

Our Changing Ag Environment: What It Means for Ag Retailers

The Fertilizer Institute
and
The Fertilizer Industry Round Table

Tampa, Florida
October 29, 2009

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Burj Tower, Dubai
800+ Meters Tall

The World is Changing....Fast

- Population Explosion Continues
- Addition of Brand New 'Americas'
- Competition for Resources
- Instantaneous Information Transfer
- Truly Global Marketplace
- Loss of US Dominance
- Transfer of Wealth
- Volatility and Instability



Wind Farm,
Prairie Forks, IL
25,000 Acres



THOMAS L. FRIEDMAN
*Hot, Flat,
and Crowded*



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Agriculture Is Changing.....and Fast

- Advances in crop protection and genetics
- Farm equipment technology
- Industrialization of meat, dairy, and poultry industry
- Supply chain coordination
- Availability of water, energy, labor
- Sustainable Agriculture movement and food safety
- World wide government trade policy and regulations



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**All this has major implications
for how Ag Retailers
sell and service customers**



Major Sources of Pressure On Ag Retailers

Business Issues

Market Issues

Legislative & Regulatory Issues



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Business Issues



Continuing Drive for Efficiency

- Margins will continue to narrow due to:
 - Intense competitive pressure from other retailers
 - Generics...especially glyphosates
 - Adoption of new business processes
 - Pressure from growers to reduce price
- Fewer players BUT more competition from larger, smarter, and more aggressive players
- Larger customers are becoming competitors



Market Volatility

- Demand volatility
 - Not a new phenomenon
- Supply volatility and length of supply chain
 - Plan orders more cautiously
 - Careful inventory management
- Supplier trust seriously undermined....Anger
 - What and who can I believe?



Risk Management Challenges



- Volatility creates greater risk exposure
 - Search for new risk management tools
 - Contract selling of agronomic supplies
- Learning there are many types of risk
 - Price risk
 - Supply / Inventory risk
 - Regulatory / Political risk
 - Cost / Interest Rate risk
 - Weather / Commodity Price Risk



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The Playing Field Has Levelled

Customers perceive near parity of Ag Retailers

- Mergers and acquisitions have taken less efficient or poorly managed operations out
- Products/services perceived as much the same
- There are differences but all do things pretty well
- Much harder to stand out because you are better
- **All this makes price differences more critical**



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Continuing Consolidation of Distribution

- Economies of scale; desire for market power and the need to 'control' distribution continue to drive consolidation
- Too many distribution facilities...in the wrong places



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Regulatory and Legislative Issues



Regulatory and Legislative Pressures

- Regulatory and Legislation issues
 - Reduce Ag Retailer and farmer flexibility
 - Increase cost of distribution and production
 - Selective enforcement of regulations
- Increasing fears of anti-trust pressures
 - Growing concerns from farmers and public
 - (USDA/Justice department 'workshops')



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Regulatory and Legislative Pressures

- Water quality & availability based restrictions
 - Chesapeake Bay CP & nutrient restrictions
 - Great Lakes Water Quality Agreement
 - California water restriction for agriculture



Chesapeake Bay



California Aqueduct

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Regulatory and Legislative Pressures



- Growing pressures for environment and safe food
 - Greater cost for Ag Retailers and Growers
 - More restrictive for all farm inputs
 - Offers significant opportunities for Ag Retailers especially in record keeping, Precision Ag and helping farmers satisfy regulatory requirements



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Sustainable Agriculture



- Sustainable Agriculture will become a **'big deal'**
Integrated systems that will, over the long run...
 - Help farmers grow more food and fiber
 - Preserve our natural resources for the future
 - Use non-renewable resources more efficiently
 - Sustain the economic viability of farms
 - Enhance the quality of life for farmers
and society as a whole



USDA...National Institute of Food and Agriculture ...2009

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Market Issues



Larger, More Sophisticated Customers

- Farms continue to consolidate...in bigger chunks
 - Each large customer is more important
 - All are more demanding....better negotiators
 - The larger the farm...the more choices they have
 - May outsource less agronomic services
- Farmers continue to become more sophisticated
 - Adoption of new technology
 - Utilize industrialized business tools
 - More analytical and able to discern value
 - Greater reliance on information systems



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Mega and Very Large Farms

- Have much more sophisticated business needs
- Focus heavily on efficiency and controlling costs
- Have more (storage, application, expertise)
- Span multiple Ag Retailer market areas
- Expect consistent 'business experiences'
- Are often very information savvy
- Are much more 'discerning' in determining value
- Won't pay for services they don't want



Ag Retailers Caught....

"Between A Rock and a Hard Place"

- Trend toward large operations is clear and rapid but Ag Retailers can't afford to alienate traditional farmers
- Heavily geared toward traditional farmers (Facilities, Employees, Services, Pricing)
- Traditions are hard to break



Trend Toward More Direct Marketing

Increasing pressure for large farmers to “buy direct”

- “Direct Marketing” is already here...and growing
- “Direct Selling” is more difficult & far more costly

Ag Retailers will continue to have an advantage

- Are closer to the customer - relationships
- Know the territory – agronomy
- Can be much more efficient in service
- Can adapt more quickly & easily to local conditions
- Some may be willing to accept lower ROI



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But On The Other Hand....

- Ag Retailers often have difficulty meeting large grower demands
 - More business oriented needs
 - Sophisticated agronomic issues
 - Complex information analysis required
 - Demand tailored bundling.....or unbundling (May want only price)
- Ag Retailers are caught in a ‘social dilemma’ between large...and traditional farmers
- Tradition is a powerful force...hard to change

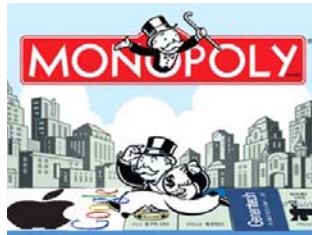


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Other Important Issues



- Ag Retailer - supplier relationships will be tenuous
- Anti-trust pressures in Ag will likely increase
- Politics of farm policy and regulation will continue to be important and challenging



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Implications For Ag Retailers



Overall, The Market Will Be Strong

....but challenging



- Farmers are 'nervous'
...and cautious
but they have money to spend
- Now is the time to build (business) relationships
- The importance of building
new long term relationships with key accounts
will be even more important

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The Playing Field Has Levelled



The level of competition has driven Ag Retailers
to much higher levels of performance

- Farmers...both large and small....perceive
the differences among competitors has diminished
- It has become more difficult
to create significant differential advantage
in the minds of a large part of the marketplace
- The concept if differential advantage
is no less important....just more difficult to maintain
- Ag retailers will have to work harder
and be more creative to maintain an advantage
especially to justify a price differential

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Focus Where The Growth Is

Strategically it is important to focus
on the part of the marketplace
where there are the most growth opportunities
...large commercial growers
who will control a growing share of market



- They have positive attitudes
- They are tougher buyers...discerning, analytical
- They are each uniquely different
- They expect ...and will get
value tailored to their unique needs

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Understand Customers At A Deeper Level

Value begins with a deep understanding of the farmer
...their unique values, goals, and needs
and then using your knowledge

- of agriculture
- of your customer
- of your dealership
- of your products



....to create unique value for that key account

This requires an investment of time and effort
....but the results are extremely rewarding

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Market Differently To Different Segments

The market has fragmented into many segments

Many markets have concentrated much business
into a very few.... very large.... farmers
who each have very different needs

Developing and marketing different value propositions
to different segments.... systematically
making sure that customers consistently....

- Get only what they pay for
- Pay only for what they get



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Consider New Business Models

Very large growers create special challenges

- They have more options
- It is hard to ignore their growing volume
- Ag Retailers must adapt their business model
to meet the needs of these very large growers
- May mean working closely with basic suppliers
to jointly provide the products and services
in new and creative ways
- They expect ...and will get
value tailored to meet their unique needs

Inevitably, in the future.....

parts of the distribution system will be more direct



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Look For New Ways Of Creating Value

The Ag Retailer must create value for two entities...

- The grower!

But the grower's needs are dramatically changing

Remember -- it is the customer that defines value

The Ag Retailer must do things they value
or educate (sell) them on why it is valuable

- The manufacturer!

Doing things better and more efficiently
than the basic supplier can do them



Fundamental Law of Marketing

**Every element in the supply chain
must add more value than they add cost
or it will not survive**

Increasingly, Ag Retailers may be paid
for specific activities that create value
for either the customer or the manufacturer



Up Grade Skills and Abilities of Professional Staff

Large growers want, need, value, and demand
a very different set of skills and services

- Demand and expect agronomic expertise
- Information specialist – Analytical skills
- Well versed in business tools and skills
(management, financial, personnel, marketing)
- Professional in appearance and demeanor
- Team leader, excellent communicator

.....Learn to become an account managers



Make Every Sales Call Count

Farmers... especially larger farmers
are not anxious to have salespeople to call on them
....unless they believe the salesperson
can and will bring them real value
Salespeople who bring real perceived value
are welcome....and considered a strong resource
by important customers



Highly Effective Teams Are Essential

Creating real value is not an individual activity

It requires....

- Strong service and support staff
- Supportive management and leadership
- Utilization of supplier support and programs

But it is the salesperson
who manages the customer relationship,
coordinating all activities
to build and maintain
the relationship
with key accounts



Growing A Business Today Requires New and More Sophisticated Approaches

Tom Friedman on innovation:

**"The Stone Age didn't end
because we ran out of stone..."**



**Ag Retailers Must Figure Out New Ways
Of Creating Value... and Getting Paid For It!
...But "Value" is highly dependent on the customer**

*The next five years may well see dramatic changes
in the agronomic industries distribution business model*

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Capitalizing on Opportunities

Success comes not from doing old things better
but from doing new things that matter



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The Future Is Bright For Retailers Who Are Willing To Adapt....Quickly

Ag Retailers who strive to understand
their changing marketplace
and adapt their business pro-actively
are in a strong position to grow and prosper

The local Ag Retailer
is in a better position to understand the customer
and adapt more quickly than any other business



The Question Is..... Which Ag Retailers Will Adjust?

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