

MARKETING TO A DEALERSHIP'S CHANGING CLIENTELE

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Introduction

Urban sprawl and home developments in the countryside have placed many farm supply businesses, both cooperatives and non-cooperatives in a market environment characterized with having the traditional farmer along with part-time (hobby) farmers and non-farm home owners. This situation offers farm supply businesses both a business challenge and opportunity. This paper focuses on this challenge and opportunity primarily in serving the urban non-farm customer.

The Different Customers

Even traditional farmers have different needs and expectations. Some have rather small operations and others very large operations. A farm supply business needs to differentiate in how they do business with these two types of farmer customers. The large farmer is in a position to negotiate for price and services and may not be as loyal to a given supplier as is the smaller farmer. Price is important for the traditional farmer, but so is service and product quality. Competition and demands of the large farm operations challenge management of farm supply businesses in maintaining a favorable net profit margin.

The demands and needs of part-time or hobby farmers are quite different from the traditional farmer. Price may not be as big of an issue. Service may be more important. Service may include custom application on relatively small plots of land, weekend and late hour service and customized products such as horse feed. But, this type of customer may offer the potential for higher profit margins, especially if the potential business volume justifies the personal and equipment to serve this type of customer.

The non-farm or urban home owner is a much different type of potential customer. They take pride in their lawns. They may have interest not only in lawn and garden fertilizer, chemicals and pesticides, but also lawn and garden tools and equipment. They may be so-called environmentalist interested in organic lawn and garden products. They often have pets and may be a horse or two. Weekend and evening hours for shopping are important. Price is important but, technical advice and information may also be very important.

Serving the Non-farm or Urban Home Owner

Non-farm or urban home owners may be located where there are more than one option for obtaining lawn and garden fertilizer, chemicals and pesticides. Some are primarily interested in price and not service. They are attracted to no or limited service suppliers such as Farm and Fleet, ShopKo, Wal-Mart, Home Depot and Menards. These outlets also normally have lawn and garden tools and equipment and may carry bedding plants and shrubbery. Their prices are normally quite competitive.

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Other potential customers are looking for a more full-service supplier. They go to garden shops and some hire full-service lawn care. Some hardware stores also come close to providing full-service lawn and garden care and tools and equipment.

Many farm supply businesses do try to serve the non-farm or urban customer to some extent. One challenge is letting this customer know that they can serve them. The potential customer may view the business as only a business to serve farmers. For some the distribution center doesn't look inviting to the non-farm or urban customer. But, surveys show that consumers have a rather favorable image of "cooperatives". They view them as being honest, trustworthy, concern for the environment and community and the like. Some cooperatives have tried to capitalize on this. For example, the electric cooperatives have a national advertisement called Touchtone Energy. CHS Inc. has used ads stating "We are owned by our customers."

Offering just fertilizer and perhaps some chemicals and pesticides to these non-farm and urban customers may not offer the farm supply business a significant profit center. For one thing, price will need to be competitive with Farm and Fleets and discount outlets. But, in order to be a significant part of the business and a profit center, the farm supply business needs to seriously consider the non-farm or urban consumer as a potential customer. This may require investing in an attractive and customer friendly looking store. In addition to offering fertilizer, chemicals, and pesticides (including organic products), garden seeds, bedding plants, shrubbery, lawn and garden tools and equipment should be considered, and may be hardware, home appliances, gasoline and home heating fuels as well. But, to attract these potential customers and to compete with other full-service suppliers high quality service provided by friendly, knowledgeable employees who understand and have the patience to serve these customers is highly important. This is important because once again the farm supply business may not be able to compete on price alone.

The bottom line is that farm supply businesses interested in serving the non-farm or urban customer needs to convey a message that their business is different in some way from other business options. Why should or what is the advantage for one of these potential customers for doing business with your business? As mentioned, price needs to be competitive, but more is probably needed. This could be product quality or a complete line of products to satisfy the variety of uses by this customer. But, probably the greatest opportunity to distinguish your business from the other business option is service. That is having the employees who have the time, interest and patience to understand and to work with the customer. The employees need to be friendly and have sufficient technical knowledge of the products and services to give advice, recommendations and to answer customer questions. And of course the store must be attractive and conveniently located.

Option for Farm Supply Cooperatives

Farm supply cooperatives have the option of treating their non-farm customers as non-member business or member business. If non-member business, any net profits earned from non-members can be placed in the un-allocated equity (net worth) of the business. The co-op pays the normal corporate income tax on the net profits. If this non-member business is significant enough, it may allow the co-op to build its equity capital requirements while returning a greater share of profits from its farmer-member business to members as an end of the year cash patronage refund. This could help to maintain and to grow its farmer-member business.

The farm supply business could treat these non-farm customers as member business. This means the non-farmer customers are members of the cooperative and they share in the patronage pool. The cooperative could have a separate pool for farmer-member business and non-farm member business or one single pool, which is the common practice. The non-farm member now shares in the net profits of the cooperative. At the close of the business year, they will receive a cash patronage refund and may build up investment in the cooperative as allocated equity just as the farmer-member does. The cooperative pays no corporate income on the net profits paid out as a cash patronage refund or the proportion retained as allocated equity. This cash patronage refund, and perhaps the opportunity to build equity in the cooperative, even if relatively small, may be significant in distinguishing the cooperative from other businesses. The non-farm customer may appreciate the patronage refund which they would not receive from other types of businesses.

The cooperative can give these non-farm members voting rights or no voting rights. If voting rights are granted, this means they would have a one-member-one vote right to elect a board of directors and perhaps be elected to the board. Some cooperatives feel that the major purpose of the cooperative was and still is to serve the farmer-customer. Allowing non-farm members a vote and to the possibility of being elected to the board could change the business priorities of the cooperative. Other cooperatives see no problem with allowing the non-farmer member a vote and the possibility of serving on the board.

Summary

For farm supply businesses located in or near a major metropolitan area or experiencing a growth in non-farm home owners, targeting these non-farm consumers as customers may offer a solid business opportunity. This may be particularly the situation if no other businesses are targeting and adequately serving these same non-farm consumers. But, if this is to be a significant segment of the company's business, it must be seriously considered with a commitment of adequate capital and human resources to give an advantage over other options in serving this potential customer. There needs to be sufficient business volume generated to profitably support the commitment of capital and human resources. Most likely a significant business volume cannot be generated by competing on price alone.