

**FINANCING AND SUPPLYING INPUTS TO THE 21<sup>ST</sup> CENTURY  
PRODUCER**

by

Michael D. Boehlje, Steven L. Hofing

and R. Christopher Schroeder

Staff Paper # 99-11

August 31, 1999

**Dept. of Agricultural Economics  
Purdue University**

**Copyright © Ag Education & Consulting, LLC**

*Purdue University is committed to the policy that all persons shall have equal access of its programs and employment without regard to race, color, creed, religion, national origin, sex, age, marital status, disability, public assistance status, or sexual orientation.*

# FINANCING AND SUPPLYING INPUTS TO THE 21<sup>ST</sup> CENTURY PRODUCER

by

Michael D. Boehlje\*, Steven L. Hofing\*\* and R. Christopher Schroeder\*\*

## Preface

The U.S. agricultural industry is in the midst of major structural change — changes in product characteristics, in worldwide production and consumption, in technology, in size of operation, in geographic location. And the pace of change seems to be increasing. Production is changing from an industry dominated by family-based, small-scale, relatively independent firms to one of larger firms that are more tightly aligned across the production and distribution chain. And the input supply and product processing sectors are becoming more consolidated, more concentrated, more integrated.

Agriculture in the 21<sup>st</sup> century is likely to be characterized by: 1) adoption of manufacturing processes in production as well as processing, 2) a systems or food supply chain approach to production and distribution, 3) negotiated coordination replacing market coordination of the system, 4) a more important role for information, knowledge and other soft assets (in contrast to hard assets of machinery, equipment, facilities) in reducing cost and increasing responsiveness, and 5) increasing consolidation at all levels raising issues of market power and control.

These profound changes in the agricultural industry present new challenges and new opportunities that require new ideas and concepts to analyze and implement. They require new learning and thinking. Some of those new ideas and concepts are presented here, not as empirically verified truths, but as “thoughts” to stimulate different and better thinking. They have been developed based on observations, analysis and discussions with numerous managers and colleagues in agribusinesses in North America and Europe. This series focuses on Financing and Supplying Inputs to the 21<sup>st</sup> Century Producer; companion series are also available on Farming in the 21<sup>st</sup> Century (Staff Paper 99-9), and Value Chains in the Food Production and Distribution Industries (Staff Paper 99-10).

Our purpose in sharing these “thoughts” is to invite discussion, dialogue, disagreement — in general to encourage others to develop better “thoughts”.

Keywords: technology platforms, agricultural finance, marketing strategy, input suppliers, grower segments, financial markets

\*Professor of Agribusiness, Center for Agricultural Business, Purdue University, West Lafayette, IN 47907-1145 and Senior Associate, Ag Education & Consulting, LLC;  
boehlje@agecon.purdue.edu

\*\* Partners, Ag Education & Consulting, LLC, Savoy, Illinois, 61874, www.centrec.com

## **The New Agriculture: Implications for Marketing Strategy\***

The North American food production, processing, and distribution industry is in the midst of major structural changes. Globalization, changing government policy, rapid technological change, and mergers and strategic alliances among agribusiness firms all create uncertainty about the future business environment. This will lead to greater market volatility over the next decade as firms struggle to determine their new roles in the evolving marketplace. Firms will also be faced with rising standards on the part of every player in the food system. Every entity will demand higher quality, lower prices, better service, more information, greater flexibility, and quicker response.

So how is this future market environment expected to impact the marketing strategies of input manufactures and distributors? We will focus on five key areas: customer relationships, product/service packages, and pricing, distribution, and communication strategies.

Customer relationships - Expect a much less homogenous customer base. Individual accounts will vary not only in size, but also in product and service requirements. As a whole, expect customers to be more focused, well informed, and business savvy. Also, tighter vertical linkages from alliances, partnerships, and ownership will expand and complicate the traditional definition of the customer. Complex business relationships and “teams” at different ends of the marketing channel could have similar effects.

### Key Points:

- Traceback of all inputs in the food production process will become increasingly expected (required?) by consumers. Tighter vertical linkages might make this task easier, but added attention and more precise record-keeping by input suppliers will inevitably result. The final link in the marketing chain is the retail consumer. His/her needs must be met and fears and concerns alleviated to ensure an expanding market for agricultural products.
- Key accounts will be vitally important, making consumer loyalty extremely valuable. Efforts that build loyalty by rewarding the most valuable customers will likely pay high dividends. “Smartcards” are becoming increasingly popular at retail outlets as a means to this end, and we might expect similar strategies to appear within wholesale markets.
- Trust will be ever more important in both business and customer relations. It is a prerequisite for the tighter vertical and horizontal relationships that we foresee between firms, and it is also an important part of the process of building and maintaining consumer confidence in a safe food supply. Attempts at deception will be easily noticed and severely punished.

Products and services - The grower of the future will increasingly be expecting and demanding total solutions to his unique business problem. The focus will not be only on agronomic or nutritional responses to crop and livestock production problems, but systems solutions to crop and livestock profitability. The emphasis will be on systems, and the fundamental issue will be

---

\*Developed in collaboration with Jay Akridge, Professor of Agribusiness, Center for Agricultural Business, Purdue University.

whether a particular supplier provides a total systems solution or only selected components of that solution. And more than likely, if only selected components are provided, the customer will still expect suggestions and possibly recommendations concerning the other components and the compatibility or lack thereof between the components provided and those that will be obtained elsewhere.

### Key Points

- A total systems solution approach will likely involve offering a broader product service package by the supplier, or increased business linkages between component product/service providers to obtain a total system solution. And increasing consumer/producer expectations will likely result in more demand for customized products and specialized inputs to respond to unique customer and market segments.
- Note that this is really a different issue than that of bundling or unbundling in terms of pricing of products and services. A more complex agriculture and an increasingly demanding customer base will generally require more systems solutions; some customers will want the pricing of the product service package to be unbundled (i.e. component pricing), and others will prefer a total package price as long as the components are identified.
- The rate of change and pace of innovation in new products and services and product/service packaging will be rapid. More and more non-traditional services will be identified and provided. Innovation in services and product/service packaging may be more rapid than product innovation. Information and the conversion of mounds of data to profitable decisions will likely be at the core of many service innovations.
- Growth in precision agriculture might lead to product and service packaging opportunities. This is one of the most obvious examples of the potential growth in information based services. An explosion of possible business options for producers fuels such potential.
- Risk reduction may become part of the product package through the more prevalent use of warranties/guarantees. Contracts will also play a role here. Net income per acre contracting in grain similar to fee-based contract growing of hogs is likely.
- Producers may become more “outsource based” as specialized agricultural inputs increasingly will require users to be “qualified”. This could enhance opportunities to package products and services.
- Marketing of products may increasingly become part of the product/service package. In the production of specialty crops/livestock, selling a specialized package of inputs to these producers might include some type of marketing contract or linkage to assure the producer an outlet for their produce.

Pricing Strategies - Expect a more informed and demanding customer base to lead to competitive price pressures. Pricing strategies that create loyalty will be ever more important.

Key Points:

- Pricing strategies that reduce (or share) risk will likely be embraced; contractual pricing of products and services is likely to become more common.
- Pricing strategies that transfer risk to third parties might also become more common. Flat-billing for products such as heating oil and utilities is already starting to appear. This allows customers to lock in costs in advance, while transferring the price volatility to speculators using financial instruments such as weather derivatives.
- Firms must prepare for future price pressures by controlling costs now — anticipating competitor and customer pressure for products that mature ever more rapidly.
- Expect less pricing for each “transaction”, more pricing based on “lifetime” service.
- Innovative pricing arrangements, such as technology fees, will be more common.

Distribution Strategies - Expect a more efficient flow of raw materials, products, and information across the marketing channel, increasing the pressure on the “middleman” or distributor. The future role of traditional dealers is unclear, but it will depend vitally on their ability to add value. There are likely to be many opportunities, but they may well be in areas different from those currently addressed by dealers.

Key Points:

- Better inventory management and control will lead to significant cost savings, and will be expected of all businesses in the industry.
- Use of direct selling from the manufacturer to the producer will likely increase.
- Dealers and distributors will be challenged to find new ways to add value if they are to remain viable business entities. A potential new role is that of a “deal maker” between the producer and the other parts of the marketing channel.
- Relationships in the channel may be based more on pay for service type arrangements where specific players are compensated for the function they perform and no more.
- The Internet/electronic data interchange will play a major role in tightening the linkages across the channel.

Communication Strategies - Technology continues to make communication easier regardless of geographic boundaries. It also is becoming easier to store and collect information about the marketplace and individual customers.

Key Points:

- Expect to capture more and more information about individual producers and be challenged to find new ways to use that information to better serve those individuals.
- Customer databases will continue to grow, which will provide greater opportunities for direct marketing of products and services.
- Expect the Internet to continue to present global marketing opportunities, while at the same time introducing global competition from distant firms.
- Electronic data transfer and extremely rapid movement of information will make managing communications more challenging — problems will still be ‘coffee shop talk’, only now the world is the coffee shop as producers circulate opinions over the Internet.
- Communication strategies in general will be far more tailored, and will make very heavy use of databases and electronic communication technologies.
- Personalized messages and messaging technology will allow individual messages to be delivered to individual customers.
- Team-based selling and field marketing concepts (local responsibility and authority) will be even more prevalent given the changing producer/customer.
- Communication with end-user customers will stretch firms to become familiar with a new set of decision processes, and highly technical sales abilities (engineering, chemistry, food sciences, etc.) will be key to success with these targets.