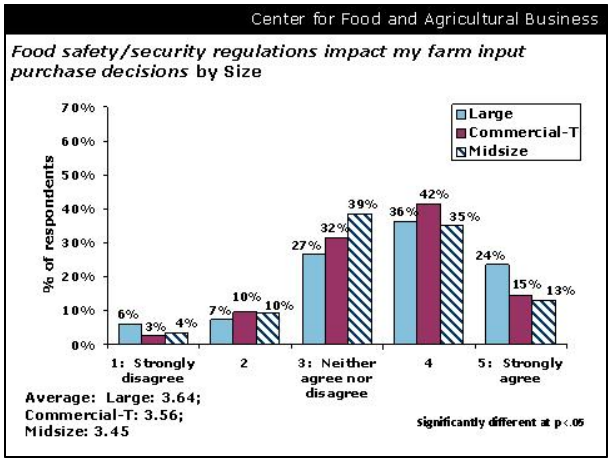


Figure 30: Producer opinion – impact of food regulations on purchase decisions

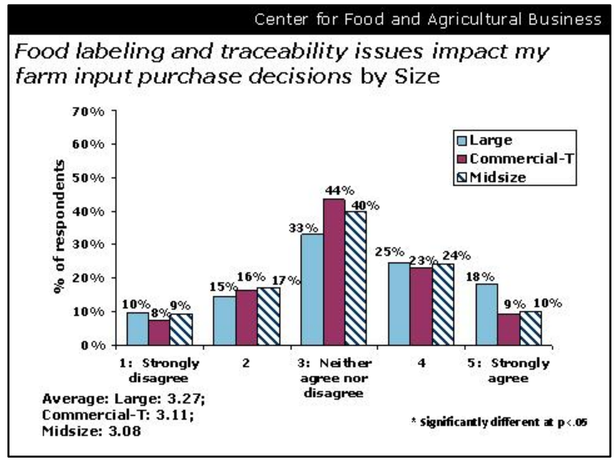


Figure 31: Producer opinion – impact of food labeling and traceability issues on purchasing decision

Results of the survey indicate that government subsidies significantly impact the commercial crop producers' survival. In fact, over 80 percent of cotton producers strongly agreed that government subsidies were critical for the financial success of their operations (Figure 32). The 65+ age group indicates more reliance on government subsidies than other age groups while livestock, fruit/nut/vegetable/vine producers show less reliance on government subsidies. More than 50 percent of crop operations agreed or strongly agreed that their purchase decisions for capital items would be significantly affected if government subsidies were eliminated with 83 percent of cotton producers agreeing with this statement (Figure 33).

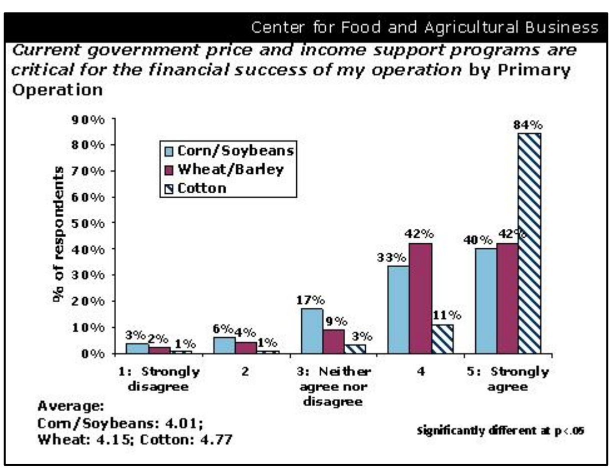


Figure 32: Producer opinion – importance of government subsidies for financial success

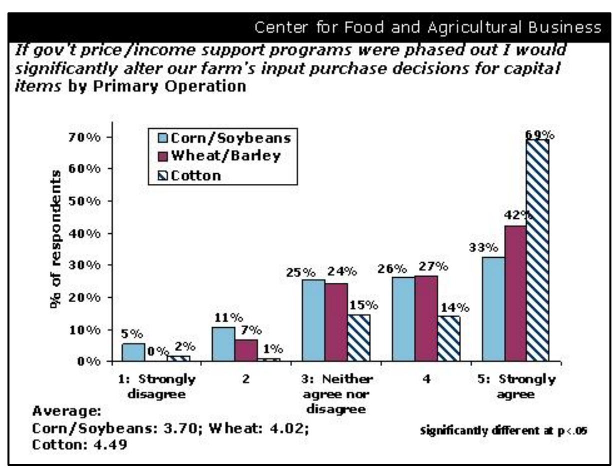


Figure 33: Producer opinion – impact of government subsidies on capital purchases

Implications: The regulatory and subsidy environment is pervasive in today's agriculture. The rules and regulations producers must follow are becoming increasingly complex and gaining more public visibility. As such, awareness of the issues among producers is rising and these issues clearly impact purchasing decisions. Combine this with the striking dependence of crop agriculture on government subsidies and it becomes clear that agribusinesses must continue to be aware of the government's affect on the purchasing behavior of producers.

The increased complexity of government programs suggests a role for some agribusinesses in helping producers understand, capitalize on, and implement the various rules and associated funding programs offered by the government. In many cases, just the ability of the sales force to speak intelligently with producers about government programs and regulations can be a big step in deepening the relationship with these key customers.

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VI: The Role of Price in the Producer's Decision

Topic/Issue: 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?

Results: As in 1998, price only accounts about a third of the producer's purchasing decision. Nonetheless, of the factors the survey asked producers to consider, price continues to be the most important factor for both capital and expendable items. Producers place 28 out of 100 points on price in the decision process for capital items and 30 points on price for expendable items (Figure 34). Relative to 1998, price has become a more important issue for expendable items rising from 27 points to 30 points. Because price is an important consideration in the purchase decision, we should examine producer's attitudes about prices.

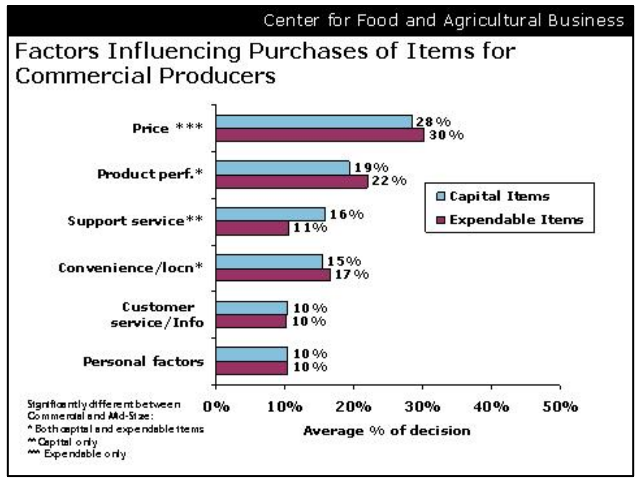

Figure 34: Factors influencing purchases of items for commercial producers

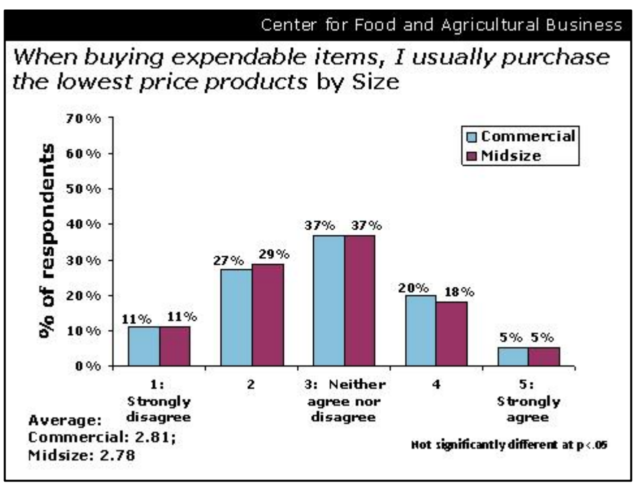

Figure 35: Producer opinion – buying the lowest priced expendable item

Producers were asked whether or not they usually purchased the lowest price products. When focusing on expendable items, only about 25 percent of producers agreed or strongly agreed with this statement while nearly 40 percent either disagreed or strongly disagreed (Figure 35). 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 percent of midsize producers and 44 percent of commercial producers disagreeing with the statement (Figure 36). Cotton and dairy producers were more likely to purchase the lowest price 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. This result likely indicates that suppliers are doing a better job of explaining the value of their products.

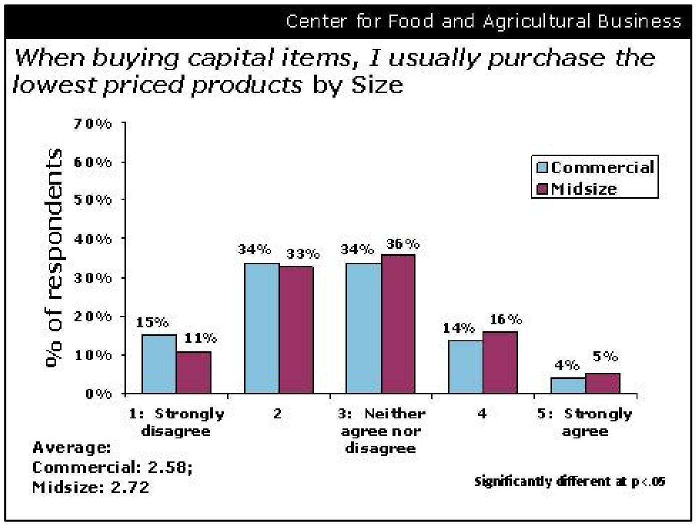

Figure 36: Producer opinion – buying the lowest priced capital item

The survey also explored producers' opinions about price differences for similar products among suppliers. Over 60 percent of midsize and commercial producers agreed or strongly agreed that there were often significant price differences among local suppliers of expendable items (Figure 37). For capital items, over 70 percent of midsize and commercial producers believe there are significant differences in prices among suppliers (Figure 38).

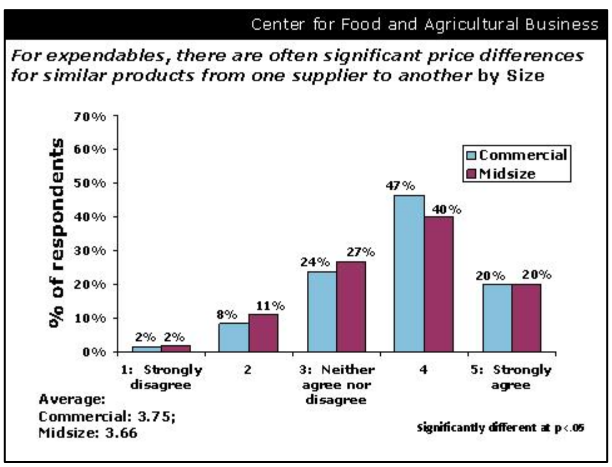

Figure 37: Producer opinion – significant differences in prices for expendable suppliers

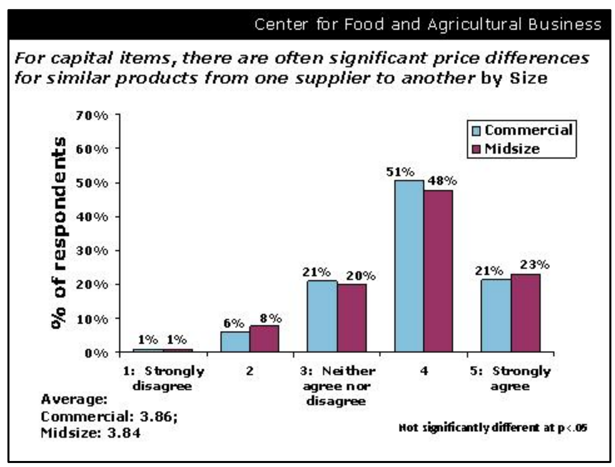

Figure 38: Producer opinion – significant differences in prices for capital suppliers

<u>Implications:</u> Price continues to be a critical factor in a producer's purchasing decisions. Yet 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 percent of producers look for the lowest price; suggesting some room for margin. However, 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 price for similar products. As producers' margins continue to be depressed, it will become increasingly 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.

VII: Producer Attitudes Toward Brands versus Private Label and Generic Products

Topic/Issue: For any given agricultural input, producers are often faced with an array of choices. These choices may include a variety of branded, private label, and generic products. Deciding which product to purchase depends not only on the producer's perception of value, but also on their perception of the differences which exist between these alternatives. Suppliers developing marketing programs need to understand producer attitudes toward branded and generic (unbranded or private label) products. And, those suppliers looking to build a brand should understand the differences in the attitudes and buying behaviors of brand loyal producers relative to those of producers who are less focused on brand in the purchase decision.

Results: Overall, respondents report substantial differences between different brands of both capital and expendable products. And, producers report more differences between brands of capital items than between brands of expendable items. About three out of 10 of the commercial producers responding agreed that different brands of expendable items were more or less the same while fewer than 25 percent of the commercial producers agreed that different brands of capital items were more or less the same. Some of this difference between capital items and expendables may be due to the broad nature of the two categories. Expendables encompass a wide variety of branded (seed, crop protection chemicals, etc.) and unbranded (fertilizer, fuel, etc.) products. Brands would be more typical when purchasing capital items, especially for crop producers. When asked specifically about brands of capital items for crop production, over half of the respondents felt there were substantial differences in features and performance across the major brands. And, commercial producers (59 percent) perceived more differences between brands of capital items than did midsize producers (54 percent).

This perception of brand differences had several impacts on purchasing behavior, though more for brands of capital items than for brands of expendable items. Overall, respondents said they had more loyalty to capital brands than to expendable brands. For expendable products, about 40 percent of the commercial producers responding considered themselves loyal to the brands of expendable items they purchased while 60 percent of the commercial producers considered themselves loyal to their brands of capital items (Figures 39 and 40).

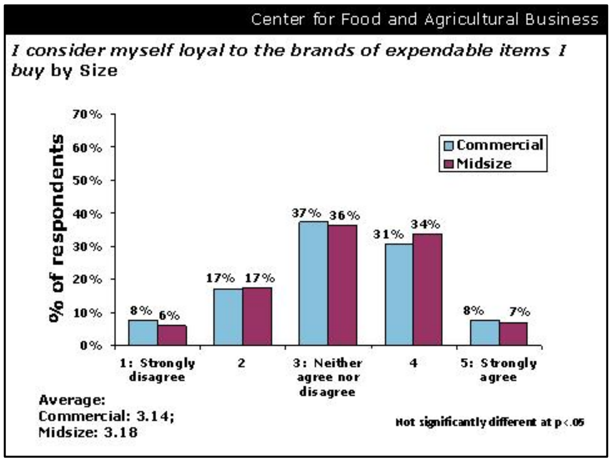

Figure 39: Producer opinion – brand loyalty for expendable items

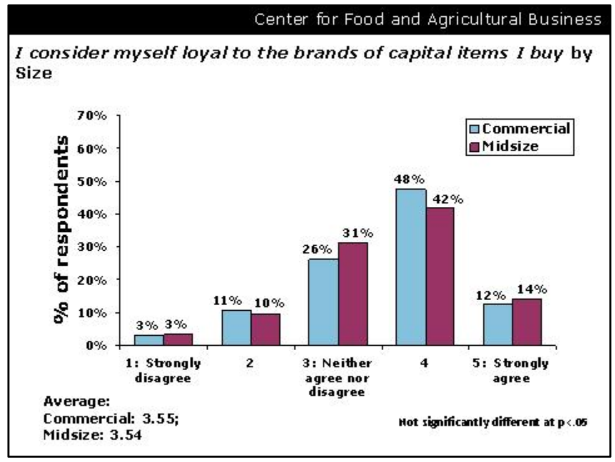

Figure 40: Producer opinion – brand loyalty for capital items

As might be expected, brand loyalty was higher for those who perceived a difference among brands for both capital and expendable items. Between crop and livestock producers, crop producers were more likely to be loyal to capital brands than were livestock producers. Some 67 percent of the commercial crop producers indicated that they were loyal to the brands of capital equipment they buy, while the figure was 55 percent for commercial livestock producers.

Generic (unbranded or private label) products often offer an alternative to branded expendable items. Just under a third of the commercial producers (32 percent) said that they thought branded expendable products offered a higher level of performance relative to generic (unbranded or private label) products. However, almost as many (26 percent) disagreed, with no significant difference between midsize and commercial producers (Figure 41). When asked about the value of generic products, however, over a third of the respondents agreed that generics represented a good trade off between price and performance. Some 45 percent of the respondents neither agreed nor disagreed with this statement, indicating that for many producers the choice between brands and generics depends on the specific product in question (Figure 42).

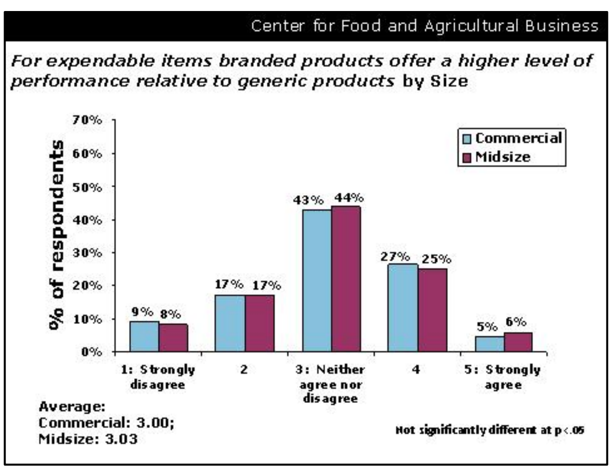

Figure 41: Producer opinion – branded expendable products offer higher performance

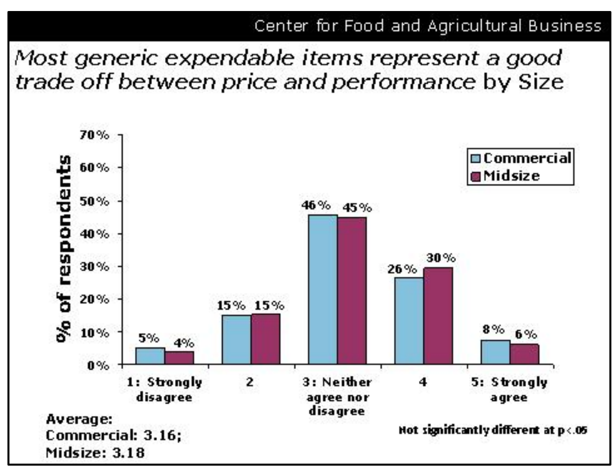

Figure 42: Producer opinion – generics offer good trade off between price and performance for expendables

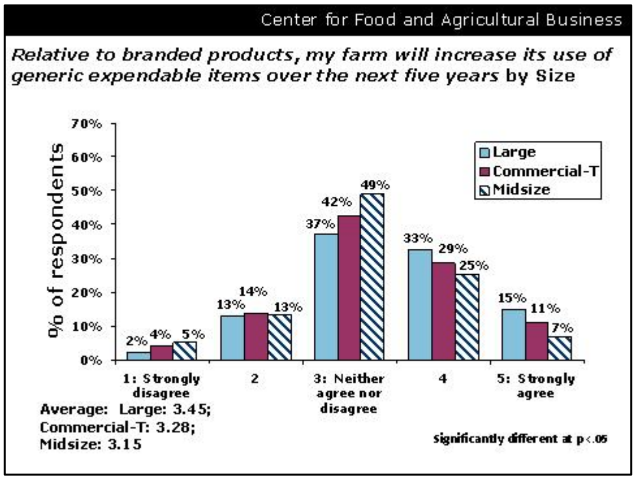

Figure 43: Producer opinion – Increase use of generic expendables

Four out of 10 commercial producers said that in the future they would be increasing their use of generic expendables relative to branded products, with large producers significantly more likely to expect this increase than typical commercial or midsize producers (Figure 43). Almost half of the large producers responding to the survey (48 percent) indicated they would be using more generic (unbranded/private label) expendable products over the next five years. Cotton producers were especially positive toward generic products with 60 percent of the cotton producers indicating they would increase their use of generic expendable products over the next five years. This compares to 40 percent for corn and soybean producers. Generic products were viewed more positively by both producers who agreed that differences across expendable brands were small and by those who were not as loyal to expendable brands.

For many input suppliers, developing and maintaining brands is a fundamental element of their marketing strategy. To better understand brand loyal customers for expendable products, respondents were divided into two groups: one group that indicated they were loyal to the expendable brands they purchased and one group that was neutral on brands or indicated they were not brand loyal. Approximately 38 percent of the commercial producers considered themselves loyal to their expendable brands. This did vary by type of operation, with the most loyal group being wheat/barley/canola (49 percent brand loyal) and corn/soybean producers (43 percent) and the least loyal groups being cattle (32 percent brand loyal), cotton (33 percent) and dairy producers (33 percent). Brand loyal respondents also tended to be older than non-brand loyal producers. Almost four out of 10 (39 percent) of the brand loyal producers were 55 or over compared to only 30 percent of those not brand loyal. However, there were no other demographic differences (education, gender, farm size or farm demographics) between brand loyal producers and those that were not brand loyal.

Brand loyal producers put more weight on the dealer as an outside influence on their purchase decisions for expendable products. And, they tended to be much more loyal to their local supplier – brand loyalty and loyalty to the local supplier were closely related. Brand loyal producers were more likely to be willing to pay more to buy locally and to prefer to buy from only one supplier. Brand loyal producers assigned more weight to customer service and personal factors, and less weight to price, when choosing their supplier for both capital and expendable inputs (Figure 44).

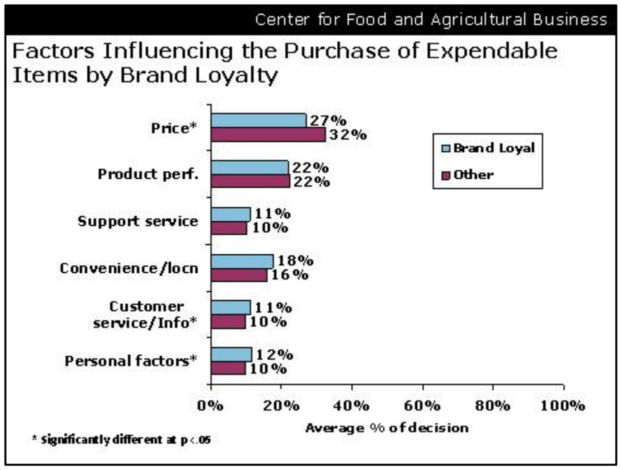

Figure 44: Factors influencing the purchase of expendable items by brand loyalty

Those producers who did not consider themselves to be brand loyal were significantly more likely to use the Internet in their farm business and to put more emphasis on low prices when making purchase decisions. Interestingly, even with the increased use of the Internet, this non-brand loyal group was less likely to feel that it was taking more time to purchase items now than it did 5 years ago, perhaps due to choices focused more on price and the fact that they perceive fewer differences across alternative products.

As far as their opinion of brands versus generic expendable products, brand loyal producers see more differences across brands than those who are not brand loyal. Brand loyal producers were also less likely to expect to be buying more generics in the future and more likely to agree that branded products offer better performance than generics. Overall, brand loyal producers did not think that generics offered good value for their money.

Implications: For many producers, brands clearly play an important role in their input purchase decisions. And, this is especially true for capital items. Over half of the responding producers disagree that all brands are the same. Many of the producers who see these differences are likely to be loyal to their specific brands and are less likely to buy generic products or to buy primarily on price. They also tend to get their information from the local dealer and are willing to pay more to buy locally. This point is an important one for manufacturers of agricultural inputs: product loyalty is highly related to local supplier loyalty. And, any manufacturer marketing strategies aimed directly at the producer should consider this important relationship. It is not hard to envision marketing strategies intended to build a brand which undermines the role of the local supplier. And, given the relationship between brand and local supplier loyalty, the net outcome of such a strategy would be hard to predict.

It is clear that producers who consider themselves brand loyal do view the input purchase decision differently. The challenge for suppliers then is to clearly position the value of the brand to targeted producers. It is also important to recognize that younger producers and larger producers place less importance on brands and are more open to considering generic (unbranded or private label) solutions. Producers of branded products, especially expendables, will need to work even harder to build brand equity with these groups. Alternatively, producers of generic products will find an audience willing to listen to their story.

VIII: Producer Preferences for Bundling Products, Information, and Services

Topic/Issue: There is wide variation in producer demands for bundles of products, services, and information from their suppliers. Some producers want only products from their input suppliers, preferring to self-provide, or contract for, services and information. Other producers depend heavily on their suppliers for products as well as virtually all affiliated services and information. Such variation presents difficult pricing issues for input suppliers. Should the supplier use a menu-pricing (unbundled) approach, with producers choosing the specific combination of products, services, and information they want, and paying only for what they choose? Should the supplier use a bundled pricing approach which presents the producer with one price for a set of products, services, and information? Or should the supplier be somewhere between these two extremes? In this section, producer attitudes toward the pricing of value bundles are explored.

Results: As has been shown, services and information are important to commercial producers. And, local suppliers tend to be one of the primary providers of services and an important provider of information. While providing services and information is important to most local suppliers, producers believe there are significant differences in the quality of services and information across suppliers. A total of 82 percent of the commercial producers responding indicated there were significant differences in the quality of services from one local supplier to another. And, 61 percent indicated there were significant differences in the quality of information across local suppliers. Comparable figures for midsize producers were 81 percent and 55 percent. These attitudes are broadly held and there are no significant differences across enterprise types, by age of producer, or by overall growth rates.

Given the perceived variation in service and information quality, it is no surprise that producers also perceive significant price differences for similar products across suppliers. A total of 67 percent of the commercial producers and 60 percent of the midsize producers indicated that they observed significant price differences for similar expendable products across suppliers. For capital items, the figures were 72 percent and 71 percent respectively. These figures are virtually unchanged from those reported in 1998, both for expendable and capital items. However, large producers are more likely to observe significant prices differences across suppliers for both types of products relative to commercial-T and midsize producers.

Much is made about the commodity nature of the agricultural input markets. In a commodity market, similar prices for similar products would be expected. But, results here suggest despite these arguments, producers still perceive important price differences across suppliers. Some of these perceived differences may be due to bundled/unbundled pricing strategies – prices for comparable products may appear high or low depending on what is included in the bundle. For large producers, some of the price variation is likely driven by the purchase opportunities they are offered by suppliers as a result of their scale. On every supplier’s target list, it is likely these large producers are the beneficiaries of more deals than producers of more modest size.

Producers were asked the general question: “Should the supplier charge separately for services and for information?” Only 28 percent of the commercial producers and 20 percent of the midsize producers agreed with the idea of unbundled pricing of services (Figure 45). For separate pricing of information and products, the opinions were even stronger: 19 percent of the commercial producers and 12 percent of the midsize producers believe that suppliers should charge separately for products and information (Figure 46). For both products and services, about 33 percent of the respondents were neutral; indicating preferences for separate pricing would depend on the specific situation. Livestock producers were more likely to prefer separate pricing of services and information than crop producers, as were large producers when compared to commercial-T and midsize producers. These results likely reflect (in part) the more intense use of independent, paid consultants by both livestock producers and by large producers. Compared to 1998, attitudes for midsize producers were unchanged, but commercial producers were slightly more positive toward separate pricing of services and information – the figures for commercial producers were 22 percent in 1998 for separate pricing of services and 15 percent in 1998 for separate pricing of information.

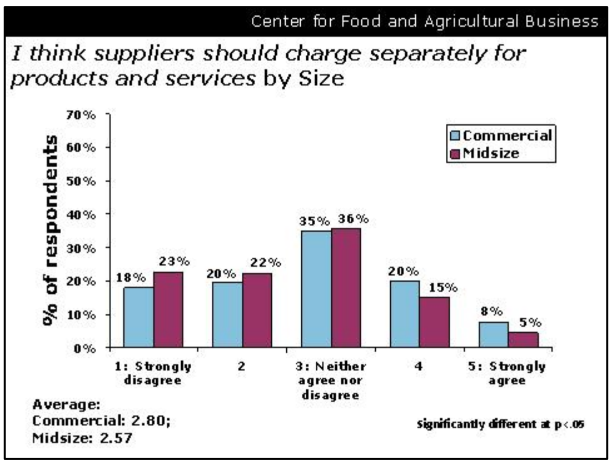

Figure 45: Producer opinion – suppliers charge separately for products and services

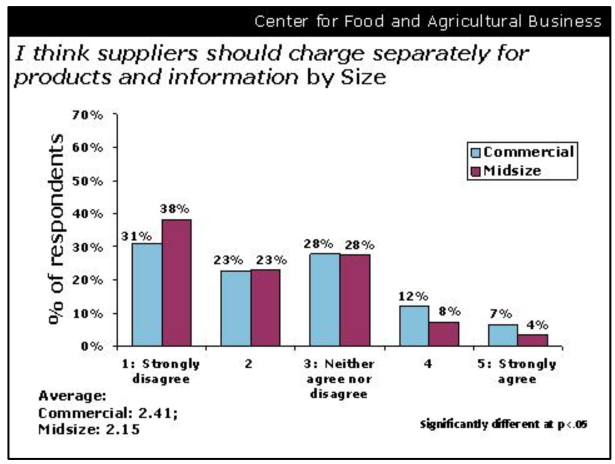

Figure 46: Producer opinion - suppliers charge separately for products and information

A very different picture emerges when this issue is explored from another angle. Respondents were asked if they preferred a menu approach to buying expendables where they selected and paid for the specific products, information, and financing that they needed. A total of 57 percent of the large producers agreed with this statement and 42 percent of the midsize producers agreed with menu (unbundled) pricing (Figure 47). Only eight percent of the large producers and 15 percent of the small producers disagreed with the statement. (A comparable question was not asked in 1998.) There were no other significant differences across enterprise types, overall growth rates, or age of producer in the response to this question.

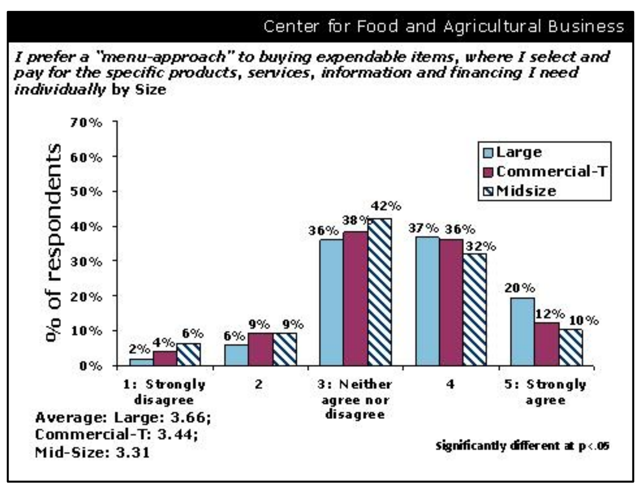

Figure 47: Producer opinion – menu approach for expendable items

These results are obviously inconsistent with the two questions on unbundled pricing of services and information. It seems that producers don't want suppliers to charge them separately for services and information. But, they do like the idea of paying only for what they want. Taking a closer look, about 24 percent of the commercial producers *agreed* with the idea of menu pricing, but *disagreed* with the statement about charging separately for products and information. A total of 13 percent of the commercial producers *agreed* with the idea of menu pricing, but *disagreed* with the question on charging separately for products and services. While producers in both cases are providing responses that are in complete conflict, this does suggests that separate charges for information may be the bigger issue in the mind of the producer.

<u>Implications:</u> Producer responses to these questions dramatize the challenges suppliers face in the pricing of products, services, and information. Perception is a huge issue – if the producer perceives the supplier is charging for something they believe they should get for free, they don't like it. If producers perceive that they are only paying for what they want and need, they like it. Clearly, any communication about bundled/unbundled pricing programs must address these subtleties.

The reality for most input suppliers is that there is a set of service and information products that lend themselves to menu pricing, and there are other types of services and information that don't. In general, producers like the idea of choice and paying for what they get. However, attempting to unbundle and charge separately for some services and information may lead to substantial resistance if producers feel that the specific service or information in question should be free and included with the price of the product. The biggest problems likely lie in the transitions, moving from bundled pricing to unbundled pricing or vice versa. Pricing strategies can have dramatic impacts on patterns of behavior, so any move needs to be very carefully planned, with special attention given to how it will be positioned with/communicated to producers.

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IX: Producer Use of the Internet

Topic/Issue: Information technology and in particular the development of the Internet has altered not just the way that suppliers can communicate with their prospective customers, but also the customer's ability to shop for more information from a broader set of suppliers -- and even to transact business. What agricultural producers are using the Internet and how are they using it?

Results: The Internet is currently being used by a large majority of agricultural producers with most of them using it primarily to obtain product information, locate dealers or products and check prices and make price comparisons (Figure 48). At the same time, almost 20 percent of the respondents are ordering agricultural inputs over the Internet, and even larger proportions are ordering non-agricultural inputs via Internet technology. For commercial crop producers, use of the Internet has increased dramatically since 1998; 60 percent used it in 2003 to obtain product information compared to 36 percent in 1998, and a surprising 33 percent ordered online in 2003 compared to six percent in 1998 (Figure 49). Almost 10 percent of commercial crop producers marketed products via the Internet in 2003 compared to two percent in 1998.

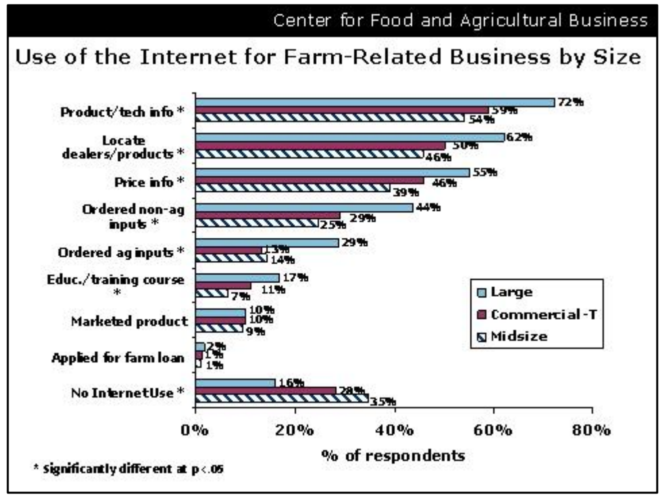

Figure 48: Use of the Internet for farm-related business by size

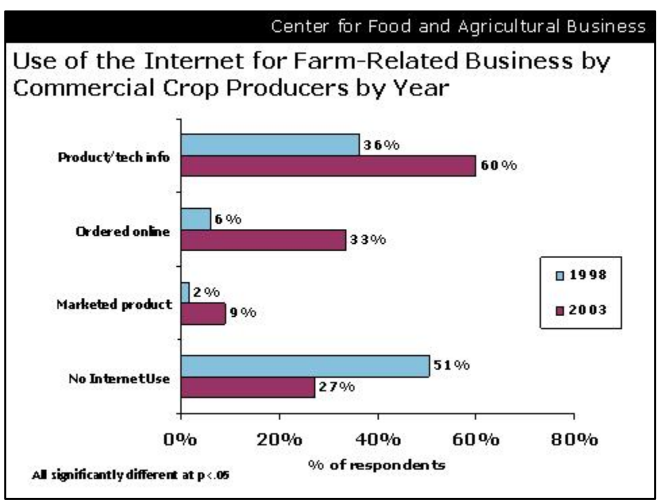

Figure 49: Commercial crop producer's use of the Internet by year

Not surprisingly, larger producers utilized the Internet more frequently for almost all potential uses compared to commercial and midsize producers, and Internet utilization was much more frequent for younger producers compared to older producers (Figure 50). High-growth producers were also more intensive users of the Internet. As to type of farming operation, cotton producers

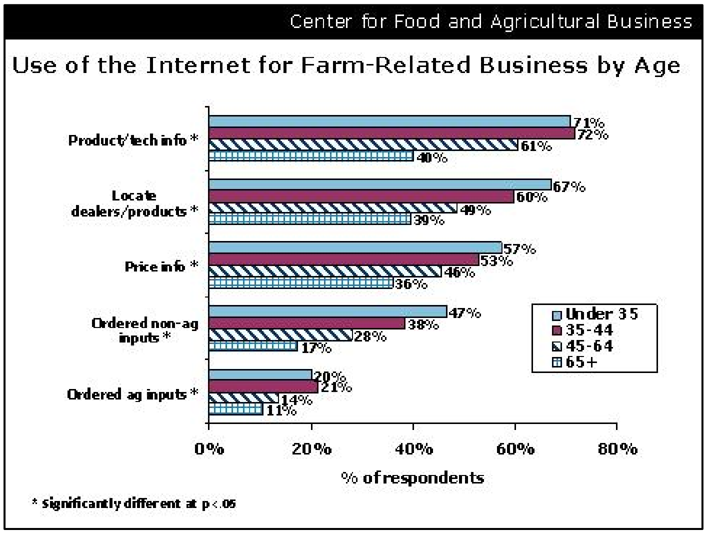

Figure 50: Use of the Internet by age

exhibited the least use of the Internet, and corn/soybean producers exhibited the highest intensity of use -- particularly to obtain product information, to locate dealers or products, and to market their products. A higher proportion of fruit, nut, vine, and vegetable producers use the Internet to order non-agricultural products (40 percent) compared to other commercial crop producers (30 percent). A higher proportion of producers who used paid consultants also used the Internet compared to those who did not use paid consultants. Finally, those producers who expressed higher levels of brand loyalty exhibited less use of the Internet to locate dealers and source product, obtain prices and make price comparisons, or place orders for inputs.

Implications: Agricultural producers use of the Internet for business purposes has expanded dramatically in the past five years, not just as a means of obtaining information, but even as a mechanism to transact business in the form of buying inputs and selling products. Use of the Internet by producers is becoming commonplace in today’s agriculture. As one would expect, younger producers are more comfortable with this information/communication technology and consequently are more intense users compared to older producers. The absence of a website and an Internet marketing strategy for an input supplier likely translates into missing real opportunities in communicating and even transacting business with many of their customers, particularly the younger producers. At the same time, there are segments of the market (older producers and some smaller producers) that have not yet adopted this technology, and consequently more traditional forms of communication and contact remain the core of the marketing and information dissemination strategy for these segments of the market.

X: Producer Preferences for Information Sources

Topic/Issue: Agricultural producers gather information in many ways and from many different sources. The focus of this discussion is on two fundamental issues: 1) how do producers assess the usefulness of the information they obtain from individuals and other personal/people sources in making management and purchasing decisions for their farming operation; and 2) how do they assess the usefulness of alternative communications media in providing information that can be used in the decision making process?

Results: Producers ranked local dealers, other producers, and manufacturer's sales representatives as the most useful personal sources of information compared to manufacturer's technical representatives, Extension, lenders, and even hired consultants (Figure 51). There is little practical difference in their assessment of information from local dealers or other producers by size of farm, but larger farms assess manufacturer's sales and technical representatives as being more useful than commercial-T or midsize producers. The assessment of usefulness of information sources is also quite consistent for different types of crop producers with the exception of cotton producers who evaluate consultants significantly higher as sources of useful information compared to corn/soybean and wheat/barley/canola producers. Assessment of the usefulness of information does not appear to vary by age of producer with the exception of information from Extension sources which is ranked much more highly by older producers compared to younger producers. Since 1993, the assessment of the usefulness of information from local dealers has changed little and remained high; in contrast, the usefulness of information from other producers has declined modestly while the rating of information from Extension has declined dramatically (Figure 52). The usefulness of information from manufacturing sales representatives has increased to a modest degree since 1998. Fruit, nut, vegetable, and vine producers assess Extension sources of information to be more useful than other crop producers. High growth producers assess manufacturer's sales representatives, consultants, local dealers, and lenders as more useful sources of information than those producers who are less growth oriented. In general, since 1993, information has become

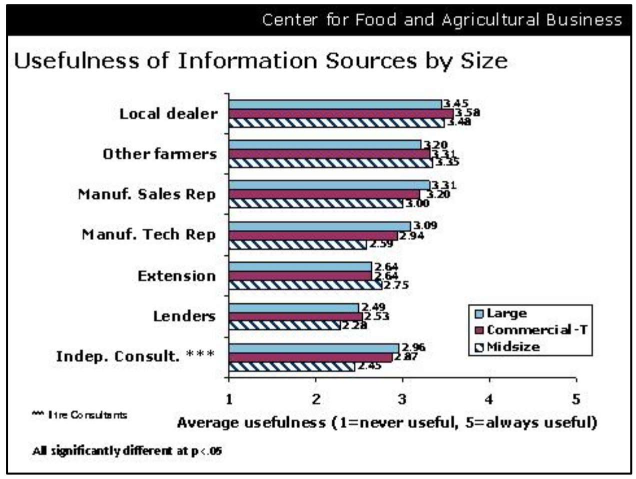

Figure 51: Usefulness of information sources by size

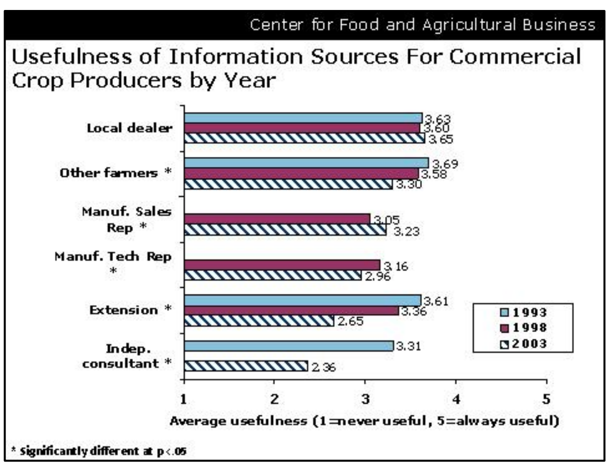

Figure 52: Usefulness of information sources for commercial crop producers by year

less important compared to other components of the value bundle in choosing a particular supplier.

As to the usefulness of different communications media or non-personal sources of information, producers rank general farm publications, crop/livestock publications, and agricultural newspapers and newsletters more highly than more direct contact through field days, supplier meetings, and direct mail (Figure 53).

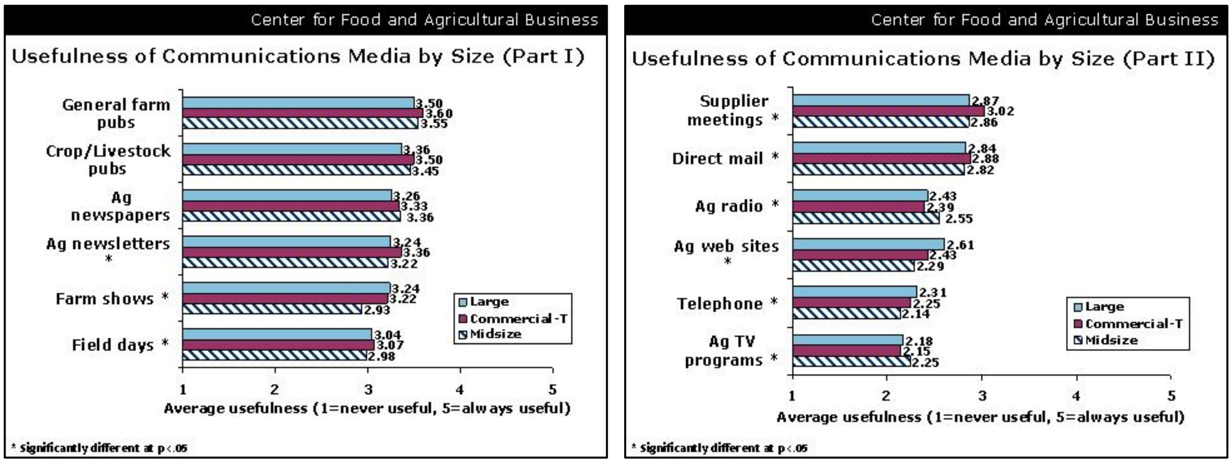

Figure 53: Usefulness of communications media by size (2 charts)

In general, producers do not rate telephone contacts or agricultural television programs as particularly useful sources of information relative to other sources. There are no major differences by age in their assessment of usefulness of traditional communication media such as print media as well as farm shows, field days, and supplier meetings; but older producers assess the usefulness of direct mail and telephone more highly than younger producers, and websites are judged to be significantly less useful to older producers compared to younger producers. Larger producers assess supplier meetings as less useful and websites as more useful compared to smaller size producers. Crop producers rank supplier meetings, television and radio and field day communication media higher than livestock producers.

Not surprisingly, high-growth producers rank websites more useful as a communication media than other producers. Brand loyal producers evaluated supplier meetings, newspapers, newsletters, direct mail, agricultural radio, farm publications, and farm shows more useful sources of information compared to those who were not as brand loyal. Brand loyal producers are also more likely to agree that suppliers are a useful source of information compared to those that are less brand loyal. Those who are more frequent users of consultants evaluated most media as more useful than those who did not use consultants. In general, there has been a slight drop in the assessment of the usefulness of crop/livestock publications, field days, and telephone contacts as an effective communications media since 1998 (Figure 54).

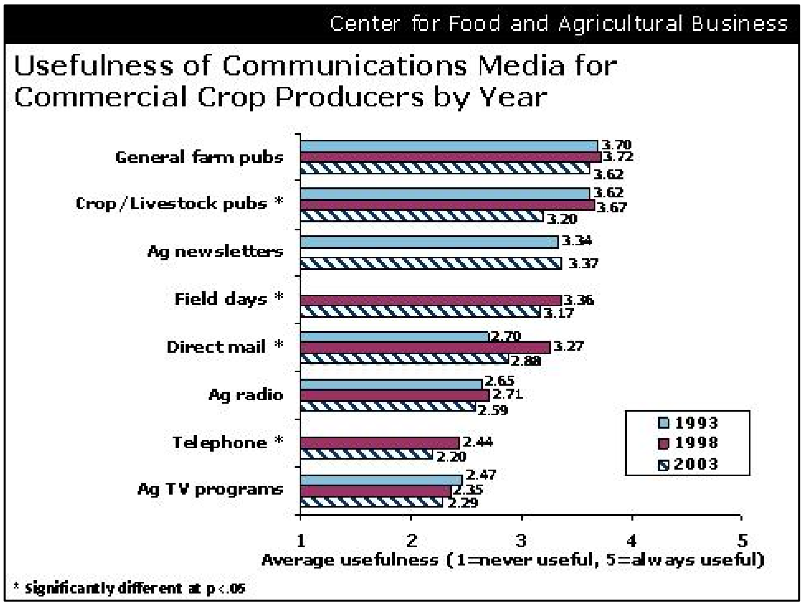

Figure 54: Usefulness of communications media for commercial crop producers by year

<u>Implications:</u> In general, producers assess local dealers, other producers, and manufacturer's sales representatives as the most useful personal sources of information. All three of these information sources can be directly influenced by the local dealer supplier through an effective marketing strategy. Although information has become less important in choosing a supplier compared to 10 years ago, the local supplier who can bring respected other producers and manufacturer's sales representatives to the prospective customer as an integral part of their marketing strategy can still have a significant impact on building their business. This approach appears to be a more effective marketing strategy than focusing on lenders, Extension, or even to a lesser degree independent consultants as sources of information or influencers of producer's buying behavior.

As to communications media, traditional farm publications and agricultural newspapers are still rated more highly by producers than other media, and thus are a critical part of the promotion component of the marketing mix. Farm shows, field days, and supplier meetings are not ranked as highly in terms of usefulness compared to print media; telephone and agricultural television programs, and agricultural websites are ranked relatively low as a communications media. Of course, each of these media may find a role depending on the specific objectives of any individual marketing plan.

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XI: Decision Makers and Their Influencers

Topic/Issue: The purchasing decisions of agricultural producers are often complex and involve several people. Multiple decision makers and influencers within the operation play different and often confusing roles in choosing what and how to buy. Outside influencers often have a large amount of influence on the decision. How much influence do different parties have on purchasing decisions? What about independent paid consultants; who uses them and how important are they?

Results: Expendable supply decisions are complex. Nearly two-thirds of the commercial segment indicated these decisions were made after extensive discussions with others on the farm or by someone other than themselves, or at least with input from them (Figure 55). Only about 39 percent of the commercial-T producers indicated they were the sole decision maker for expendables. However nearly half of the midsize producers indicated they made the expendable supply decisions with little input from others on the farm. There was a tendency for corn/soybean producers to involve more people in expendable purchase decisions while cotton producers tended to rely less on input from others within their farm operation. Hog producers are the most independent in their decision making on the livestock side while dairies are the most complex with the most delegation of decision authority of any farm type.

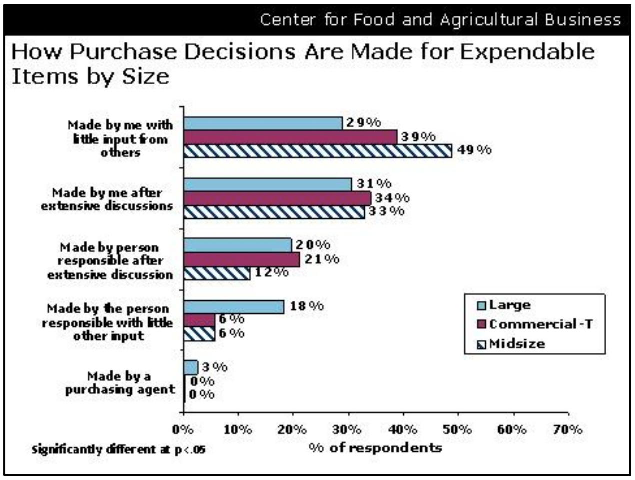


Figure 55: How purchase decisions are made for expendable items by size

Capital purchases have an even stronger tendency to include input from others on the farm, especially for larger commercial producers (Figure 56). The tendency for corn/soybean producers to involve more people in the purchase decision for capital items held as it did for expendables. Cotton producers also tended to less often involve others in the purchase of capital items. On the livestock side all farm types had substantially more involvement of others in the decision process.

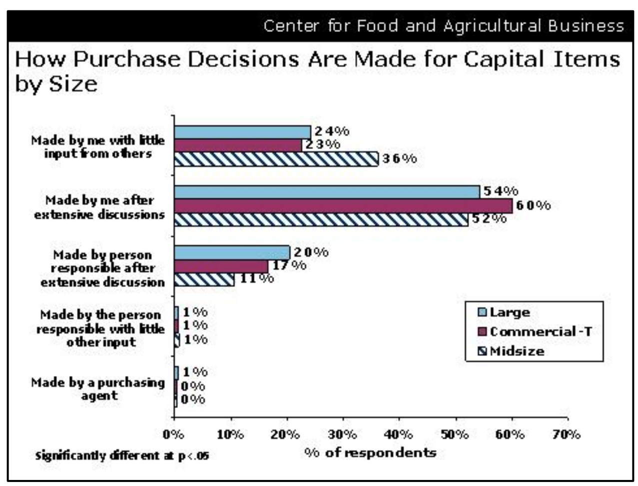


Figure 56: How purchase decisions are made for capital items by size

Among the outside influencers, the local dealer (likely the salesperson) is significantly more important for all producers, and has about double the impact of manufacturer reps or other producers. However, large producers tend to rely more on the manufacturer rep, and less on the dealer or other farmers in comparison to smaller producers for expendable purchase decisions (Figure 57).

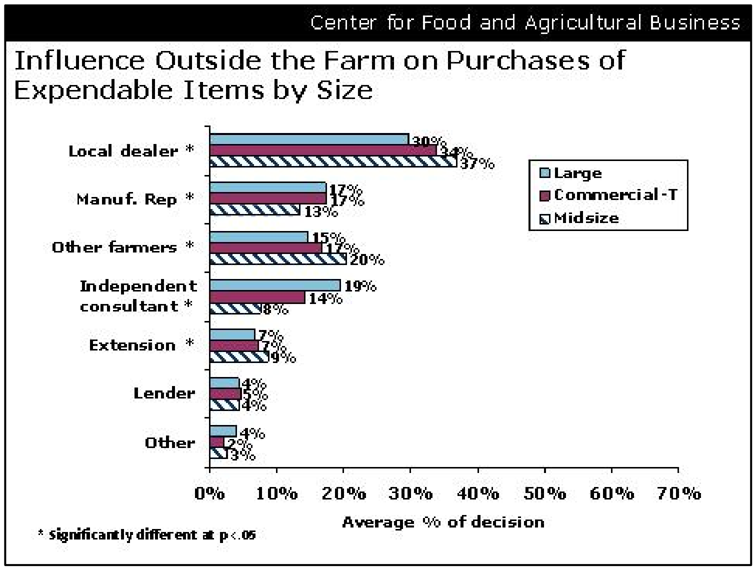


Figure 57: Outside influence on purchases of expendable items by size

Even among those who hire independent consultants, the local dealer (and their salesperson) is predominately the outside influencer for expendables, ranking even higher than the consultant (Figure 58). The Extension service and lenders scored low as influencers on expendable purchases among all producers. The influence of other producers and of the Extension service on the purchase of expendables has dropped significantly since 1998 while the independent consultants and manufacturer reps have increased slightly.

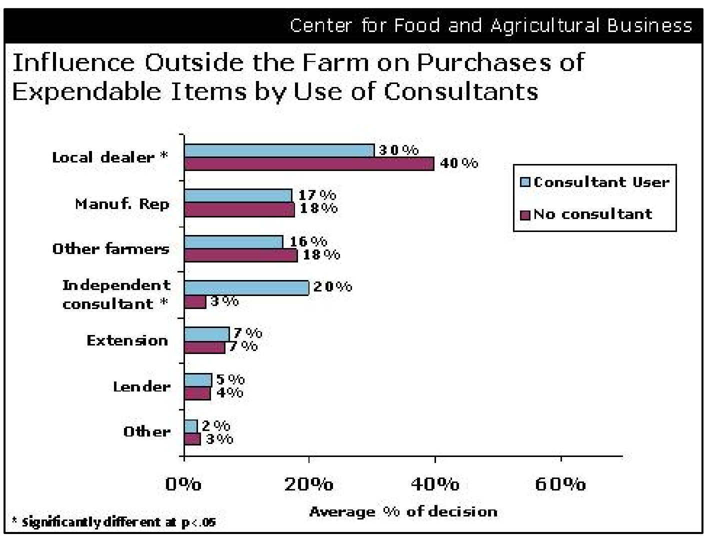


Figure 58: Outside influence on purchases of expendable items by use of consultants

For capital purchases, local dealers are the biggest outside influence, by a large margin. Other producers are in second place, dropping significantly since 1998, and manufacturer reps rated third. Still, the manufacturer rep is relatively more important for the larger producer than for the more traditional producers (Figure 59).

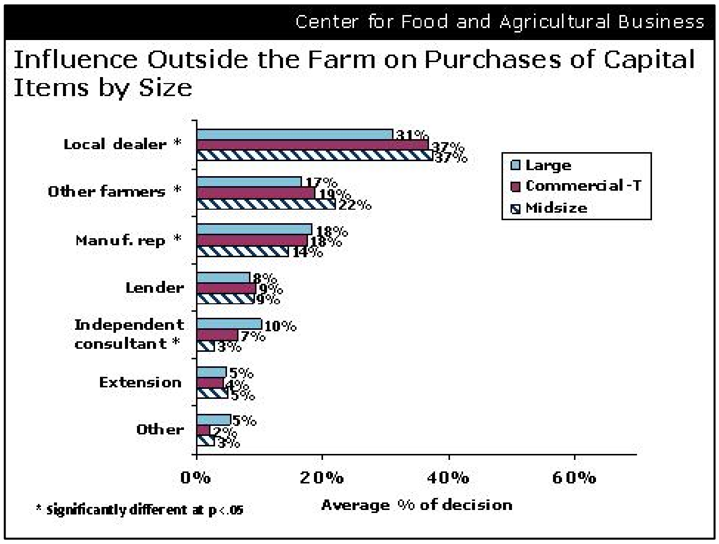


Figure 59: Outside influence on purchases of capital items by size

Independent paid consultants are often used by producers and may influence the purchase decision. Currently over 40 percent of commercial crop producers use independent paid crop consultants and over half expect to be doing so within five years (Figure 60). Livestock producers use independent paid consultants extensively. Only about one-fourth of all commercial producers (crop and livestock) say they do not employ any independent paid consultants now. They expect to grow their use of independent consultants significantly over the next five years in nearly every category. Over half of the commercial livestock producers report currently utilizing independent paid nutritionists but they don't expect that to grow much in the next five years.

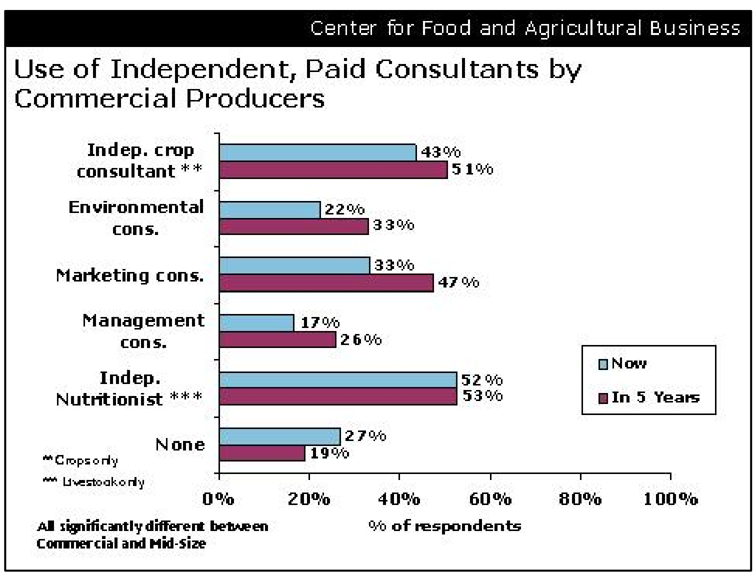


Figure 60: Use of independent, paid consultants by commercial producers

<u>Implications:</u> In the business-to-business farm supply market environment, producer decisions are increasingly complex, demanding a much more sophisticated selling strategy. The majority of commercial producers reported that others were involved in the decision process, and some

said they were not even the primary decision maker for some inputs. This suggests a complex buying situation where the salesperson must establish multiple relationships with the account and understand not only the values and motivations of the key decision maker, but also of each influencer. He/she must also understand the politics and the business needs of the account as well as the personal needs of the ultimate buyer. There are increasingly fewer situations where it is sufficient to have a relationship with a single individual and expect to be successful. Instead, successful relationships demand understanding who and how the purchase decision is made, considering the impact of both internal and external influencers, meeting with multiple decision makers, and relating to the business needs as well as the technical and personal needs of a single person.

The complex purchase decision process is further complicated by a myriad of outside influencers who are in a position to influence a producer's decisions in a variety of ways and to different degrees. The highly successful supplier must understand the dynamics of these relationships and how these outside influences impact the ultimate input purchase decision process – working with an elaborate system of influencers.

Perhaps most interesting is the role of the local supplier, which maintains the strongest impact of all outside influencers studied, and shows no sign of waning. The frequency of contact, understanding of the uniqueness of each producer, and the trust established by the relationship seem to perpetuate the local dealer as the most important single outside influence for producers of all sizes. Local suppliers must work zealously to encourage and grow this relationship because to lose it may well suggest their demise.

One of the most interesting trends revealed in this study is the fact that other producers (friends and neighbors) have dropped in importance as an outside influence since 1998. This suggests an increased competitiveness among local producers and a reduced willingness to share information; long thought to be a hallmark of the value structure of North American producers. This suggests that suppliers will have to be increasingly careful about confidentiality in working with customers in the local marketplace.

It is clear that as agriculture production becomes more complex, independent paid consultants are becoming an increasingly important element in the decision process for both crop and livestock producers. Indeed, over two-thirds of the commercial producers are employing at least one consultant; who often provides services similar to what their input supplier provides for free. The impact of consultants is expected to grow in the next five years, especially for the larger commercial producers.

Producers are highly likely to follow the advice of a paid consultant; otherwise they would not pay them. Why producers hire consultants is up for discussion. However, it is clear that the consultant sometimes plays an important role in influencing the purchase decision and that role may be growing. The upshot of this is that local suppliers must learn to work with or sell against independent consultants. Some suppliers may wish to professionalize their sales and technical staff and position them as their own consultants, keeping their consulting service bundled into their value offer while working to build a perception of objectivity. Others may choose to separate their own consulting activities into a separate business unit to compete directly with the independent consultant.

XII: The Role of the Dealer

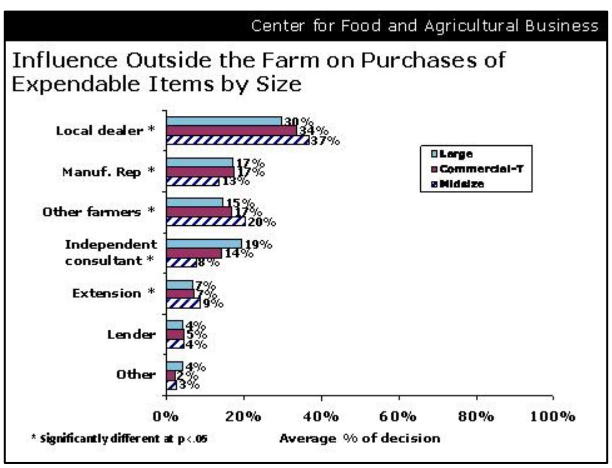
Topic/Issue: For many agricultural inputs, the dealer (retailer, local supplier) represents an important stage of the distribution channel. Dealers may add value to the channel in a variety of ways. For agricultural producers, they may make products available when they are needed, provide localized recommendations on product use, provide after-sales service and support, and convenience credit, among many others. For manufacturers, dealers may provide access to producers, serve as an important part of the marketing/communications strategy, service and support products, and provide an information conduit to the market, among many others.

In a market environment where efficiency and cost management are key to success; as products, agricultural producers, and manufacturers evolve; and as new information technologies are introduced, every stage in the distribution channel comes under intense scrutiny. Dealers are no exception. How important are dealers as sources of information for commercial producers and as influencers of producer input purchase decisions? How have these attitudes translated into loyalty toward dealers and the perceived value of dealers to producers? How much difference do producers see in the quality of services and information provided by dealers? How are producers' demands for the custom services provided by dealers evolving? Looking forward, what are the threats to the role of the dealer in the distribution channel? How do issues such as time invested in purchase decisions, the Internet, and producer interest in going direct to the manufacturer affect the future role of the dealer. All of these questions will be considered in this section.

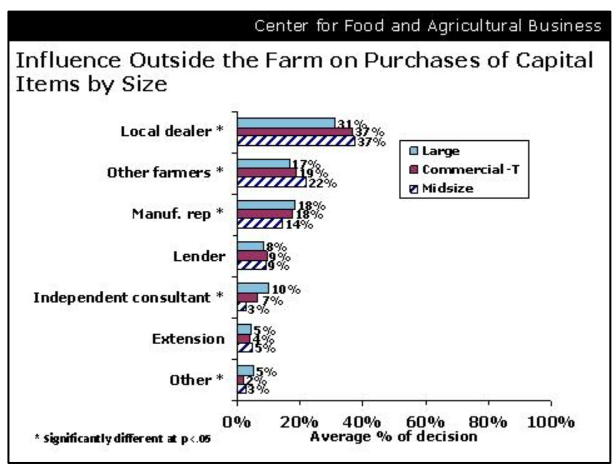
Results

Dealer Role and Value:

For both expendable inputs and capital inputs, local dealers/dealer personnel remain the most important off-farm influencer of the input purchase decision. When given 100 points and asked to allocate these across seven possible off-farm influencers, all classes of commercial producers rated local dealers/dealer personnel their single most important influencer of input purchase decisions (Figures 61 and 62).



Figures 61: Outside influence on purchases of expendable items



Figures 62: Outside influence on purchases of capital items

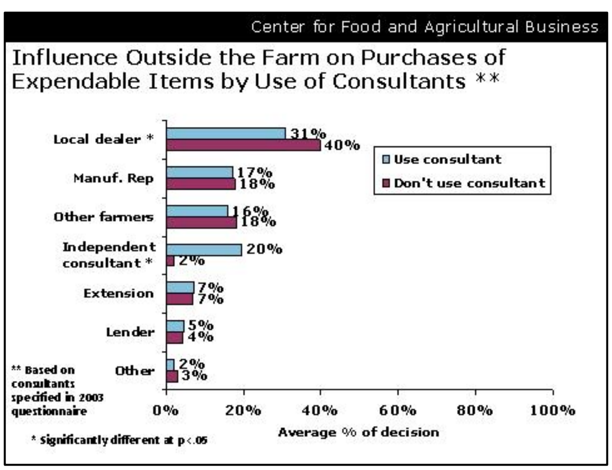
Manufacturer sales/tech representatives and other farmers were numbers two and three depending on the size of the producer and the type of input (capital or expendable). Independent, paid consultants, the Extension Service, and lenders all received lower ratings. The average rating of local dealers is virtually unchanged since 1998, indicating the group has maintained their priority position as an off-farm influencer.

While local dealers were consistently rated the most important off-farm influencer overall, there were some important tendencies among respondents. The larger the farm business, the less important the local dealer was as an off-farm influencer (Figures 61 and 62). Manufacturer representatives and independent paid consultants were relatively more important on larger farm operations – even though the local dealer was still the most important. (Other farmers were less important as influencers to larger farm businesses.) There were no differences in attitudes towards the dealer's role as an influencer by the age of producer.

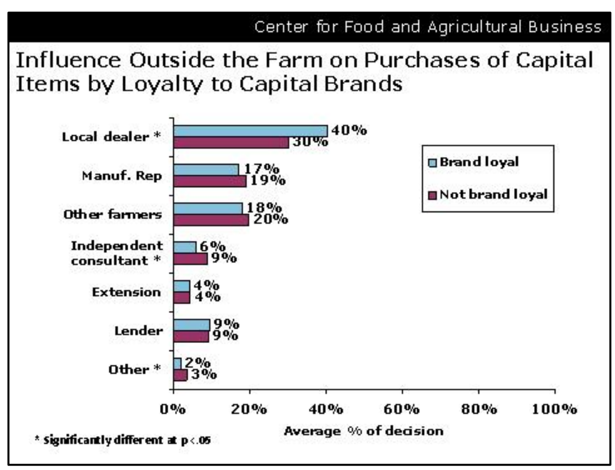
For expendable items, local dealers were most important to corn/soybean producers and least important to wheat/barley/canola and dairy producers (independent consultants were very important to dairy producers, almost as important as the local dealer). For capital items, the local dealer was most important to corn/soybean producers and cotton producers, and least important to dairy and wheat/barley/canola producers.

If producers hired an independent consultant, the role of the dealer for expendable purchases was clearly affected (Figure 63). For those producers hiring an independent consultant, the consultant becomes the number two influencer, and the dealer, while still the most important influencer, and has a less important role (Figure 63). Consultants had little impact on the role of the dealer for capital purchases.

Finally, producers who view themselves as loyal to their local dealer also place more weight on that dealer as an influencer. Likewise, producers who consider themselves loyal to their brands of capital items and expendable items also place more weight on the local dealer (Figure 64). This brand loyalty-dealer role effect is stronger for capital items than expendable items, but it is present for both types of input purchases.



Figures 63: Outside influence on purchases of expendable items by use of consultants



Figures 64: Outside influence on purchases of capital items by loyalty to capital brands

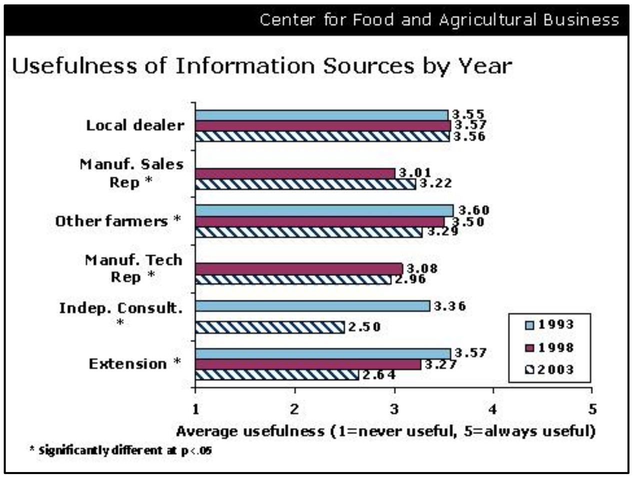


Figure 65: Usefulness of information sources by year

When producers were asked to rate eight different personal sources of information on the frequency the source provided information useful for management/purchase decisions, local dealer sales/technical people again were at or near the top. In some cases, consulting veterinarians were ranked more highly than dealer personnel. Again, the average ratings for dealers have been remarkably stable over time, with the evaluation of manufacturer sales reps increasing, and the evaluation of other farmers declining over the 1993-2003 period (Figure 65).

Producers clearly value the local dealer as an influencer and as a source of information. How do these attitudes translate into loyalty and willingness to pay? In general, the larger the producer, the lower their level of self-reported loyalty to the primary local supplier. Some 64 percent of the midsize producers indicate that they are loyal to their primary local supplier of expendable inputs while 53 percent of these producers say they are loyal to their local capital supplier. For capital items these figures are 53 percent and 46 percent, respectively. If producers were loyal to their primary local expendable supplier, they tended to be loyal to their primary local capital supplier. A total of 40 percent of the producers indicated they were loyal to both local suppliers, while 30 percent indicated they were loyal to neither. The other 30 percent were loyal to one or the other but not both.

There is an important relationship between local dealer loyalty and loyalty to brands. For expendable items, 83 percent of the brand loyal producers also reported they were loyal to their primary local suppliers (Figure 66). For capital items, this figure was 68 percent. This relationship is a very important one to consider as manufacturers develop brand-building marketing strategies.

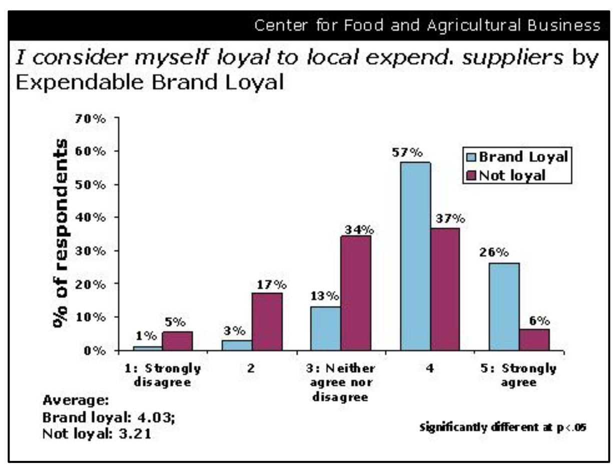


Figure 66: Producer opinion - loyalty to local expendable suppliers by expendable brand loyal

The more loyalty a producer feels to a local source of supply, the more willing they are to pay more to buy locally (Figure 67). A total of 80 percent of the producers who indicated they were loyal to their primary local supplier, also indicated they would pay more to buy locally. Opinions were similar for capital items with 74 percent of the producers who were loyal to their local supplier indicating they would pay more to buy locally. Such attitudes reinforce the importance to dealers of delivering loyalty-building value to their commercial producer customers.

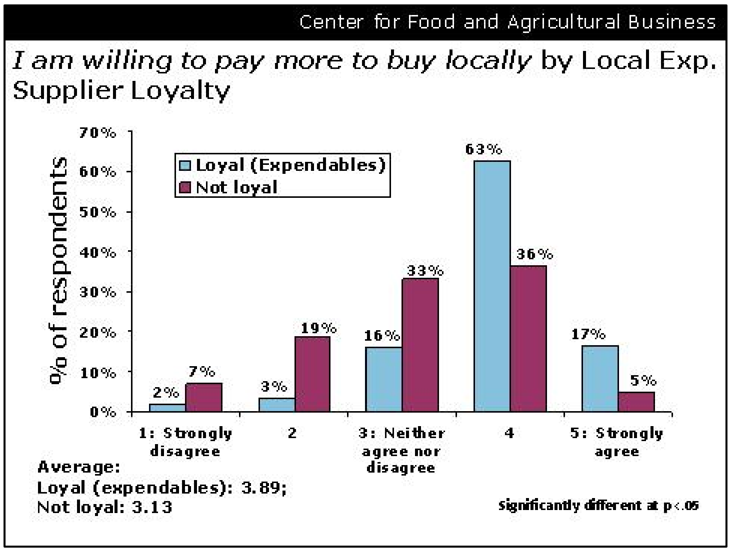


Figure 67: Willingness to pay more to local suppliers by local expendable supplier loyalty

Services and Information:
Providing services and information has traditionally been an important part of the dealer's role. And, services and information are important in the purchase decision: 80 percent of the commercial producers indicated that the ability of a supplier to provide information is important when selecting a supplier. In general, producers observe significant differences across dealers with respect to the services and information they provide. And, the larger the farm business, the greater the level of discrimination. While some 81 percent of the midsize producers indicated they observed significant differences in the quality of services provided by local suppliers, the figure was 89 percent for large producers.

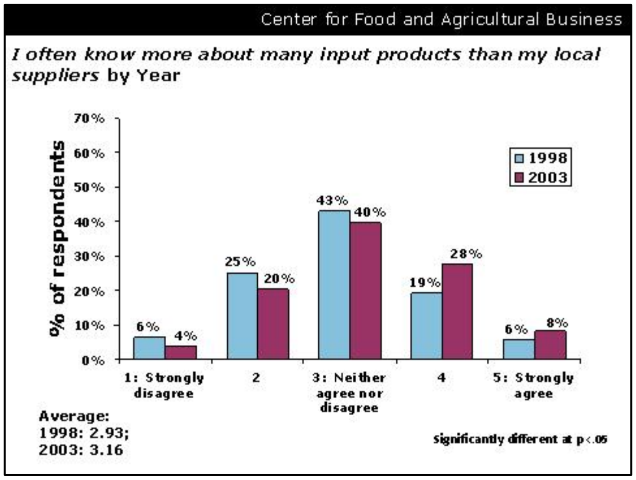


Figure 68: Producer opinion – more knowledgeable than local suppliers by year

For differences in the quality of information provided, the results were similar. A total of 55 percent of the midsize producers observed significant differences in information quality across local suppliers, while 65 percent of the large producers see significant differences. Reflecting perhaps higher standards or more available sources of information, larger producers were much more likely to believe that they know more about input products than local suppliers. A total of 40 percent of the large producers agreed with this statement, while only 29 percent of the midsize producers believe that they often know more about inputs than local suppliers. In addition, this feeling of knowing more than local suppliers has increased over time, with 25 percent of the commercial producers agreeing with this statement in 1998, and 36 percent believing they often know more about inputs than local suppliers in 2003 (Figure 68).

In crop agriculture, dealers have traditionally offered custom application of fertilizer and crop protection chemicals. More recently, some dealers have begun to offer custom application of manure or waste management solutions for livestock producers. About 65 percent of the crop producers responding to the survey indicated that they hire custom application of fertilizer and 52 percent indicated they hired crop protection chemicals custom applied (Figure 69). In terms of intensity, the proportion of total purchases custom applied tended to be concentrated at the extremes – either producers used custom application as a fill-in, or they had most or all of their fertilizer and chemicals custom applied (Figure 69). The figures for fertilizer have changed little since 1998. However, the use of custom application for chemicals has declined, perhaps as seeds with input-traits, the use of glyphosate herbicide, and farmer purchase of high clearance spray equipment has undermined this traditional role of the dealer (Figure 70).

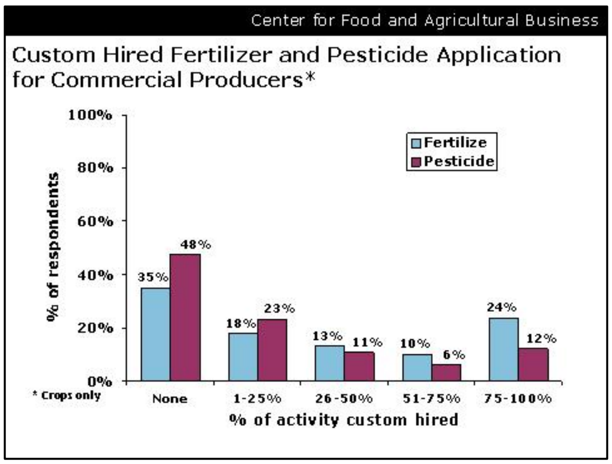


Figure 69: Custom hired fertilizer and pesticide application for commercial producers

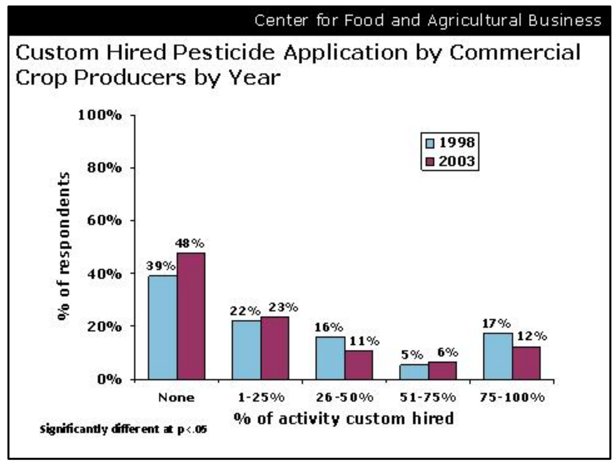


Figure 70: Custom hired pesticide application for commercial crop producers by year

About 50 percent of the livestock operations reported hiring custom livestock waste handling. And, the intensity of use of this service was diverse with producers evenly scattered from one to 100 percent of this activity custom hired. Commercial producers were far more likely to hire custom waste handling with 54 percent of the commercial producers using this service compared to only 14 percent of the midsize producers.

Future Opportunities and Challenges:

Respondents were asked a variety of questions on issues that could impact the future role of the dealer: how much time do you spend purchasing inputs, how do you view single source supply arrangements, how does the Internet affect the role of the dealer, and do you want a more direct relationship with the manufacturer?

In general, commercial producers believe they are spending more time evaluating new technologies and purchasing inputs now than they did five years ago. The larger the producer, the more they agree with these statements. A total of 64 percent of the midsize producers believe they are spending more time evaluating new technologies now, while 81 percent of the large producers feel evaluating technology takes more time than it did 5 years ago. While 62 percent of the commercial producers feel they are spending more time purchasing inputs today than they did five years ago, this attitude is not as strong as it was in 1998.

Preferences about buying from one supplier were highly mixed for both capital and expendable items. About 35 percent of the commercial producers indicated a preference for a single source of supply for expendable items, with 31 percent disagreeing with the notion of a single source of supply for expendables. Similar figures for capital items were 33 percent and 34 percent, respectively. There was some tendency toward preferring a single source of supply by those who were loyal to their primary local supplier.

The commercial producer group was classified by intensity of Internet use to assess how the Internet was impacting the role of the local dealer. All respondents were assigned to one of three classes: non-Internet users (26 percent); moderate Internet users (34 percent - used the Internet, but did not make purchases online); and heavy Internet users (40 percent - had purchased something online for the farm business). Heavy internet users rated all sources of personal information, including dealers, as more useful relative to the other two groups. Clearly, heavy Internet users are information hungry producers. The dealer remained the most useful source of off-farm personal information for all three groups. However, heavy Internet users were less likely to be willing to pay more to buy locally compared to moderate and non-Internet users (Figure 71). They also tended to be more discriminating with respect to differences in the quality of services across local suppliers. While a relatively small proportion of inputs are currently sold on-line, there is some evidence that increased use of the Internet will be another source of pressure on the traditional role of the local dealer.

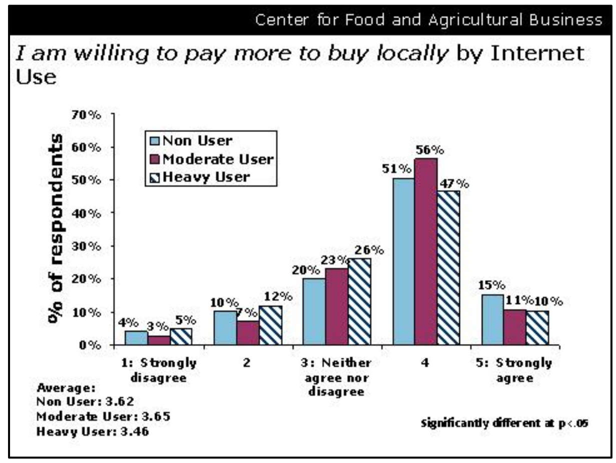


Figure 71: Producer opinion – willingness to pay more to local supplier by Internet use

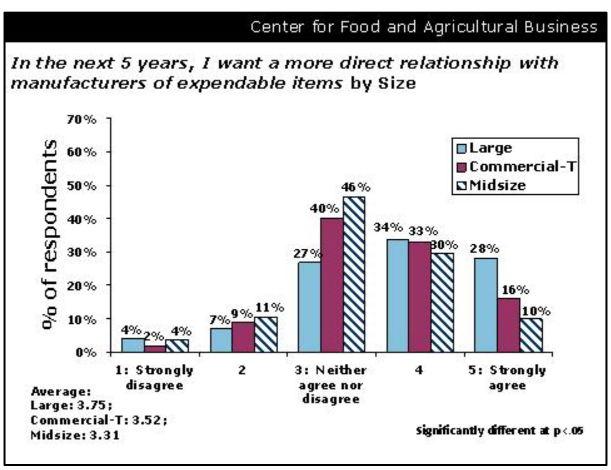


Figure 72: Producer opinion - more direct relationship with expendable manufacturers by size

Finally, the larger the producer the more likely they are to desire a more direct relationship with manufacturers over the next five years. About 40 percent of the midsize producers expressed a desire for a more direct relationship with manufacturers while 62 percent of the large producers want a more direct relationship (Figure 72). The pattern was the same for those desiring a direct relationship with manufacturers of capital products, but the interest was not as strong: 25 percent of the midsize producers and 51 percent of the large producers were interested in a more direct relationship with manufacturers of capital inputs over the next five years. High-growth producers and younger producers tended to want a more direct relationship with manufacturers. Producers interested in a direct relationship may believe that their input costs would be lower with a more direct link to manufacturers. They may feel that local dealers are not meeting all of their needs, and that a manufacturer could. There could of course be some element of ego involved: a significant producer may want more attention from the manufacturer simply because they are a significant producer.

Implications: Local dealers remain an important and highly regarded stage in the distribution channel for agricultural inputs. And, regard for dealers by producers is little changed over the past five years. They are the most important off-farm influencer of input purchase decisions, and they are the most highly rated source of personal information for making management/purchasing decisions. At the same time, every stage in the distribution channel is under intense scrutiny in the current market environment. And, just because dealers continue to enjoy a key role is no guarantee they will do so in the future.

Clearly, producers see important differences across dealers with regard to provision of services and information. If services and information are an important part of the value added by a particular dealer or dealer organization, this discriminating attitude is important. For those delivering excellence in the services and information area, such producer attitudes represent important opportunities for differentiation. For those who deliver at a more modest level, serving larger operations will remain a challenge as these producers seek out suppliers who can deliver at the level of quality they demand.

Dealer loyalty is related to producer willingness to pay more to buy locally. Dealers who are doing an exceptional job of delivering the bundles of products, services, and information demanded by their local producers have an opportunity to create loyal buyers and relationships that will be hard to unwind by competitors. Given the wide range of buying segments which exist in the market (price buyers, value buyers, performance buyers, etc.), this finding likely has a number of implications. First, segmentation will be key as will the ability to tailor value bundles to fit the needs of different segments. Satisfaction and loyalty emerge from meeting producer needs, and the flexibility to tailor value bundles will be key. Second, success here will likely mean excellence in delivering services and providing information, with precisely what services and which information dependent on the local market conditions, and unique buyer needs. Larger farmers spend a lot of time evaluating technologies and making input purchases. How can the dealer make this process more seamless, more streamlined, saving the producer time and adding value to the relationship in the process? Finally, cost management will be paramount as producers continue to demand efficiency from every stage in the channel.

For manufacturers, the link between brand loyalty and local dealer loyalty is important. Loyal buyers in some sense are loyal buyers. While this might be expected in capital equipment where franchise relationships between manufacturers and dealers are common, strong support for this finding was also apparent for expendable suppliers. And, any strategy that is directly aimed at the producer should consider this finding. It is easy to imagine a brand-building marketing campaign which targeted the producer directly being ineffective because it in some way undermined the position of the dealer in the process.

While dealers have enjoyed a strong role in the purchase decision process over time, there are clearly some important signals which suggest dealers must stay at the top of their game. First, there is an increasing tendency for commercial producers to feel they know more than their local dealers about inputs. Information is available from an increasingly broad range of sources. Information flows to and between producers at an ever increasing velocity. Product introductions seem to occur faster and faster, putting pressure on dealers to stay current. This perception of knowing more on the part of the producer presents a huge problem for any dealer who adds value by providing information.

The Internet is beginning to find some traction in the distribution channel. Internet purchases still represent a relatively small proportion of the total input market. Current heavy Internet users tend to be information-hungry. Dealers remain important to this group. However, looking longer term, heavy Internet users are a bit less inclined to be willing to pay more for local suppliers. It is easy to see this tendency expanding as more producers use the Internet in more intense ways.

Finally, there is a clear interest in a more direct relationship between producers and manufacturers. As mentioned earlier, this could reflect a variety of motives: looking for lower cost, looking for more information, ego, etc. Whether or not this more direct relationship emerges is not simply driven by producer interests – in many markets, manufacturers would need to make substantial commitments in people and information technology to make this happen. But, it does serve as a reminder to dealers that while their current position is strong, most producers do remain open to something they consider a better deal.

Local dealers clearly have a strong position from which to build their future. Those who survive and thrive won’t take this position for granted, but will use it to continue to evolve with the changing needs of their local producers and their manufacturer partners.

XIII: Importance of the Sales Person to Producers

Topic/Issue: Agricultural salespeople are very important to the dissemination of information and services to producers. These salespeople and direct suppliers play a major role in the decision making process of the producer as well as provide much needed information and services. The questions remain of how important are suppliers and salespeople and what influence do they have with producers? Also what are some desirable characteristics of a good salesperson and what quality of information and services do suppliers provide?

Results: The four most important characteristics of salespeople were: honesty, technical competency and follow-up service. Although for large producers, a good price creeps into a tie with follow-up service for third spot. Other issues related to a preferred salesperson's characteristics were relatively less significant (Figure 73).

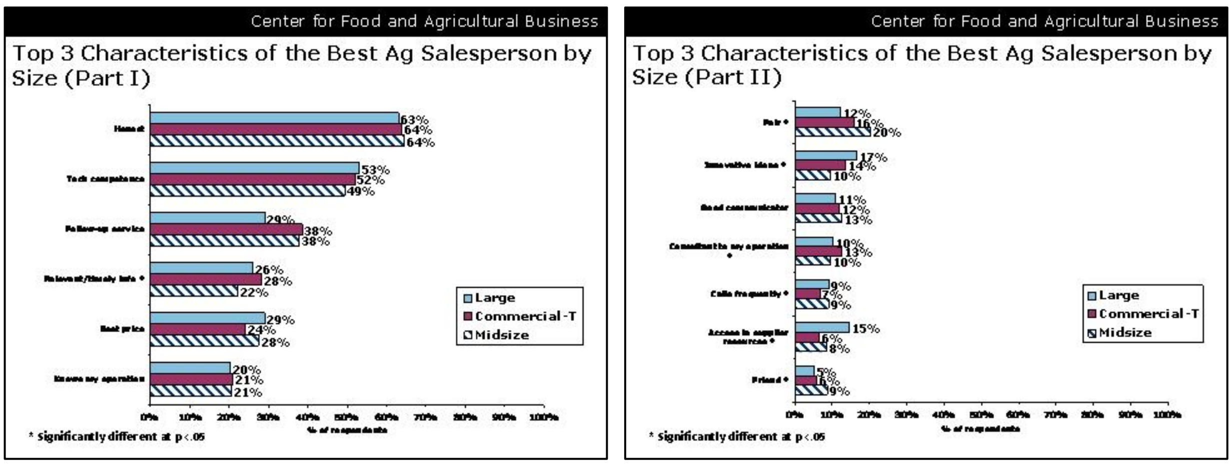
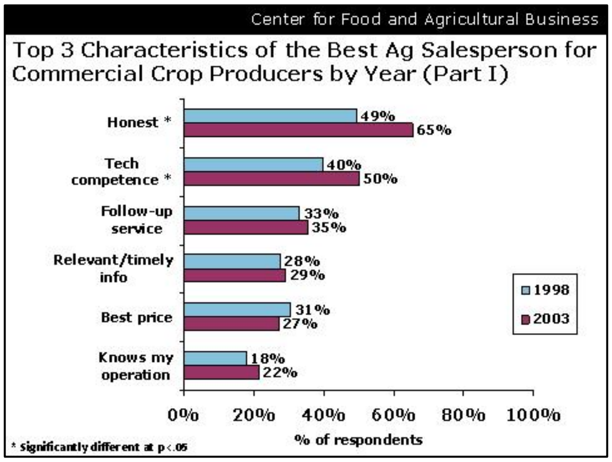


Figure 73: Top 3 characteristics of the best ag salesperson by size (2 charts)

In the 1998 study, honesty was the top factor, but honesty leaped out as the most important factor in 2003. Technical competency has also increased in importance since 1998, while all other characteristics remained about the same in their rankings – except access to supplier resources which was a much bigger factor in 1998 (Figures 74). Smaller producers were significantly more concerned about fairness from their salespeople. Large producers on the other hand were significantly more concerned about innovative ideas (Figure 73). Finally, younger producers (under 35) reported being significantly more interested in innovative ideas than older producers.



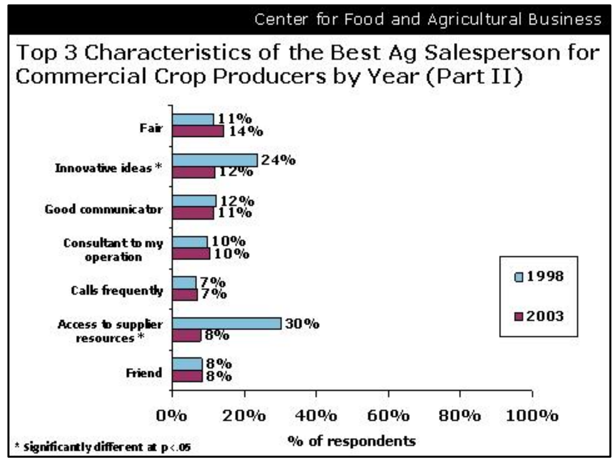
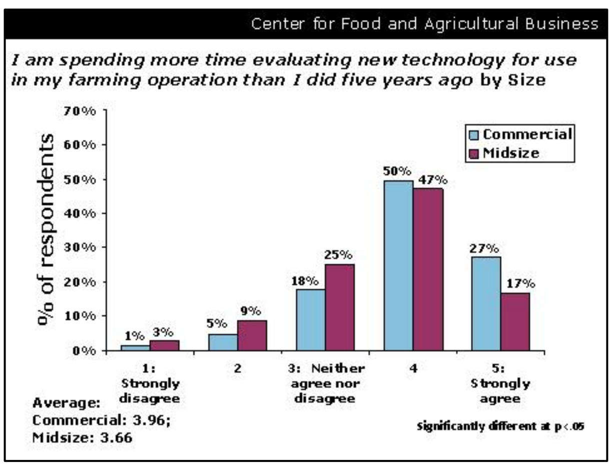


Figure 74: Top 3 characteristics of the best ag salesperson for commercial crop producers by year (2 charts)

Overwhelmingly all producers say they are spending more time evaluating technologies and that purchasing takes more time than it used to, but this tendency is considerably stronger among commercial producers. This trend toward spending more time evaluating technology and making the purchase decision has increased significantly since 1998 (Figure 75). Some forty-three percent of commercial producers indicate they are relying more on salespeople than they did five years ago (Figure 76).



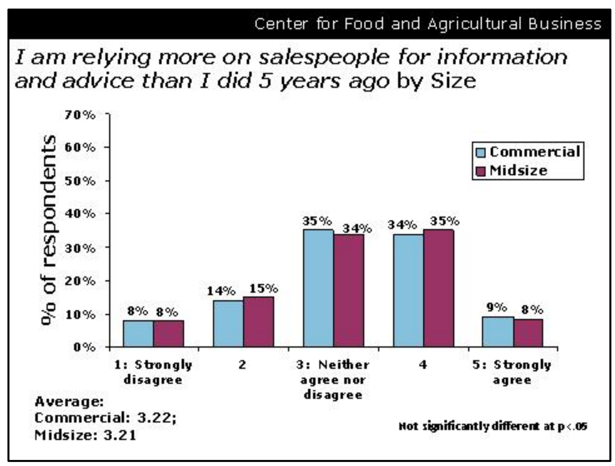


Figure 75: Producer opinion – more reliance on salespeople for information and advice

Figure 76: Producer opinion – more time evaluating technology for use in farming operation

Commercial producers tend to rely more on manufacturer reps than local sales reps for information concerning both expendable and capital purchases, although this is a relatively small difference (Figures 77 and 78**).**

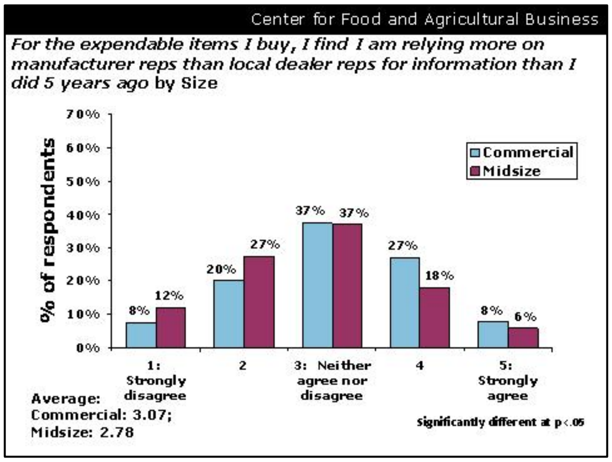


Figure 77: Producer opinion – more reliance on manufacturer reps than local dealer reps for expendable item information

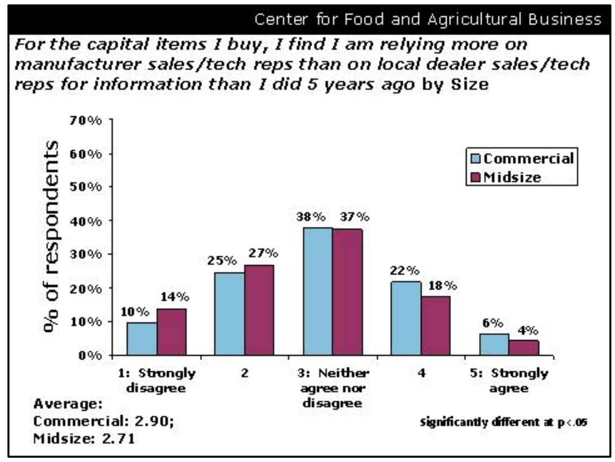


Figure 78: Producer opinion – more reliance on manufacturer reps than local dealer reps for capital item information

Implications: Honesty and integrity continue to be raised as critical issues by producers in all segments across the country – and the concern about honesty is even more prominent now than five years ago. While few salespeople would perceive themselves to be less than honest or without integrity, clearly much of the marketplace sees this as an important issue. It is highly doubtful that there is widespread dishonesty in the agricultural marketplace. But the frequency with which honesty and integrity surfaces among producers suggests that this is an area of strong sensitivity among producers and offers opportunity for differentiation among agribusinesses. Savvy suppliers will recognize these concerns and focus on practices that will proactively and visibly demonstrate high levels of honesty and ethical sales practices in every customer interaction. This opinion also reflects the value of a trusting relationship. In an era of change, even well-intended suppliers make promises which get changed with the next merger or reorganization. Producers look to be rewarding those suppliers who can keep promises.

Technical competency increased in importance slightly since 1998. The increased importance of technical competency most likely reflects the continuing rapid introduction of new technologies into production agriculture and the felt need of producers to understand and evaluate their alternatives. The most successful suppliers will focus resources on enhancing the technical ability of their sales force to give their salespeople a competitive edge.

Midsize producers were significantly more concerned about fairness than larger producers, suggesting concerns that the "big guys get better deals" and "that's not fair." Differential pricing and service levels are a complicated strategy and not without potential backlash that can come from a lack of understanding. Good marketing encourages tailoring the value bundle to the unique needs of each segment. But along with that comes the strong need to create programs that are logical, based on cost-to-serve differences, clearly communicated, and transparent (as opposed to secret deals). These are elements in creating the perception of fairness. The ability of the salesperson to communicate the equity of various programs is critical to their success.

It is important to recognize that as production agriculture becomes more and more technical, the complexity of making good decisions increases dramatically. Producers report they are spending more time than ever evaluating technology. Producers continue to rate their local dealers as a very important source of information in making those decisions.

Most often the salesperson is the key delivery vehicle for this information. It is highly likely that most producers view the dealer and the salesperson as inseparable. Indeed, producers say they are depending more heavily on their salesperson today than they did five years ago. There is every opportunity for the highly competent and trusted professional salesperson to develop and maintain a strong bond with producers in all segments, and salespeople seem to be rising to this challenge. When working effectively as a field marketer, their role as a problem solver rather than a salesperson is increasingly important to the overall marketing strategy of the supplier.

Commercial producers seem to be more sophisticated and demanding than midsize traditional producers. The local dealer (via the salesperson) continues to be very important but larger producers seem to rely more on manufacturer reps than local reps for information. It is likely that there is a perception that basic supplier reps are more technically competent and professional, thus a preferred source of information.

It is clear that access to current and reliable information is important to most producers, especially larger commercial producers. But producers believe strongly that the ability to provide this information varies dramatically among suppliers. Indeed, many commercial producers believe they know more about the supplies they are buying than some of the suppliers who sell them. Whether this is actually true or not, their perception suggests a powerful opportunity for differentiation by aggressive suppliers.

This research seems to further document that the most critical dimensions of highly effective salespeople (sometimes referred to as field marketers) are honesty, technical competency, and service -- like three legs of a stool. Each is critical to developing successful long term relationships with customers and creating a stable relationship. And each must be given constant attention by both management and salespeople.

XIV: Segmenting Producers According to the Value Bundle

Topic/Issue: In designing effective marketing strategies, it is important for agricultural input suppliers to understand their customer's buying behavior. Segmenting customers into groups who have similar purchasing criteria allows suppliers to target the customers with whom their time and resources will most profitably be invested. Identifying the motivations for purchasing of targeted groups of customers allows input suppliers to efficiently create a bundle of value that best serves them. What can be said about producer segments as they relate to the value bundle?

Results: The survey question used to identify producer preferences asked respondents how their input supply purchases were influenced by: a) convenience/location, b) service/information, c) personal factors, d) price, e) product performance, and f) support services. Based on their responses, buyers can be segmented into five distinct market segments based on buying behaviors or purchase motivations. Producers seem to be motivated by business issues, like Balance or Performance; relationship issues, like Convenience or Service; or Price.

Producers in the Balance segment consider all of the input supplier criteria to be equally important. The Balance segment was the largest segment of commercial producers, with 35 percent of the 2003 sample (Figure 79). Producers in this segment are information intensive; they gather a large amount of information from outside sources including the use of computers and the Internet, local dealers, and manufacturer sales and technical representatives. In addition, they are the heaviest users of consultants, and they use more custom services on average than any other segment.

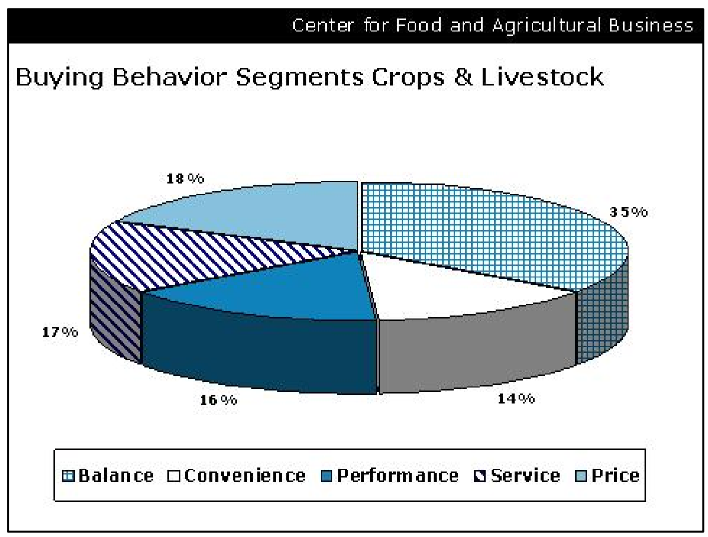
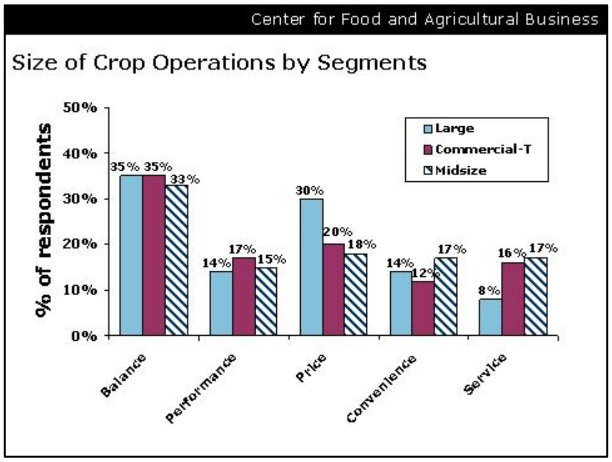
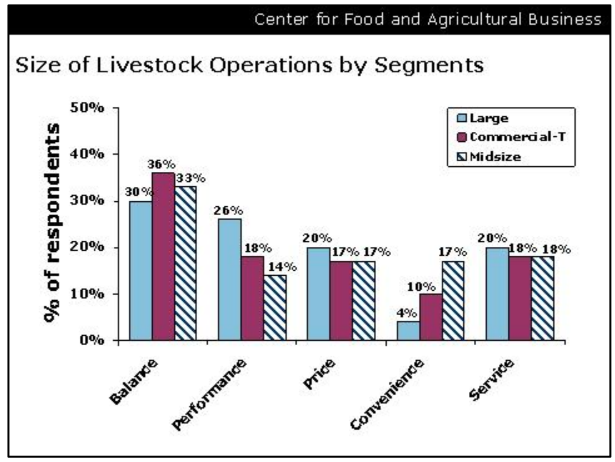


Figure 79: Buying behavior segments of crop and livestock producers

Producers in the Performance segment choose input suppliers based on the quality of the products, and the quality of the information. This segment of producers places more than half the weight of their decision on product performance characteristics. Producers in this segment are primarily young to middle-aged. They operate larger livestock operations and slightly above average sized crop operations (Figures 80 and 81).



Figures 80: Size of crop operations by segments



Figures 81: Size of livestock operations by segments

Producers in the Performance segment are the most information intensive (Figure 82). 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.

Producers in the Convenience segment choose their suppliers based on their location and service. This segment is the smallest of the five segments (Figure 83) and is the only segment that has decreased in size from 1998. The average age of members in this segment is much higher than the other segments, and it has increased since 1998. Further, they have the lowest expected growth rate over the next five years, between 15 and 20 percent on average. Agricultural input suppliers should expect this segment to continue to decrease in size.

Producers in the Service segment place a higher 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, consequently, they depend on management consultants, dealers, and other farmers for information and advice. This segment places the least weight on price of any of the segments. On the crop production side, service buyers are more likely to be commercial-T or midsize farms, while livestock service buyers are not different by size. Producers in the Service segment are the most brand loyal of all of the segments, and they are the least likely to increase their use of generic products over the next five years (Figure 83).

For producers in the Price segment, price is the ultimate consideration. Overall this segment is much less interested in service and product performance compared to the other segments. This is the second largest segment overall at 18.5 percent of the sample (Figure 79). Members of the Price segment operate the largest crop enterprises (Figure 80) and average sized livestock enterprises (Figure 81). For both crops and livestock, these producers have the most ambitious growth intentions at around 30 percent in the next five years. Finally, the Price segment has a large group of young farmers, i.e. under 35 years old. Note that these producers see themselves as very capable and have the highest percentage of college graduates among all segments.

Center for Food and Agricultural Business

The Value Bundle: Information Internet Use - Crops

Practice	Balance	Performance	Price	Convenience	Service
Use the Internet in my farm business	75	74	72	63	70
Obtained product / technical information	64	67	58	50	56
Obtained price information on inputs	47	54	46	38	43
Located sources of products or dealers	54	57	42	43	38
Placed an order for agricultural inputs	14	22	18	11	10

Figure 82: Internet use and information for the crop producer value bundles

Center for Food and Agricultural Business

The Value Bundle: Product – Crops

Statement	Balance	Performance	Price	Convenience	Service
I am loyal to brands of expendable items	3.2	3.1	2.9	3.3	3.4
Generics offer a good trade-off between price and quality	3.1	3.2	3.4	3.3	3
Will increase use of generic items over next 5 years	3.2	3.3	3.5	3.3	3
For expendable items, most brands are more or less the same	2.6	2.5	2.7	2.8	2.7
I think suppliers should charge separately for products and information	2.2	2.3	2.3	2.1	2.2

*Average responses on Likert Scale of 1-5

Figure 83: Product issues for the crop producer value bundle

Implications: While the market segmentation analysis identified five distinct groups of producers, it is worthwhile to compare these market segments to the traditional three market segments. Salespeople often categorize producers as business buyers, economic buyers, and relationship buyers. Following this typology, producers in the Balance segment and the Performance segment can be categorized as business buyers. Producers in the Price segment can be categorized as economic buyers. Finally, producers in the Convenience segment and the Service segment can be categorized as relationship buyers. Understanding these five groups in this light, there are several implications for suppliers as they plan the value they will deliver in coming years.

We expect the size of the Balance segment to remain stable in the future. Agricultural input suppliers can expect this segment to continue to demand a value bundle that delivers high quality products, services, and information, but this group may be willing to pay for quality in these areas. The Balance segment values salespeople who are honest and who have a high level of technical competence.

We expect the Performance segment to increase in the next five years and be particularly important for suppliers of livestock operations. Between 1998 and 2003, the size of the Performance segment grew substantially for livestock operations and modestly for crop operations. Producers in the Performance segment are willing to pay more for high quality products, but they 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. While crop producers agree they are somewhat likely to increase their use of generic products, the livestock producers indicate they will not change their usage of generic products over the next five years.

We expect the Service segment to increase in size over the next five years for several reasons. This segment grew from 1998 to 2003, although they remain average or below in size. They are the youngest producers, but they have ambitious growth plans of about 30 percent over the next five years. They place greater emphasis on salespeople who provide good follow-up service and those who are consultants to their operation relative to most other segments. Producers in the

Service segment are willing to pay more for products from salespeople who offer them reliable information and good service.

Although Convenience segment operations are small, there may be opportunities to profit from serving this segment although this segment is declining. Producers in the Convenience segment are willing to pay more for locally-supplied products. They are the least likely to use the computer or the Internet to find information for their farming operation. In addition, they are the least likely to use consultants and depend on the local dealer for most of their information. On average, they are the most interested in having salespersons who provide good follow-up service and who are good communicators. Input suppliers will need to proceed with caution, though, as this segment requires time and attention in exchange for their small volume.

We expect the Price segment to increase in importance for suppliers serving crop operations and remain stable for suppliers serving livestock operations. Between 1998 and 2003, the size of this segment increased substantially for crop operations, but was unchanged for livestock operations. Members of the Price segment are the most likely to purchase the lowest priced expendable products, and they are the least brand loyal. If a comparable product is available at a lower price, they will switch away from the branded product. This segment has the lowest overall use of custom services and has a relatively segments (Figures 84, 85, and 86), indicating that they are unwilling to pay others to do what they can do themselves. Producers in the Price segment value salespeople that are able to deliver the best price.

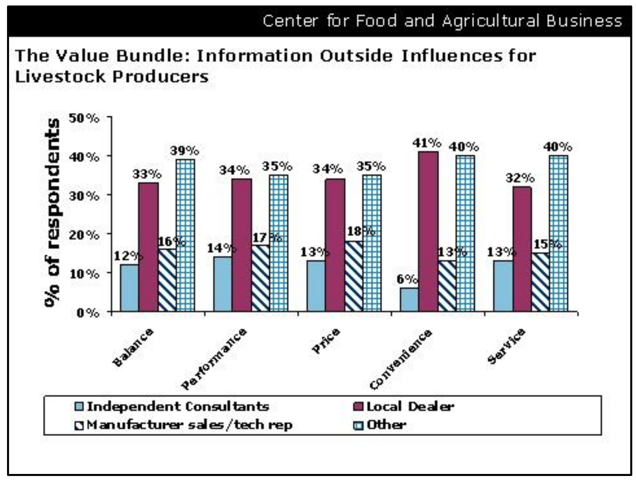


Figure 84: Outside influences for the livestock producer value bundles

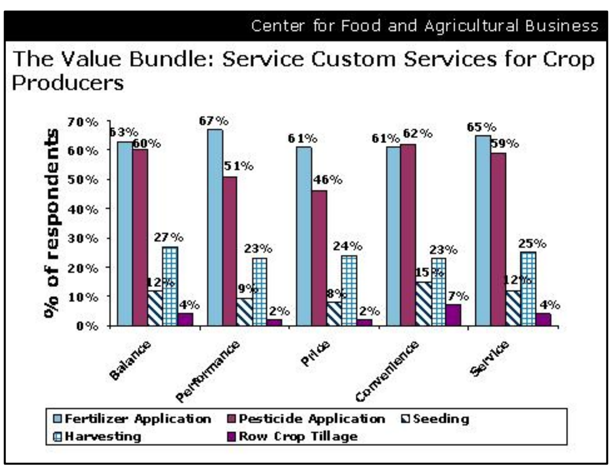


Figure 85: Custom services for the crop producer service value bundle

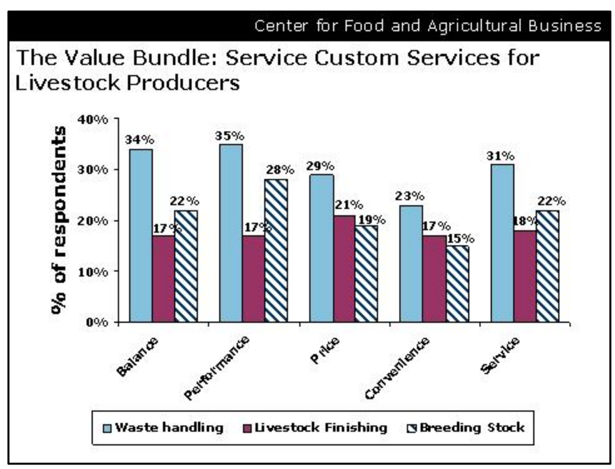


Figure 86: Custom services for the livestock producer service value bundle

The Final Word

We hope this summary of what we've learned about commercial operations has triggered some thinking about what this group needs and wants from your business. Are you in touch with the needs of this segment of your market? Do you need to take some steps to better understand what they want from you? Most importantly, have you positioned your business, and prepared your people to be successful with this group?

In the end, innovative thinking and flexibility may be the most important aspects of serving these commercial accounts. Organizations that are willing to look hard at the specific, individualized needs of those farm businesses, and think creatively how they can add value for them, have many opportunities. Of course, this is where the flexibility becomes important, because what these producers need from you may not be business as usual. Agribusinesses that are creative enough and flexible enough to add cost-effective value have a bright future with these commercial producers.

In addition to the results in this report, more results are available in a 500 PowerPoint slide presentation and in other formats from the Center for Food and Agricultural Business. If you are interested please contact Scott Downey at downeyws@purdue.edu.

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Appendix

SUMMARY OF RESULTS

Commercial and Midsize Producers

Means and Frequencies

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