# STRATEGIC MARKETING ISSUES WITHIN THE FARM CREDIT SYSTEM AND SIXTH FARM CREDIT DISTRICT

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# STRATEGIC MARKETING ISSUES WITHIN THE FARM CREDIT SYSTEM AND SIXTH FARM CREDIT DISTRICT

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Good morning. I'd like to spend a few minutes with you this morning following up on some of Terry's comments regarding how the system, particularly how the Sixth District, is going to begin to help develop the sort of customer orientation that over the past three to five years has been lacking. Certainly I would concur, not only because I think they're right, but because he's my boss, that the major challenge facing this system in the next three to five years clearly is: How do we begin to compete and how do we as an organization bring value to the market, value as defined by our customer base?

You will recall that the problems in the 1980s put us into very much of a survival mode where the credit cleanup and clearing out of that mountain of debt was clearly the number one priority. As that has been pushed behind us and brought under control, the next sort of mountain to climb really concerns declining market share trends.

This district in particular has been losing about two times its share each year for the past three years; and certainly, as an organization, our ability to reverse that decline and to rebuild market share is really of major strategic importance to us.

In order to do that, over the past 18 months we have embarked on a fairly thorough and extensive customer service quality audit, as well as a market image study where we have begun to establish for ourselves an understanding of our relative market position and to determine what we, as an organization, need to do to move ourselves into the position of preferred lender within this market.

What I'd like to do this morning is spend a few minutes on two slides that basically bring together the key concepts that we have identified over the past 12 months as being critical to our ability to command premier market shares in this market.

The two items I want to show you are a very simple top-line purchase decision model that basically has been gleaned from the research we've done with both customers and noncustomers and from there identify where we are in that decision model and point out the things we're trying to do to improve our chances of bringing in business.

We spent a lot of time building this model based upon, as Terry mentioned before, focus group studies as well as some quantitative research. I think the decision model falls out really in two stages. When the customer begins to look for a source of lending, generally two questions are asked. First, who can provide me with a competitive interest rate? And we define competitive rate in this market, I'm defining it, as within 25 basis points, perhaps as high as 50 basis points, of the competition. Now that in and of itself may not mean a lot to people here, but when you deliver that kind of message to a group of loan officers in the Farm Credit System that grew up during a time when the Federal Land Bank may have been 100 or 200 basis points below competition, that's a tough message to hear. If I'm at 11 percent, I expect you to get the business. That's the competitive environment in which we need to be able to deliver on value, rather than price.

The second screen, then, begins to fall into what we have just dubbed "value added" components. You've heard a lot of discussion about value added as it relates to different products. We've identified three main components of what value is to the customer. Those three are people, process and place.

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Let me spend a few minutes talking a little bit about what each of those means. On the people side, how do people bring value to the product? Well, certainly in our market, Terry alluded to some of those items a little bit earlier. Do our people listen well? Do they understand what the farmer is wanting to do? Are they able to communicate clearly? Are they able to help customers solve problems? Do they make good on commitments? All these tell individual farmers that, yes, we understand their problem; yes, we are listening to what they have to say; and we are showing them that we understand their problems by providing what I consider to be valuable solutions.

Second, there's process. This really is the hassle factor. What is it that I as a customer have to go through to get a loan from you? It concerns things like how well the process is run, how well we explain the things we do and, again, whether we make good on our commitments.

Certainly I would not stand here and tell you that our process is as well run as that of our commercial bank competitors; but certainly, as an organization, we have helped create some of the hassle message by the way we talk about our process.

In talking to a group of loan officers, one of the first things that became very, very obvious to me was how much we tell people this process is going to hurt: "Well I know you don't want to do all this, but we have got to do it." a loan officer I was talking with in southern Illinois fairly recently had been working with a customer for about three months. He was a former customer of the Land Bank who went away when interest rates went the wrong way back in the early '80s., and we had been working with him for about three months, trying to bring him back. His loan was repricing.

I called this loan officer and asked him how things had gone. He said, "Well, I missed the loan." I said, "Okay, what happened?" "Well, I was about 25 basis points out of the market," he said. I said, "Okay, so you didn't get it on price. Did anything happen when you went to make the presentation?" He said, "Yeah, I went through a fairly exhaustive cash flow analysis of the individual's operation." He had sat down and walked through the analysis with this customer, and the customer at that point indicated to him how valuable he thought that was. "We were walking through the cash flow and the guy said, "Gee, you know, I've never really seen my operation laid out this way before. This is really good." I said, "That's an encouraging sign. What did you say to him?" He said, "Well, I told him that we have to go through a lot of crap to get these loans approved." I said, "Now you made a mistake there because the customer told us he identified something of value in the process. But we didn't know what he was talking about."

Certainly, as an organization, if we begin to understand our business from the customer's perspective, we can develop ways to deliver value if we're there to listen and if we understand that. Certainly that is one of the major areas that we need to concentrate on as an organization in terms of not only streamlining those processes, but helping customers understand the value that we can deliver to them through the process.

I suggested at that time that perhaps a better response would have been, "You're exactly right. In fact, most of my better customers find this to be one of the greatest things about working with Farm Credit. And if you sign up for this loan, I'll be sure to come out and do this with you every year." Isn't that worth 25 basis points?" I'm pretty confident he would have gotten that deal. And I'm pretty confident he'll get the next one like it that comes along.

Now, let's look at place. This really involves convenience and accessibility to products. This district has been involved in a program for about a year where we have looked for fairly innovative ways to provide greater accessibility and convenience to our products. Most notable of those are two programs. One is our executive loan officer program in which we, in essence, segment our market. Terry talked a little bit about when you begin to look at where agriculture is going, you see on the one hand very large-scale operators which account for a very small portion of the market - perhaps 15 percent - and on the other hand you've got a large number of part-time farm operations. In our district, we define those two extremes as farmers grossing on the small end about $40,000 and on the large grossing $250,000 and above. When you look at the relative debt loads that those people carry, that upper-tier farmer carries about 75 to 80 percent of the debt in this district.

The executive loan officer force in concept is basically designed to provide personal, on-farm levels of service to that customer base. It makes sense strategically because, overall, that base has a much higher degree of need for service of that kind and certainly has the economic clout to demand it.

The second area we will be spending a lot of time in is determining how to provide convenience and accessibility through nontraditional business hours. We have developed a fairly sophisticated telemarketing program that has been used in this district for about a year and a half. We are working through AT&T in Florida and have basically put together three different programs over the last 18 months. That program will continue to be expanded in 1990. It basically provides the customer with the opportunity to establish a contact with a loan officer and use the opportunity to sit down and work through the particular needs customers have expressed to us. The phone call basically does the cold-call prospecting to identify if there is a need and to determine a convenient time for us to get back to the customer. A lot of those follow-ups are taking place after business hours, on Saturdays, on Sundays, when ever the time is convenient for the customer. Again, it begins to send a message in the market that Farm Credit has changed and that we're willing to begin to develop our operations around the identified needs of the customer base. I think it's also helped our organization begin to expand its view of how to deliver credit in this market. Historically, we've defined credit delivery as bricks and mortar (if there was a county, we would establish an office). When you look at the competitive makeup of this district, there is somewhere in the neighborhood of 1100 commercial banks that make ag loans, and there are about 600 banks that have over 25 percent of their portfolios in agriculture.

Now even in the early '80s when we were at our peak in terms of distributions, we had about 200 offices. There was simply no way we could compete in the marketplace with bricks and mortar alone. What this does for us as an organization has forced us to extend our reach to provide the physical presence necessary, and necessarily incurring all the overhead expense of having an office there.

Lastly, let's look at the significance of an existing relationship. This begins to touch a little bit on why an organization would begin to measure things like ongoing customer service satisfaction. Certainly, if an individual in this decision process has a current relationship with the lender, he or she is going to evaluate that relationship and look at it to see if it is currently satisfactory. We have begun to put into our goal process individual customer service satisfaction goals for the organization, and we measure them on at least an annual basis through a benchmark study across the district. We begun to see that customer satisfaction can have a pronounced effect on individuals' ongoing behavior in terms of their wanting to come back to us as a source of agricultural credit.

Let me show you a couple of slides to illustrate that point. One of the questions in our service quality survey concerned how likely current customers would be to consider Farm Credit Services as a source of agricultural financing if they had those needs in the future. I want you to focus particularly on the "very likely" category. Clearly, finding out that less than half our customers would consider themselves very likely to come back to us tells us a story. But let's just put that aside for right now. Basically, what you begin to see here is that overall in the survey, and this is from 1988 data, roughly about 50 percent of our current customer base indicated that if they had a need for additional real estate financing for farmland purchases, they would be very likely to come back to Farm Credit.

Of those people, then, let's look at how they indicated their current satisfaction. Were they currently very satisfied with Farm Credit, or dissatisfied? What you can see is a very pronounced division between those customers who indicated they were currently dissatisfied with Farm Credit. And 63 percent of the people who indicated they were currently satisfied with us were very likely to come back and borrow money from us again - not too surprising.

On the other end of that curve, fewer than 5 percent of those individuals who indicated they were currently dissatisfied with us as a lender would consider us again in terms of borrowing. So, certainly as an organization, our ability to raise service quality levels and to raise satisfaction scores gives us a competitive advantage down the line by helping us predispose those individuals to borrow from us again in the future.

When you take that information and begin to plot this market out and say where we are, then, in terms of this market and how Farm Credit is perceived as a lender in today's environment, I think you can basically break this market out into this kind of grid that identifies product issues (which would include price) and then those value-added components of product that we talked about (the people, the process and the place). And when you put them on a continuum from good to bad, we are somewhere to the left of commercial banks in the current market set.

Now what we re working on in 1989 and will continue in 1990 is identifying exactly where we fall in this range. But certainly the research indicates pretty clearly that, in terms of the value-added aspects of product, we were not perceived as bringing a heck of a lot to the party. The reason we commanded such large market shares, particularly on the Land Bank side, in the early 1980s was basically price. We were basically buying the market. Those days are long gone.

The strategic challenge for this district and where we are trying to go with the market share trends that we have talked about is to reposition ourselves along that value-added platform in terms of how the customer perceives value in the market and how we deliver it. The efforts of the marketing and sales departments here, as well as the efforts of the associations, will be focused on driving this message down to the local loan officer level to 1) help them understand this message and 2) help them deliver it at every opportunity to our customers. Our ability to move this perception in the market will greatly determine our financial viability in the future.

That, in ten minutes or less, is our view of the marketing and sales strategies and issues facing the system today. From here, it is all in the execution. I am very comfortable when I look at this selling model and see how this thing works. It's on target and it does work. The key for us is how you get 160 loan officers to understand it and to deliver it at every opportunity they have.

Thank you very much.

# FINANCING AGRICULTURE IN A CHANGING ENVIRONMENT

OCTOBER 2, 1989

## STRATEGIC BUSINESS CHALLENGE

### TOPLINE PURCHASE DECISION MODEL

| | | |
|---|---|---|
| 1ST LEVEL SCREEN PRICE | ARE RATES COMPETITIVE? | |
| 2ND LEVEL SCREEN | o PEOPLE: | - GOOD LISTENERS<br>- MAKE ME FEEL LIKE A VALUED CUSTOMER<br>- "MAKE GOOD" ON THEIR PROMISES |
| VALUE-ADDED COMPONENTS | o PROCESS: | - WELL RUN<br>- MINIMUM RED TAPE<br>- CAN WE EXPLAIN WHY WE DO WHAT |
| | o PLACE: | - CONVENIENT FOR ME (HOURS)<br>- ACCESSIBLE |
| | o EXISTING RELATIONSHIP | |
| DECISION | BASED UPON QUALITATIVE FACTORS | |
| POST PURCHASE | CONFIRM DECISION AS GOOD OR BAD BASED UPON ON-GOING RELATIONSHIP<br><br>CURRENT SATISFACTION LEVEL AFFECTS FUTURE BUYING BEHAVIOR. | |

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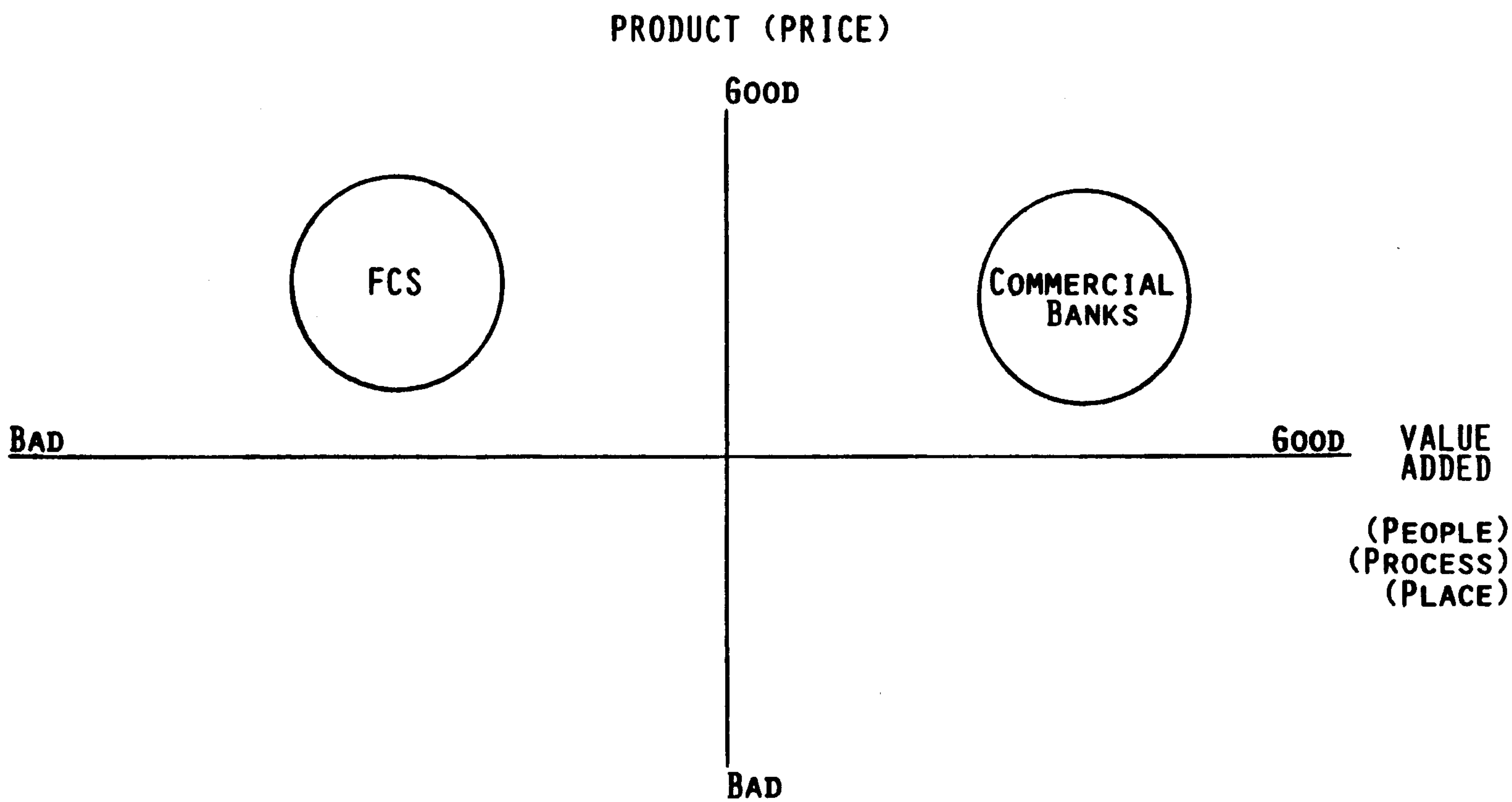
WHERE WE WANT TO BE

- REVERSE DECLINING MARKET SHARE TREND BY REPOSITIONING FARM CREDIT AS "VALUE-ADDED" LENDER.



# FINANCING AGRICULTURE IN A CHANGING ENVIRONMENT

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## CUSTOMER SATISFACTION SURVEY

## KEY FINDINGS

LIKELIHOOD OF CONSIDERING FCS FOR FUTURE BORROWING NEEDS

| | VERY LIKELY(%) | SOMEWHAT LIKELY(%) | TOTAL VERY/SOMEWHAT |
|---|---|---|---|
| REAL ESTATE | | | |
| FARMLAND PURCHASE | 48 | 22 | 70 |
| FARMLAND REFINANCE | 31 | 14 | 45 |
| HOME RELATED FINANCE | 25 | 15 | 40 |
| OPERATING LOAN | 34 | 14 | 48 |
| CAPITAL EXPENDITURE LOAN | 32 | 18 | 50 |

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OCTOBER 2, 1989

## CUSTOMER SATISFACTION SURVEY

## KEY FINDINGS

CURRENT SATISFACTION GREATLY IMPACTS PROBABILITY OF FUTURE BORROWINGS

| | VERY LIKELY(%) SATISFIED WITH FCS (%) | SOMEWHAT SATISFIED(%) | DISSATISFIED % |
|---|---|---|---|
| REAL ESTATE | | | |
| FARMLAND PURCHASE | 48 | 63 | 19 | 5 |
| FARMLAND REFINANCE | 31 | 40 | 11 | 1 |
| HOME RELATED FINANCE | 25 | 33 | 7 | 2 |
| OPERATING LOAN | 34 | 45 | 14 | 2 |
| CAPITAL EXPENDITURES | 32 | 43 | 11 | 2 |