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**ASSESSING OPPORTUNITIES,
CHALLENGES, AND THE FUTURE ROLE OF
THE U.S. CROP INPUT DEALER**

by

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Staff Paper # 05-01

March 2005

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Assessing Opportunities, Challenges, and the Future Role of the U.S. Crop Input Dealer

by

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Abstract

Distribution channels for crop production chemicals, fertilizers and seed are involved in a significant transition. Though the two endpoints of the channel remain the manufacturer and grower, many more options are evolving for transferring products, services, and information through the channel. Traditionally, the retail dealer was the pivot point in moving products, services, and information through the channel but as changes have occurred in the industry, and with technology, that role is evolving.

Some of the factors driving change in the distribution channel for crop inputs include:

- Competition, as new intermediaries enter the marketplace (consultants, brokers, wholesalers, large growers);
- Consolidation, at all levels of the distribution channel;
- Biotechnology, resulting in reduced demand and tighter margins for some crop protection chemicals;
- Information technology, increased use of information technology with the potential to bypass many of those in the traditional channel, moving information directly from the manufacturer to the end-user and vice versa.

Given this changing business environment, the purpose of this study was to identify threats and opportunities that crop input dealers perceive will impact their business in the future. It also provides insight into how dealers see their roles evolving over time, both their roles with growers and their roles with manufacturers.

Keywords: Crop inputs, fertilizer, seed, crop protection chemicals, retailing, channel management

JEL codes: Q13

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Table 1. States Included in Each Region 3

Introduction

Distribution channels for crop production chemicals, fertilizers and seed are involved in a significant transition. Though the two endpoints of the channel remain the manufacturer and grower, many more options are evolving for transferring products, services, and information through the channel. Traditionally, the retail dealer was the pivot point in moving products, services, and information through the channel but as changes have occurred in the industry, and with technology, that role is evolving.

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Given this changing business environment, the purpose of this study was to identify threats and opportunities that crop input dealers perceive will impact their business in the future. It also provides insight into how dealers see their roles evolving over time, both their roles with growers and their roles with manufacturers.

Methodology

The survey instrument was developed in the spring of 2003 with the help of a research committee comprised of Purdue University faculty and graduate students. The questionnaire was refined by university faculty and agribusiness professionals before being pre-tested with a small group of crop input dealers. The questionnaire covered five general topics — firm and market information, business challenges/threats, future opportunities, dealers' perspectives of their current and future roles, and firm financial data. The final 4-page questionnaire was mailed to a sample of 2000 managers of agricultural crop input dealers across the U.S. (see the Appendix for a copy of the questionnaire). To encourage participation, the questionnaire was mailed twice, with the mailings two weeks apart in September and October 2003. The sample was drawn from *Crop Life* magazine's extensive mailing list. As an incentive, a copy of the survey results was offered to participants. A total of 351 questionnaires were returned, with 334 being usable, providing an effective response rate of 17 percent.

All statistical tests were done using a Chi-squared test for significance or an Anova test of means. Significant levels of difference are highlighted at $p < .05$. Breakouts included firm size (under \$3 million in total annual retail crop input sales, \$3 to \$15 million sales, over \$15 million in sales); firm type (cooperative, privately owned and publicly owned); Midwest vs. other states, market capacity levels and market competition levels. Any statistically meaningful differences have been pointed out in the text and/or charts presented in this report.

Results

Firm Characteristics of Respondents

As indicated earlier, the sample was drawn from across the United States and firms were asked to describe their geographic scope; whether they were a national firm, operated within a single state, or were a regional (multi-state) firm. Over half of the respondents said that their firm operated within one state (57 percent), while over a third said their firm was regional (37 percent). Only 6 percent of the respondents indicated that their firm was national in scope (Figure 1).

Figure 1. Geographical Scope of Respondents' Firms

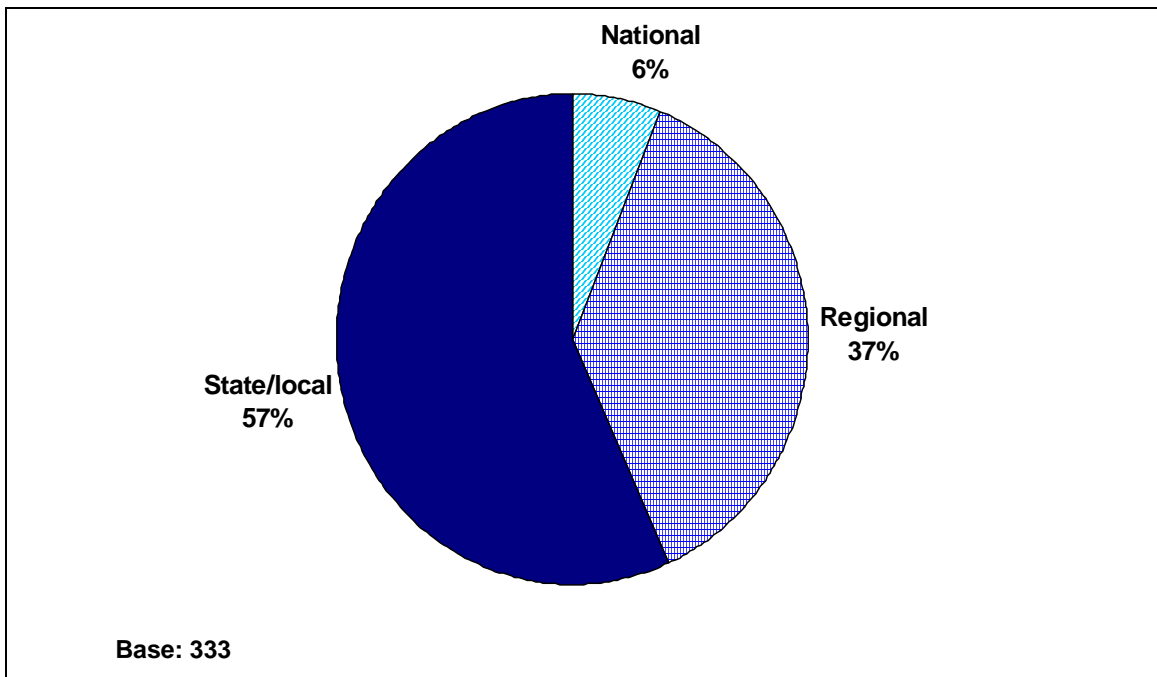


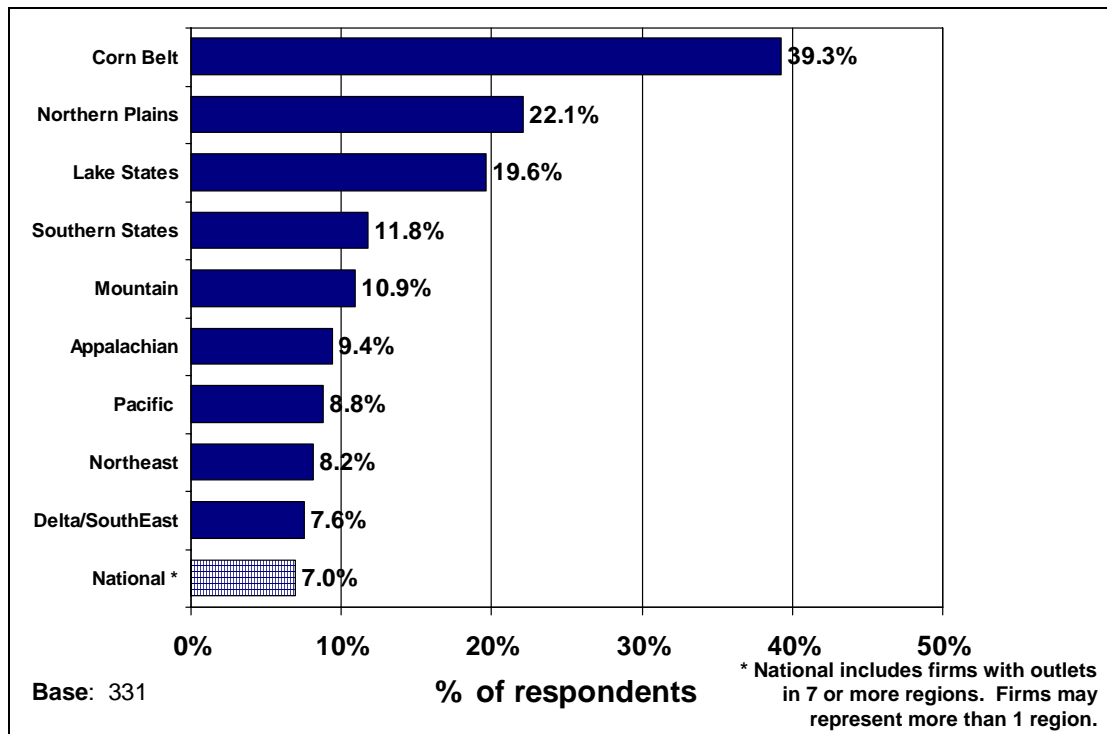
Table 1 shows the states included in each region while Figure 2 shows the number of respondents representing each region. Multi-region firms were counted in each region they did business in. Those multi-region firms who did business in 7 or more regions were counted as having a national scope. The most common geography represented was the Corn Belt, with over a third of the respondents indicating their firm was located either within one state in the Corn Belt or they did business within the Corn Belt region (39 percent). Regions surrounding the Corn Belt were also represented by a fairly high percentage of respondents: the Northern Plains region was represented by 22 percent of the respondents while the Lake States region was represented by 20 percent of the respondents.

Table 1. States Included in Each Region

Region	States Included
Corn Belt	Illinois, Indiana, Iowa, Missouri, Ohio
Northern Plains	Kansas, Nebraska, North Dakota, South Dakota
Lake States	Michigan, Minnesota, Wisconsin
Southern Plains	Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Appalachian	Kentucky, North Carolina, Tennessee, Virginia, West Virginia
Pacific	California, Oregon, Washington
Northeast	Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Delta/Southeast	Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, South Carolina

To determine the impact of geography on participants' responses, differences in results were examined by a geographic breakout. The "Midwest" was defined as firms in the Corn Belt, Northern Plains and Lake States. All other states were grouped together. The total number of respondents in the Midwest was 223 (67 percent) while the total number in the other states was 110 (33 percent).

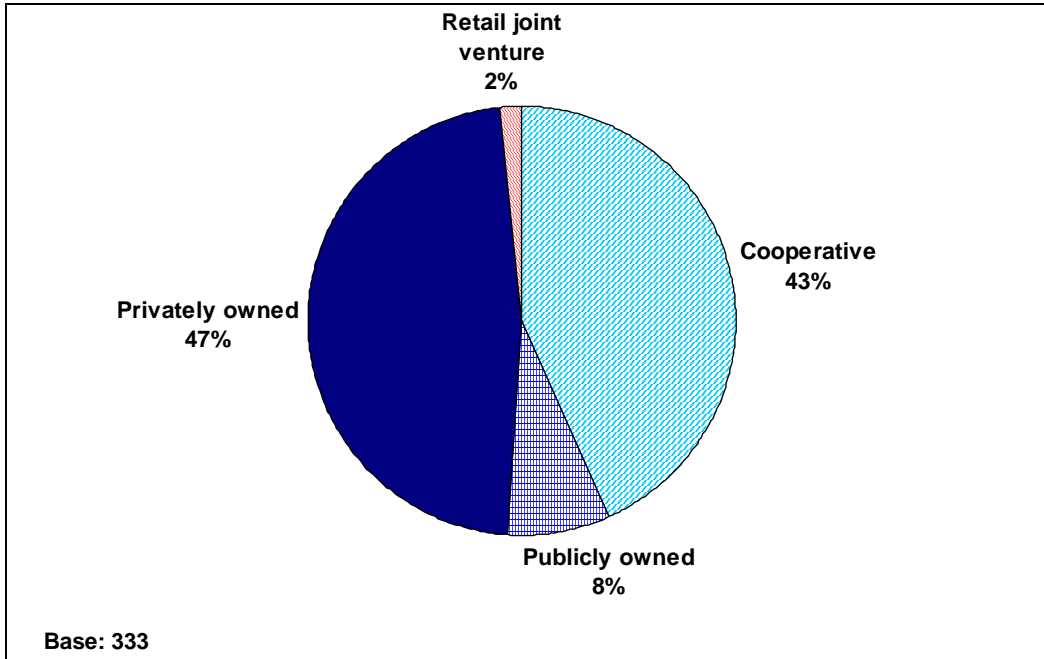
Figure 2. Regions Represented



In almost half of the cases, the responding firm was privately owned (47 percent). Cooperatives comprised 43 percent of respondents (Figure 3). Only 8 percent of respondents said

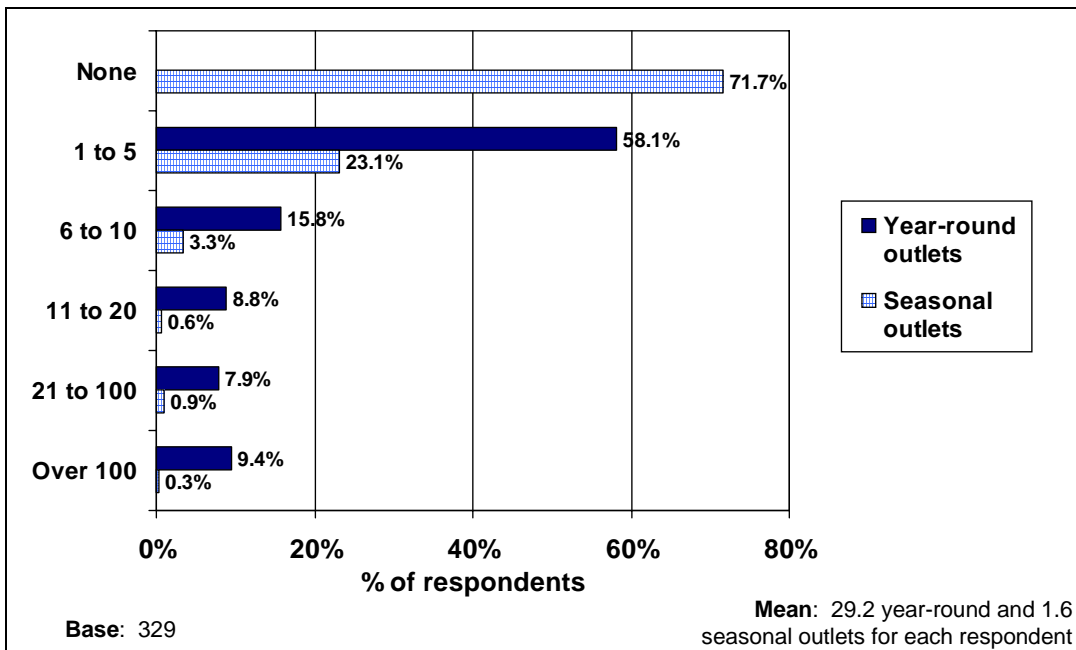
their firm was publicly owned and 2 percent said their firm was a retail joint venture between a publicly-owned firm and a cooperative. For the purposes of determining if the type of firm had any impact on the respondent's perspectives, retail joint ventures were included with those respondents who represented firms that were publicly owned.

Figure 3. Type of Firm



On average, responding firms owned or managed 29 year-round outlets and 1.6 seasonal outlets. However, over half of the respondents reported that their firm managed 1 to 5 year-round retail outlets and 72 percent of the respondents said their firm had no seasonal outlets (Figure 4).

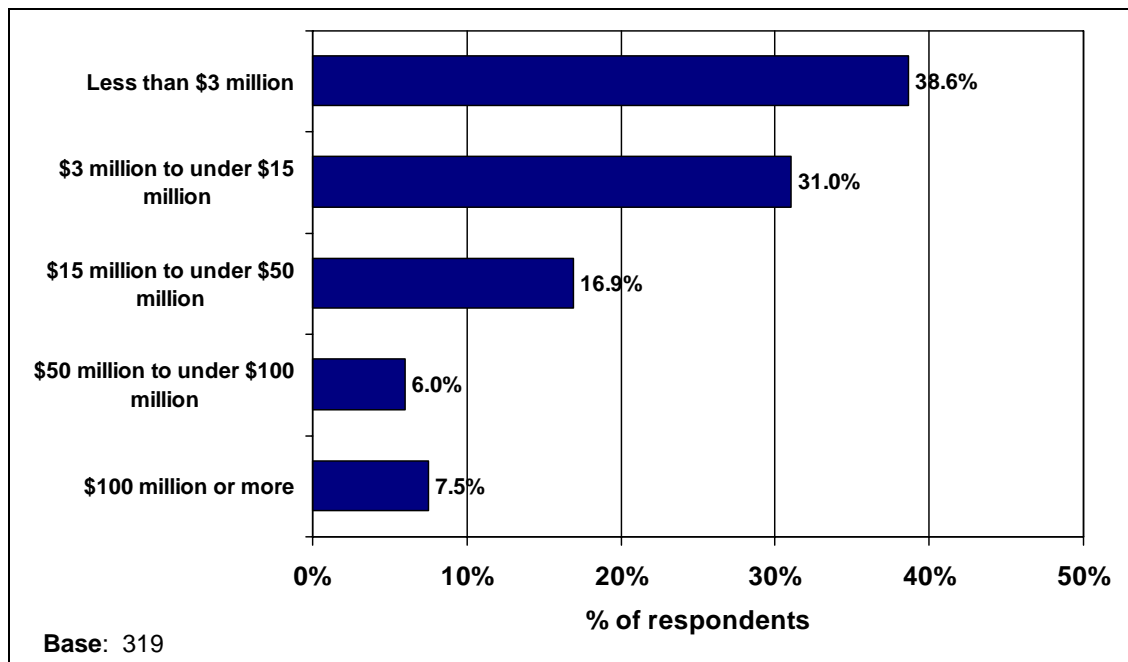
Figure 4. Number of Retail Outlets Owned or Managed



Over two-thirds of the respondents represented firms with total annual retail crop input sales of less than \$15 million in the most recent fiscal year (Figure 5). Almost 4 out of 10 respondents said their firm had total retail sales of crop inputs of less than \$3 million. At the other end of the spectrum, 8 percent said their firm had \$100 million or more in total retail sales of crop inputs.

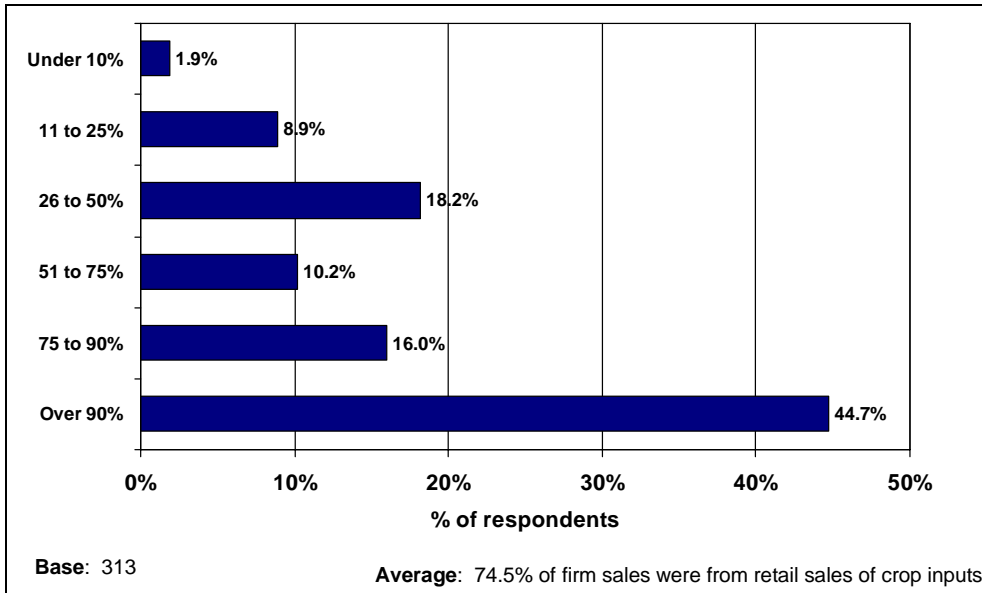
Firms were split into 3 size categories: Small (total retail crop input sales of less than \$3 million), midsize (\$3 to under \$15 million in retail crop input sales) and large (retail crop input sales of \$15 million or more). Smaller firms were more likely to be privately owned, while larger firms were more likely to be either publicly owned or cooperatives. Over half of the firms with over \$15 million in retail crop input sales were regional while two-thirds of the smaller firms were state or local. The larger the firm in terms of retail crop input sales, the more year-round outlets the firm was likely to have but there was no statistical difference in the number of seasonal outlets across firm size classes.

Figure 5. Retail Sales of Crop Inputs for Total Firm in Most Recent Fiscal Year



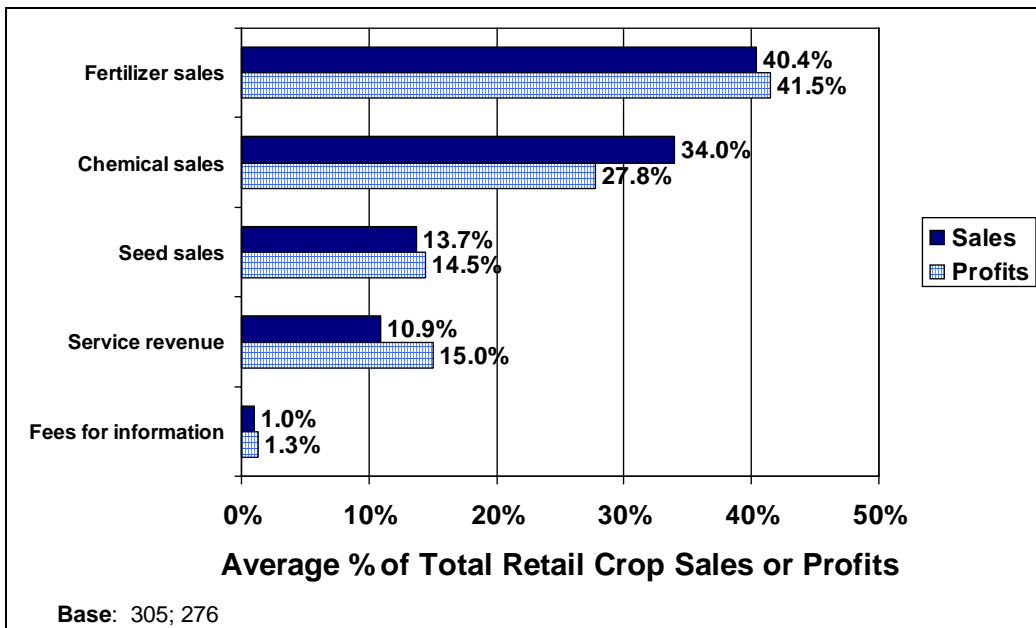
Most of the respondents represented firms who were primarily retail crop input dealers. Almost three-quarters of the respondents (71 percent) said that over half of their firm's total sales were from retail sales of crop inputs and 45 percent said that over 90 percent of their total firm sales last year were retail sales of crop inputs (fertilizer, crop protection chemicals, seed, and services) (Figure 6). Though there were no differences in size of firm, cooperatives were most likely to have sales outside the retail crop input category. On average, only 62 percent of the cooperatives' total firm sales were from retail crop inputs. This compares to 84 percent for publicly-owned firms and 82 percent for privately-owned firms.

Figure 6. Proportion of Total Firm Sales from Retail Sales of Crop Inputs



Respondents were asked to further breakdown their retail crop input sales and profit figures into the proportion from fertilizer, chemicals, seed, service revenue and fees for information. They were also asked to project the sales and profit mix they expected in 3 to 5 years. On average, fertilizer sales made up 40 percent of the total current retail crop input sales (Figure 7), followed by chemical sales (34 percent), seed sales (14 percent) and service revenue (11 percent). The profit mix reflected this same pattern, though chemical sales accounted for relatively less profit than sales (28 percent of profit, on average) while service revenue accounted for a relatively higher proportion of profits (15 percent of profit, on average).

Figure 7. Current Sales and Profit Mix for Retail Crop Input Sales



In 3 to 5 years, a similar pattern in sales and profits was expected (Figure 8), though there were some differences in the exact mix. Expected changes were explored in more detail in Figure 9, which shows the average percentage point difference between the current level of sales and profits and the levels expected in 3 to 5 years. The biggest change in both sales and profits was expected for chemicals. Chemical sales were expected to drop an average of 6.5 percentage points while chemical profits were expected to decrease an average of 5.1 percentage points. The biggest increases in both sales and profits was expected in seed, with sales expected to increase an average of 5.4 percentage points and profits expected to rise almost as much at 5.1 percentage points.

Figure 8. Expected Sales and Profit Mix for Retail Crop Input Sales in 3 to 5 Years

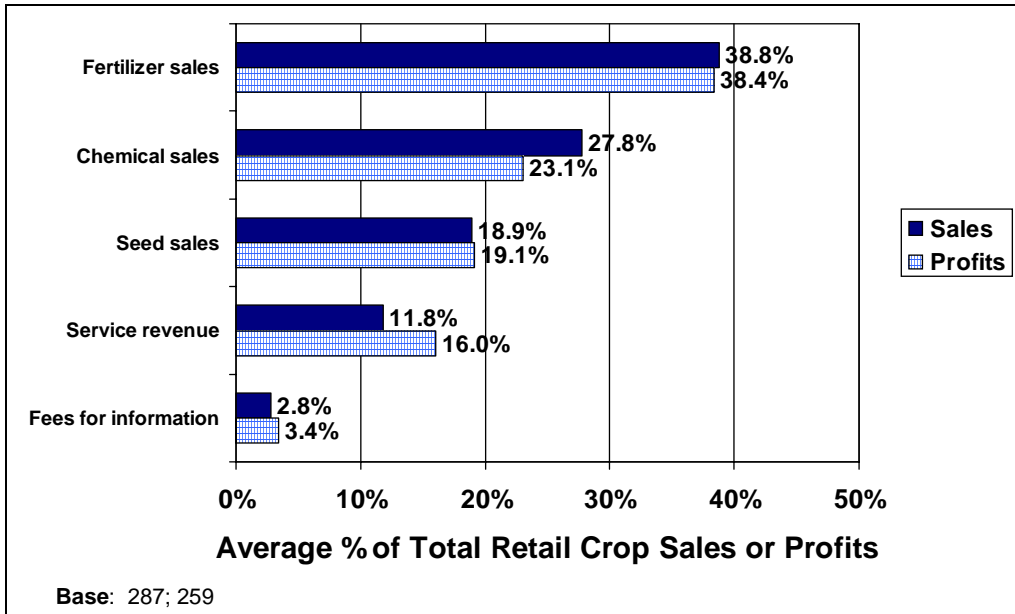
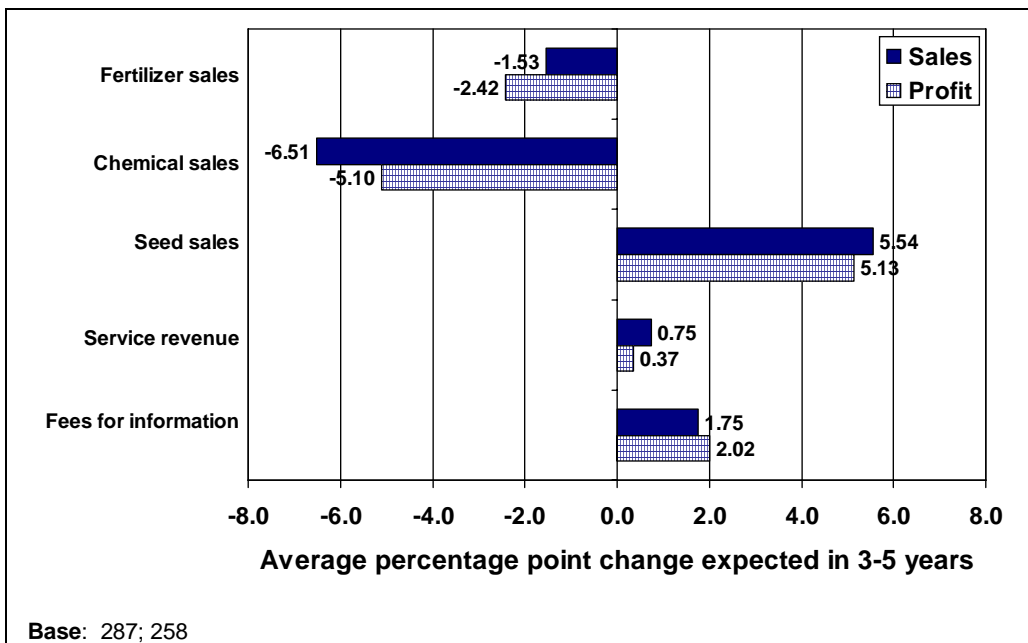


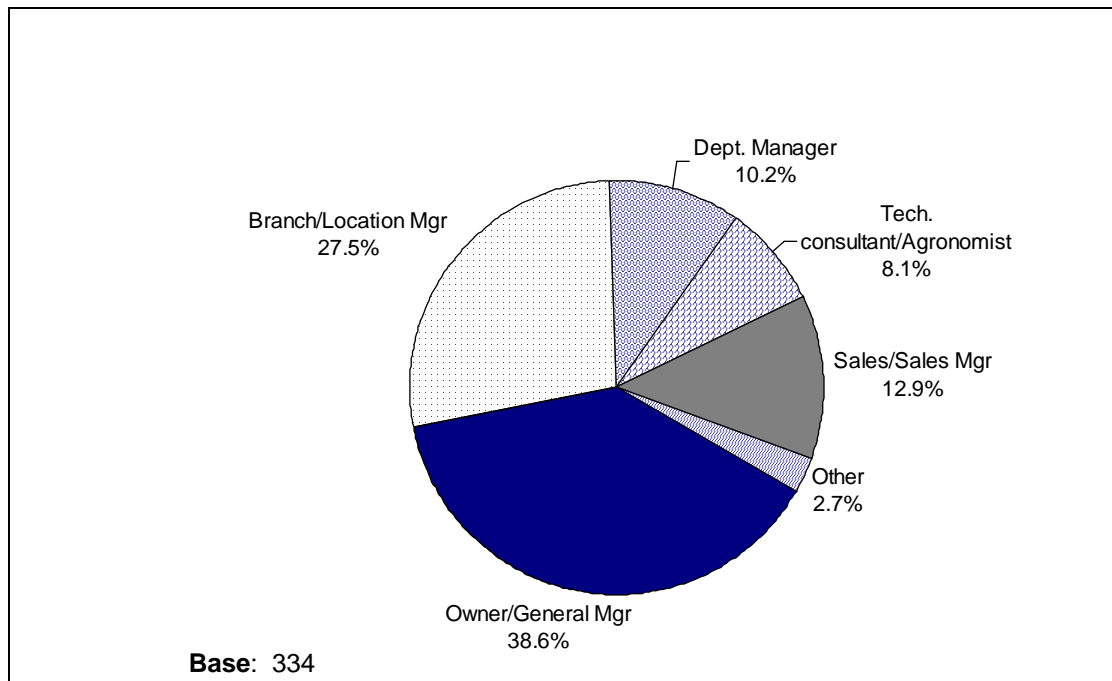
Figure 9. Percentage Point Change in Sales and Profits Expected



Respondent Characteristics

Most commonly, the person filling out the survey was the Owner or General Manager of the dealership (39 percent of respondents) followed by the Branch or Location Manager (28 percent) (Figure 10). Sales and sales managers, department managers and technical consultants/agronomists rounded out the respondent positions within the firm. As might be expected, the smaller the firm (in terms of retail crop input sales), the more likely the respondent was the owner/general manager. Respondents from larger firms were more likely to be branch/location managers or sales/sales management.

Figure 10. Survey Respondent

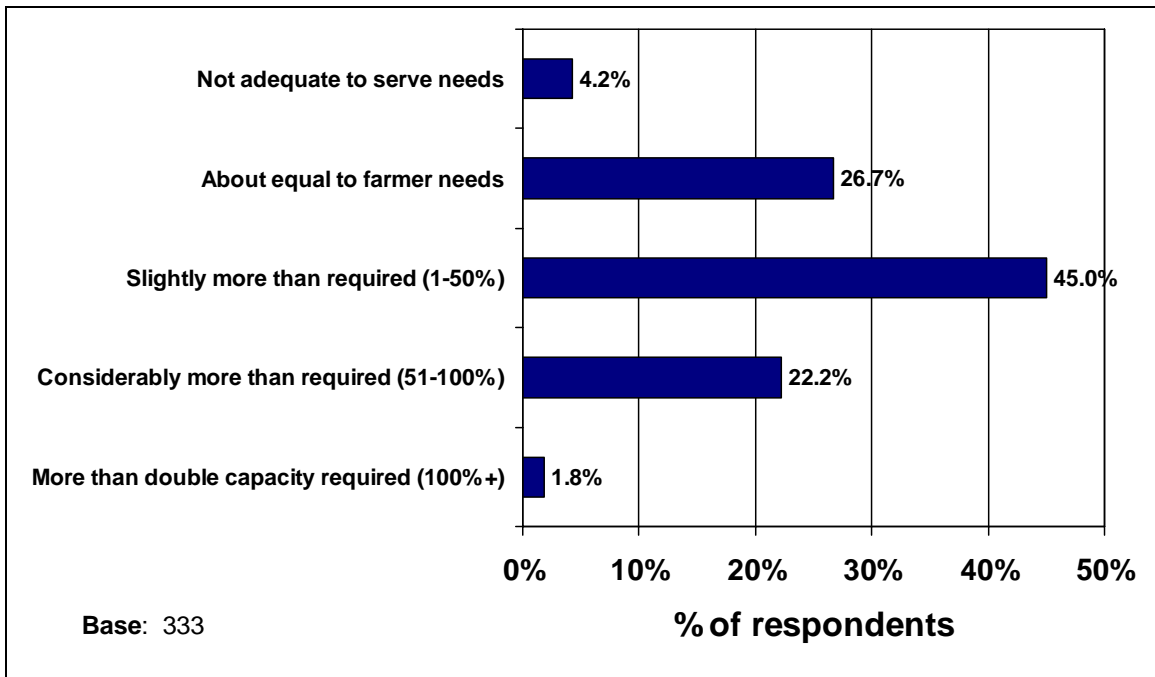


Market Environment

One of the factors with the potential to impact the competitiveness of a market place is the amount of capacity that exists in the market area. If there is excess capacity, there may be more competition as firms try to utilize their available capacity and pursue aggressive strategies to make this happen. To get a better understanding of the respondents' markets, respondents were asked what the total amount of retail dealer capacity was in their market area relative to the total crop input needs of all the farmers in the market area (tons of product, application needs, etc.). They were also asked to rate the level of competition in their market in terms of product prices, product quality, price of services, quality of services and quality of information.

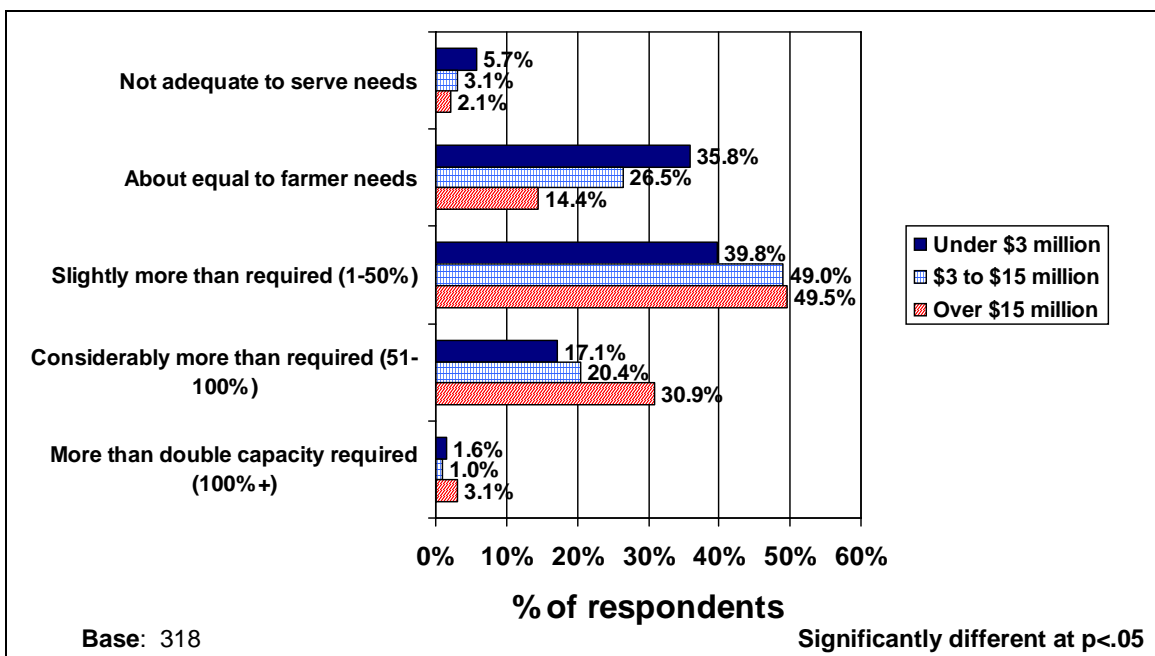
In general, there appeared to be more capacity in the represented markets than required. Only 4 percent of the respondents said that the overall capacity in their market was not adequate to serve farmer needs (Figure 11). Another quarter (27 percent) said that it was about even, while 69 percent said that the available capacity was more than required. This suggests that competitive levels may be high in most of these markets as firms attempt to utilize available capacity.

Figure 11. Capacity in the Market Area with Respect to the Total Crop Input Needs



The larger the firm in terms of retail crop input sales dollars, the more likely they were to say that there was excess capacity in their market area, while the smaller the firm, the more likely they were to say that capacity levels equaled the requirements in the area. While no information was gathered in the survey to explain this finding, it may represent the strategy of multi-location firms to locate in areas where there is significant potential volume. As such strategies are executed, it is possible to see how such high potential areas might be flooded with capacity.

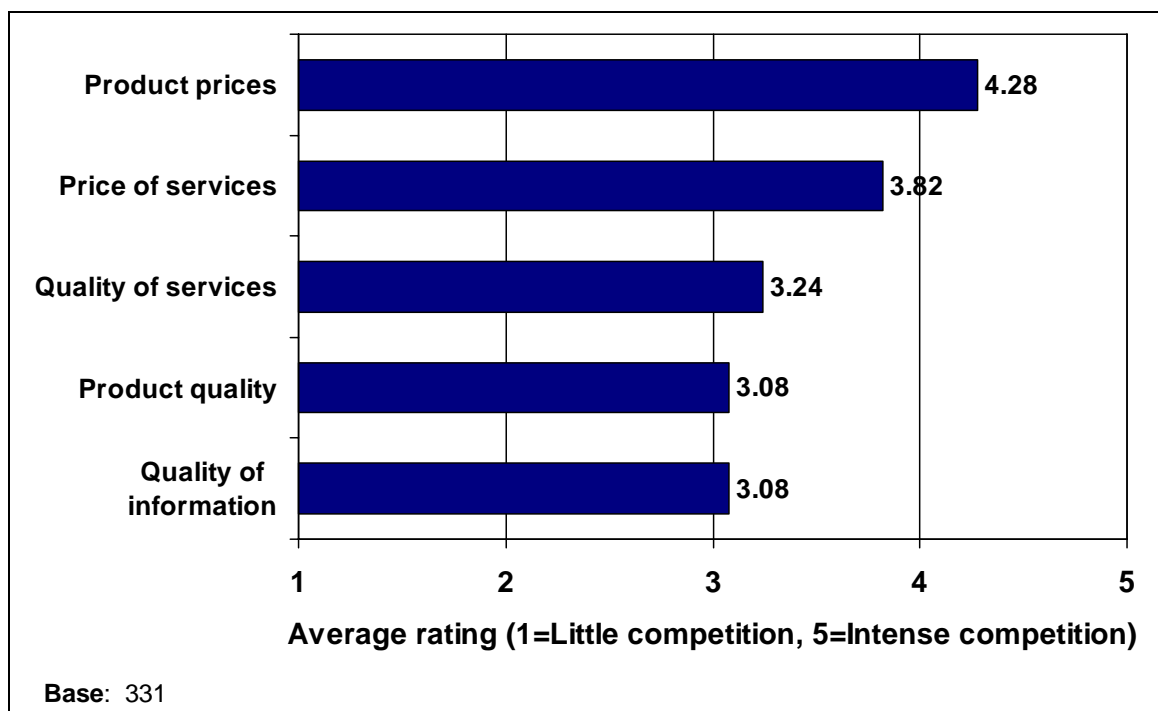
Figure 12. Capacity in the Market Area by Retail Crop Input Sales



For the purpose of exploring the relationship of market capacity and other results, the 5 capacity categories were condensed to 3 categories: at or under capacity (either the retail dealer capacity was not adequate to serve farmer needs or about equal to farmer needs), slightly more capacity than required (1 to 50 percent more than what is required to serve farmer needs), and considerably more capacity than required (51 percent more than required). These 3 categories accounted for 31 percent, 45 percent and 24 of the respondents, respectively.

Respondents were asked to rate the level of competition in their market areas on a 1 to 5 scale, where 1 indicated there was little or no competition and 5 was intense competition. Overall, competitive levels for prices appeared the most intense with an average rating of 4.28 (Figure 13) for product prices and an average rating of 3.82 for the price of services. Quality, in terms of both services and product came next, with the quality of information being the least competitive area.

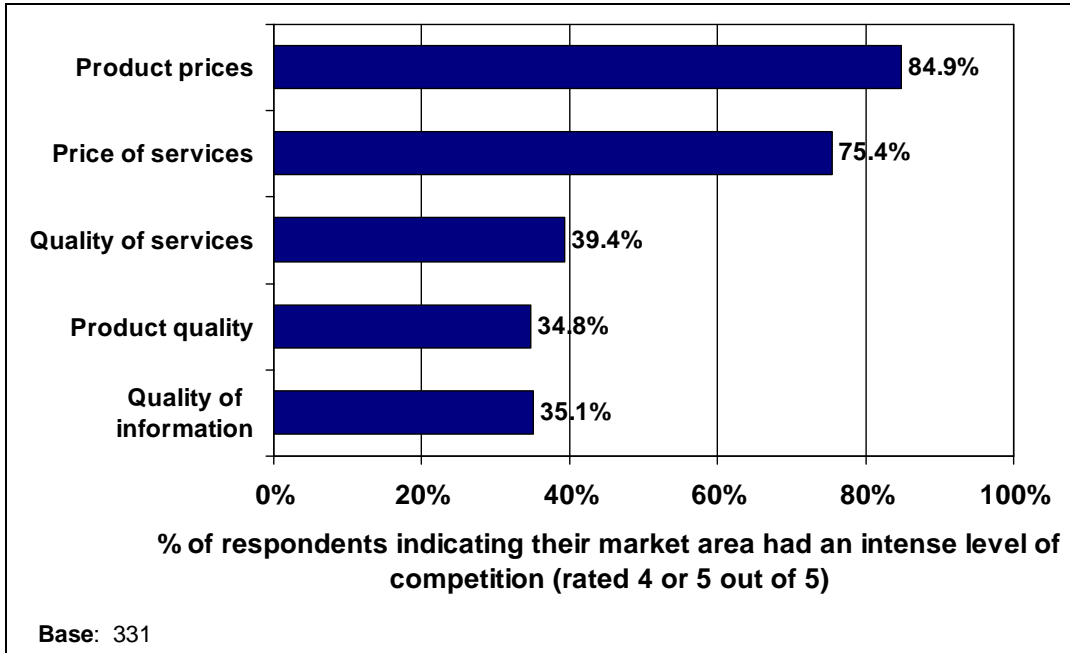
Figure 13. Intensity of Competition



To better understand the level of competition reported,

Figure 14 shows the percentage of respondents who rated the intensity of competition a 4 or 5 out of 5, indicating fairly intense competition. Though the pattern is similar to the average ratings shown in Figure 13, the intensity of price competition is highlighted even more, with over 3 out of 4 respondents indicating that prices in their market area were intensely competitive. Only a third of the respondents rated the quality issues intense areas of competition.

Figure 14. Markets with Intense Competition



To better understand how the market capacity situation is related to the level of competition, the average levels of competition were compared for those who said their markets were at/under capacity, for those who had slightly more capacity required, and for those who had considerably more capacity than required. Across capacity situations, only differences in the competitive level of product prices and the price of services appeared to be statistically significant at $p < .05$ (Figure 15 and Figure 16). In each case, respondents from markets where there was considerably more capacity than required (more than 50% greater than needed) indicated the competitive level was significantly higher than in the other markets.

Figure 15. Excess Market Capacity and Level of Competition for Product Prices

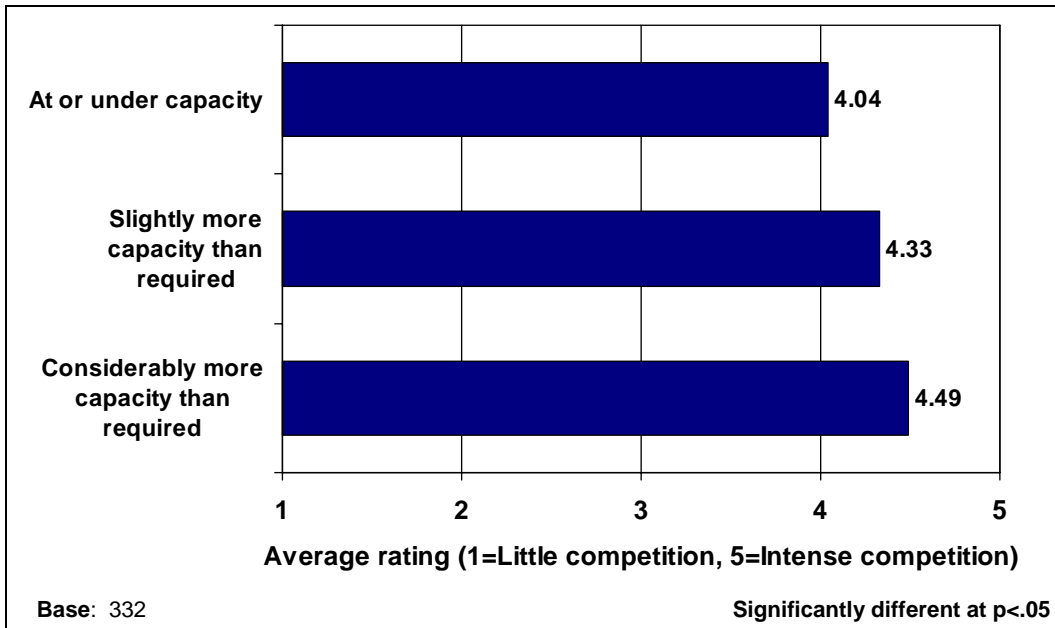
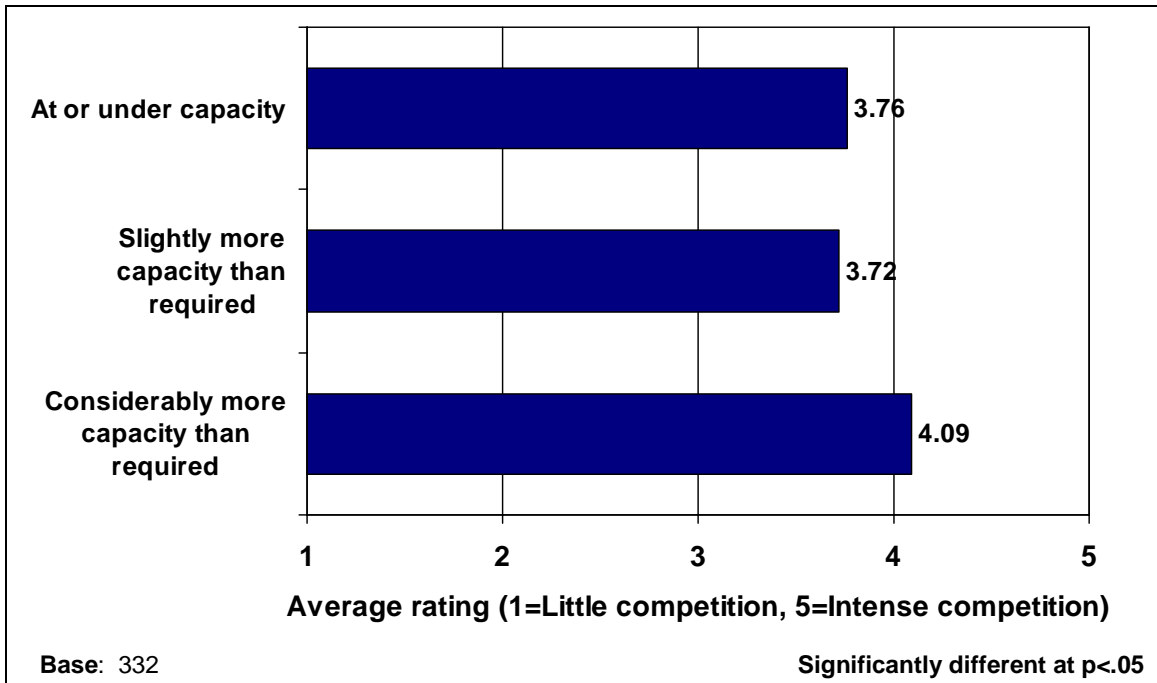


Figure 16. Excess Market Capacity and Level of Competition for Price of Services



There were no significant differences in perceptions of intensity of competition across different types of firms, different firm sizes or geography (Midwest vs. others).

To look at some of the other results across different levels of competitive intensity, firms were put in a category of being in a “highly competitive market” if they rated the competition in their market a 4 or 5 out of 5 in at least 4 of the 5 competitive areas. Approximately a third of the respondents fit into this category (31 percent). These firms were not different in terms of size, company type or

geography (Midwest versus other states). The respondents from highly competitive markets did appear to have a higher proportion of their profits derived from fertilizer sales and relatively lower level of profits from service revenue than those in less competitive areas, though no data is available on the overall level of profits of any group.

Future Business Challenges and Opportunities

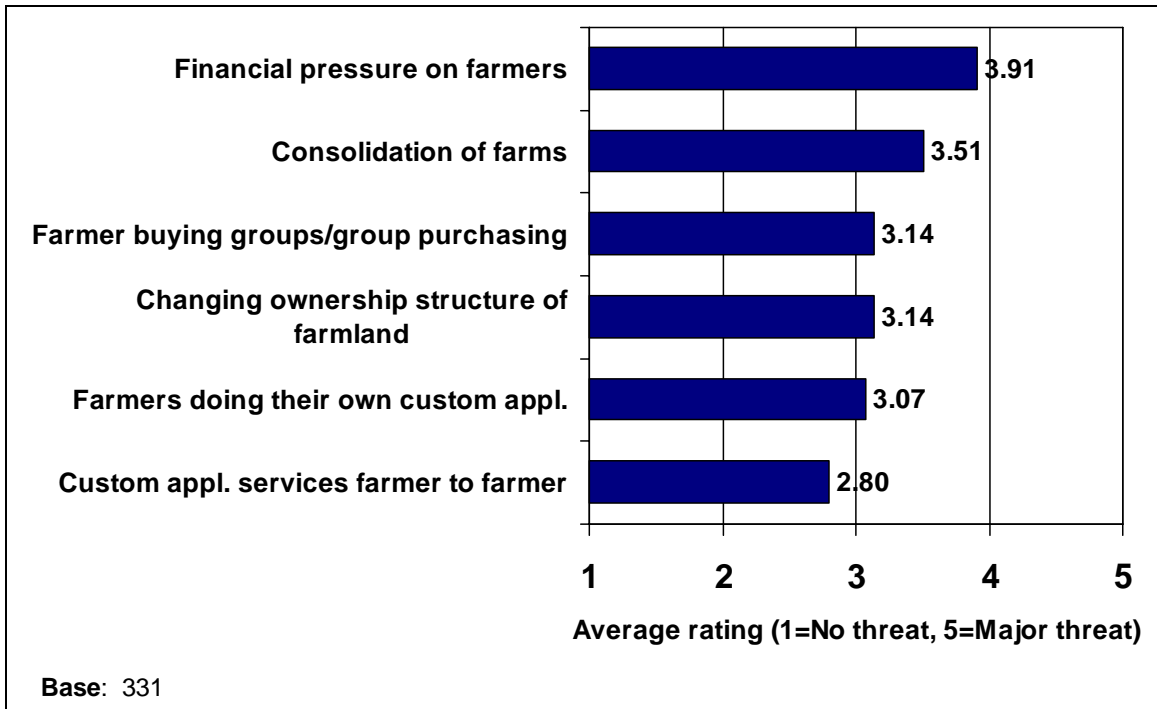
Respondents were asked to rate a series of business challenges/threats and future opportunities that could potentially affect the profitability of their firm in the next 2 to 3 years. Business challenges/threats included customer issues, manufacturer/distributor issues, competitor issues, technology issues and general issues. Each threat was rated on a 1 to 5 scale, with 1 being no threat and 5 being a major threat. Future opportunities included market issues, agronomic services, product opportunities, manufacturer/purchasing opportunities and new business models/operating efficiencies. Each future opportunity was rated on a 1 to 5 scale, with 1 being no opportunity in 2-3 years and 5 being a major opportunity.

Expected Business Challenges

The first business challenges/threats to firm profitability that respondents were asked to rate were customer challenges. The biggest threat to dealer profitability in this area was financial pressure on farmers, with an average rating of 3.9 out of 5 (Figure 17). Changes in farm structure were next, with consolidation of farms, farm buying groups and changing ownership structure of farmland being the next highest ratings. Farmers doing their own custom application of products and custom application services offered by farmers to other farmers were not seen to be major issues by responding dealers.

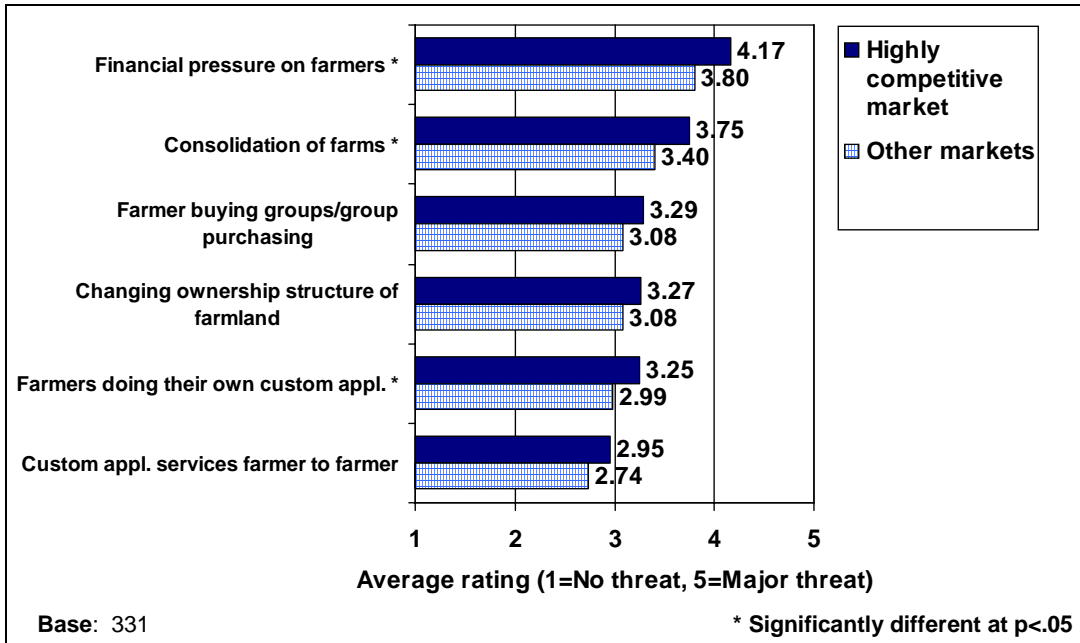
Midsized firms (total annual retail crop input sales of \$3 to \$15 million) were more concerned about farmers doing their own custom application than were firms in the other size classes (3.3 out of 5 for midsized firms compared to 3.0 for both smaller and larger firms). This same attitude was not reflected in the differences by firm type even though cooperatives were more likely to be midsized firms.

Figure 17. Future Challenges: Customer Issues



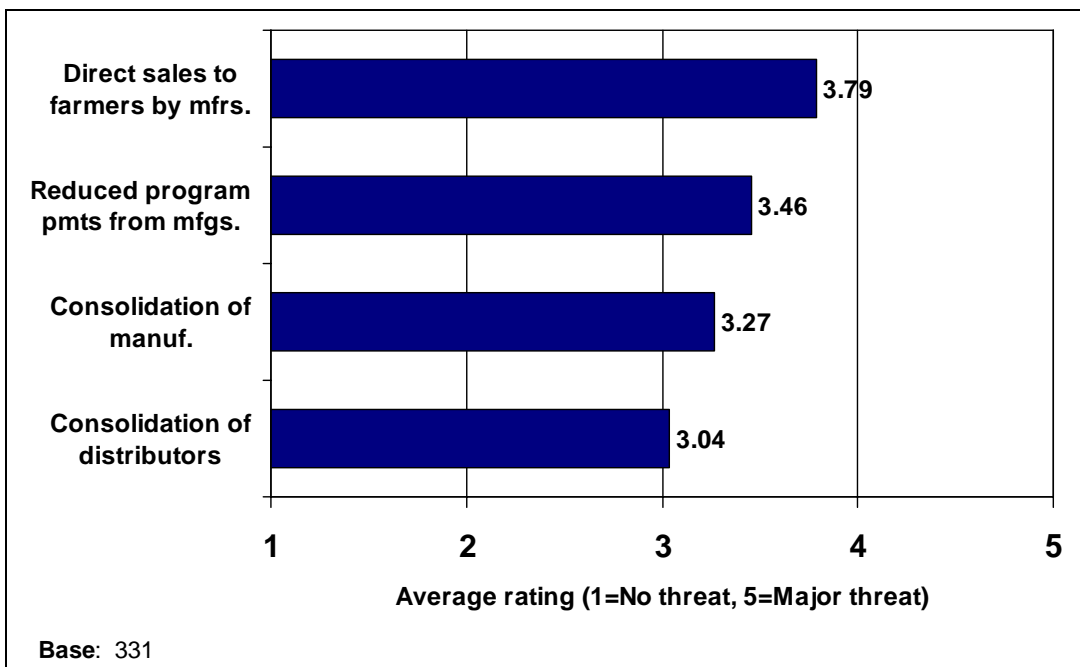
Looking at the customer threats/challenges by the competitive intensity in the market gives some indication of the underlying dynamics contributing toward the competitiveness. Respondents from more competitive markets rated the threat of financial pressure on farmers, further consolidation of farms, and farmers doing their own custom application significantly more of a challenge in the next 2 to 3 years than did respondents from less competitive markets (Figure 18). Though not statistically different at $p < .05$, the other customer issues were rated as being a greater threat as well by those in more competitive markets.

Figure 18. Future Challenges: Customer Issues by Market Competition Level



The highest rated threat among the manufacturer/distributor issues was direct sales to farmers by manufacturers of crop inputs (rated an average of 3.8 out of 5) (Figure 19). Reduced program payments from basic crop protection manufacturers were rated second highest at 3.5. Neither consolidation of basic manufacturers nor consolidation of distributors were seen as critical threats to future profitability.

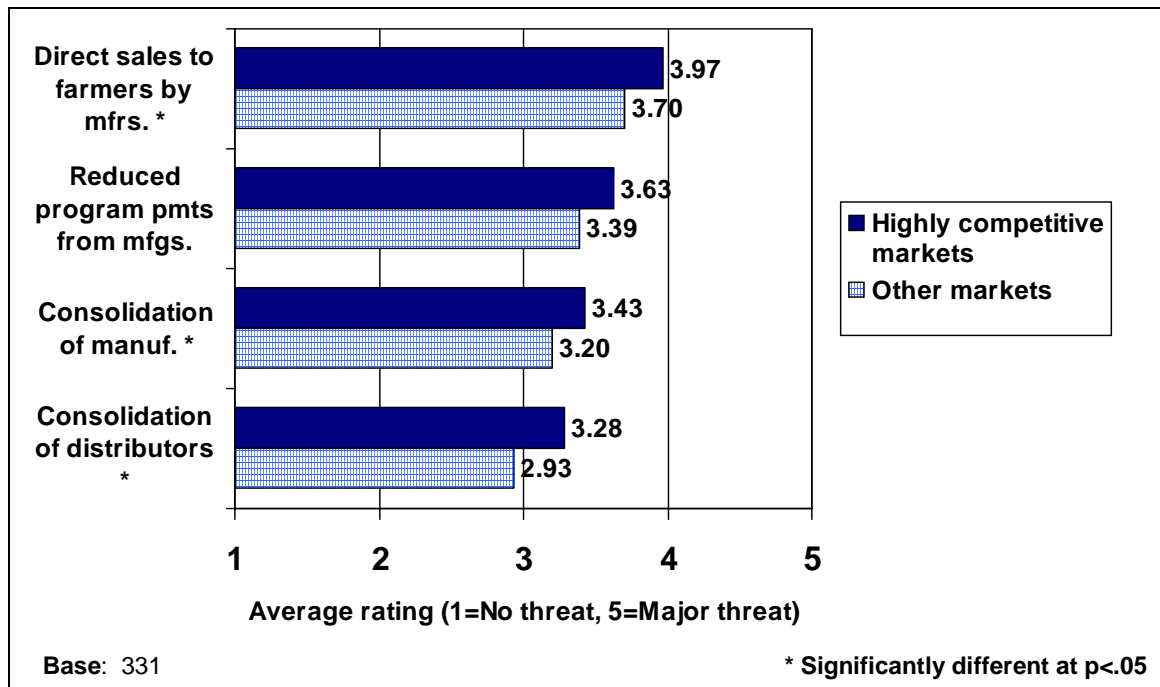
Figure 19. Future Challenges: Manufacturer/Distributor Issues



Consolidation of both manufacturers and distributors was considered more of a threat for the smaller firms (less than \$3 million total annual retail crop input sales) than the larger firms, potentially because of limited purchasing power and less leverage smaller firms have with their suppliers. On the other hand, the threat of reduced program payments from manufacturers was seen as a significantly greater threat for larger firms.

In comparing highly competitive markets to less competitive markets, several manufacturer/distributor issues were perceived to be more of a threat in highly competitive markets than in less competitive markets. Direct sales to farmers by manufacturers and consolidation at both the manufacturer level as well as the distributor level were perceived to be much greater threats to future profitability of firms in highly competitive markets than for firms in the other markets (Figure 20).

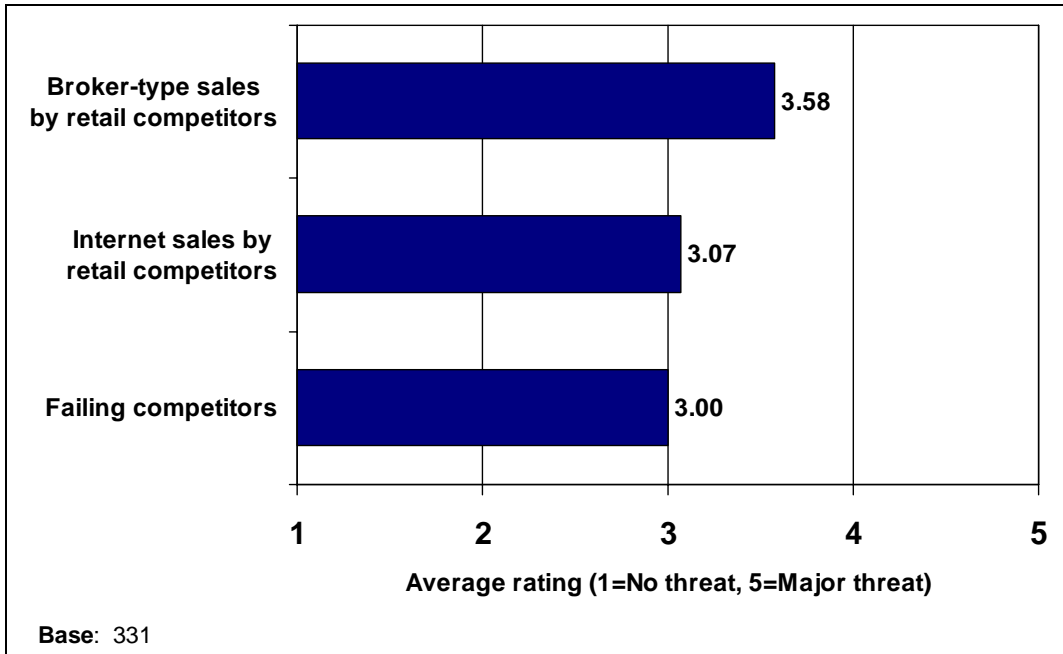
Figure 20. Future Challenges: Manufacturer/Distributor Issues by Market Competition Level



Of the 3 potential threats/challenges due to competitor issues, only one was rated higher than a neutral score. Broker-type sales of crop inputs by retail competitors was perceived as the biggest challenge to future profitability, rated 3.6 out of 5 (Figure 21). Neither internet sales by retail competitors nor failing competitors who struggle to survive were seen as major challenges in the future.

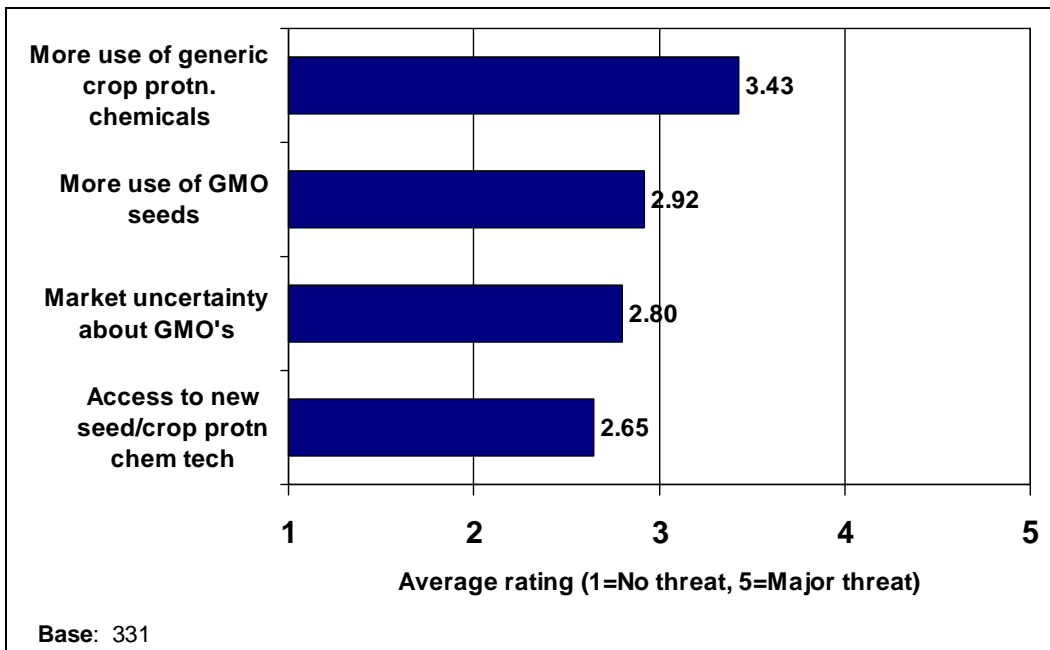
Broker-type sales of crop inputs by retail competitors were perceived as being a bigger threat by midsized firms (\$3 to \$15 million in total annual retail sales) than either larger or smaller firms.. None of the competitor issues were rated significantly different between respondents of highly competitive markets and those from other markets.

Figure 21. Future Challenges: Competitor Issues



In general, technology issues were not seen as major challenges to future profitability. The highest rated technology issue was the increased use of generic (private label/non-branded) crop protection chemicals, rated 3.4 out of 5 (Figure 22). The other technology issues (use of genetically modified (GMO) seeds with input traits, market uncertainty about GMO's and access to new seed or crop protection chemical technology) were not seen to be major threats by responding dealers.

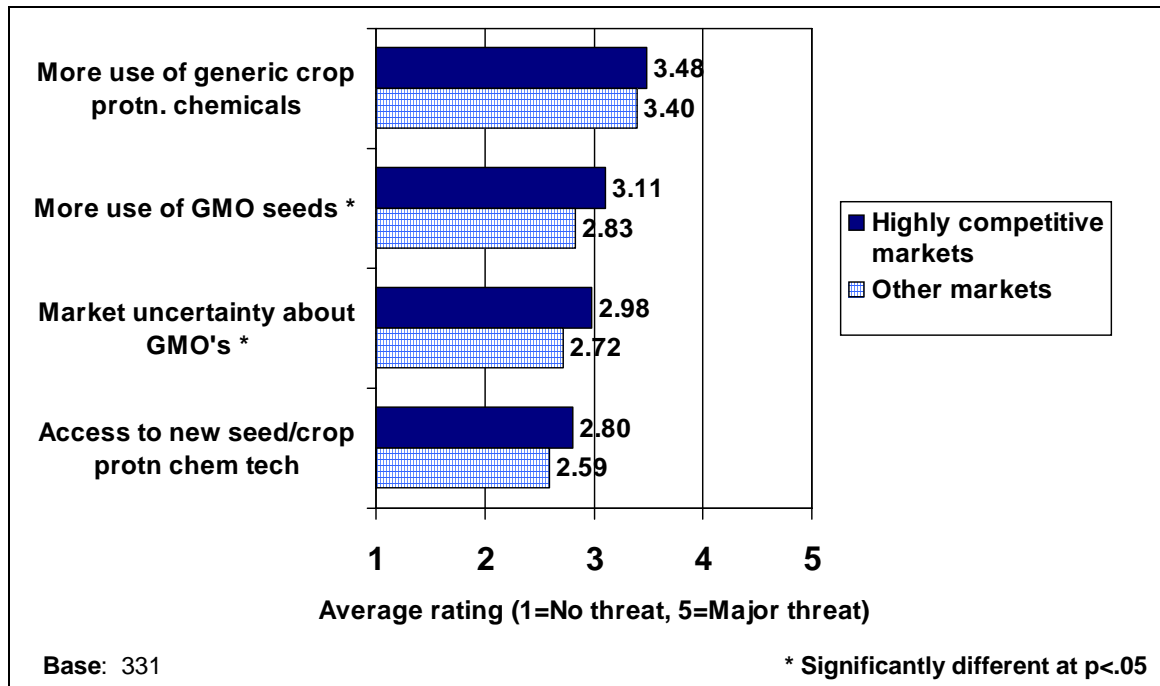
Figure 22. Future Challenges: Technology Issues



The technology issues specifically related to GMO's were perceived to be greater threats in highly competitive markets than in other markets (Figure 23). Both increased use of GMO seeds and market uncertainty about GMO's were perceived to be significantly greater threats in competitive markets, though the overall ranking of the technology issues did not change.

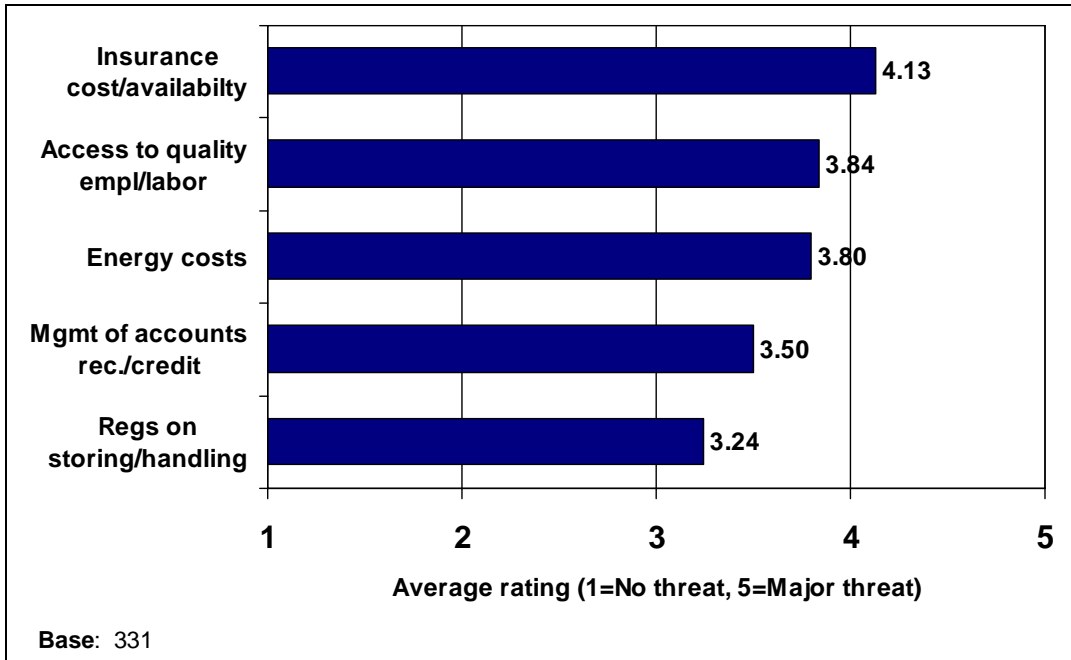
The smallest firms (under \$3 million in total annual retail crop input sales) rated the increased use of generic crop protection chemicals less threatening to profitability than did larger firms.

Figure 23. Future Challenges: Technology Issues by Market Competition Level



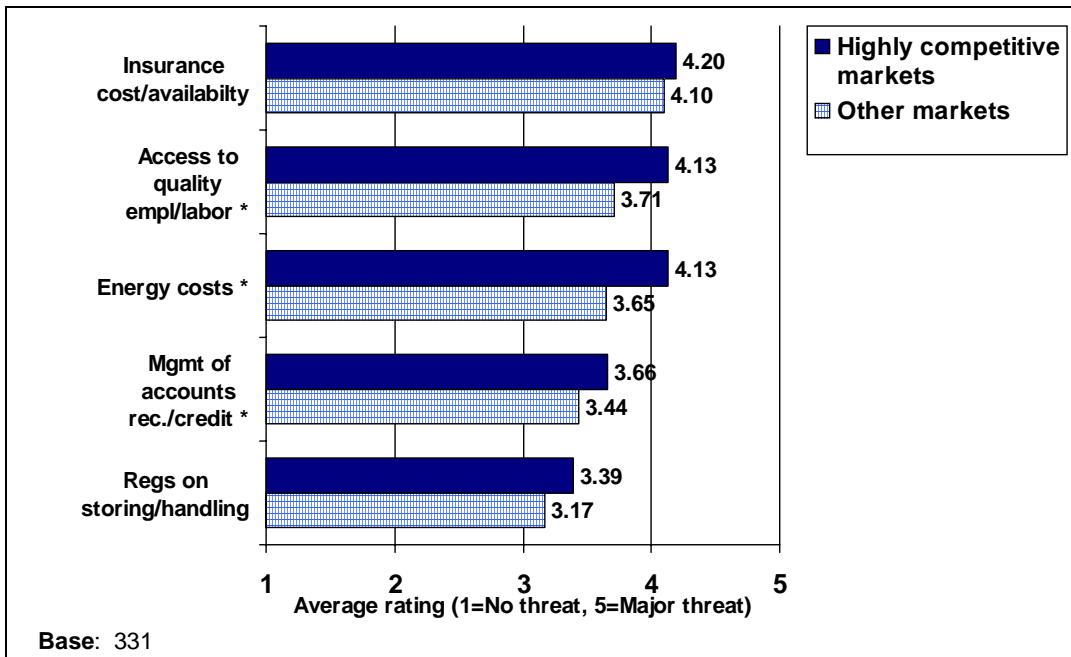
Among the general issues asked about, the one that respondents perceived to be the biggest threat to profitability was the cost and availability of insurance, rated 4.1 out of 5 (Figure 24). Access to quality employees/labor and energy costs were also seen as potentially significant challenges to future profitability, both rated approximately 3.8 out of 5. Two other threats that some respondents were concerned about were the management of accounts receivable/credit and regulations on storing and handling crop input purchases.

Figure 24. Future Challenges: General Issues



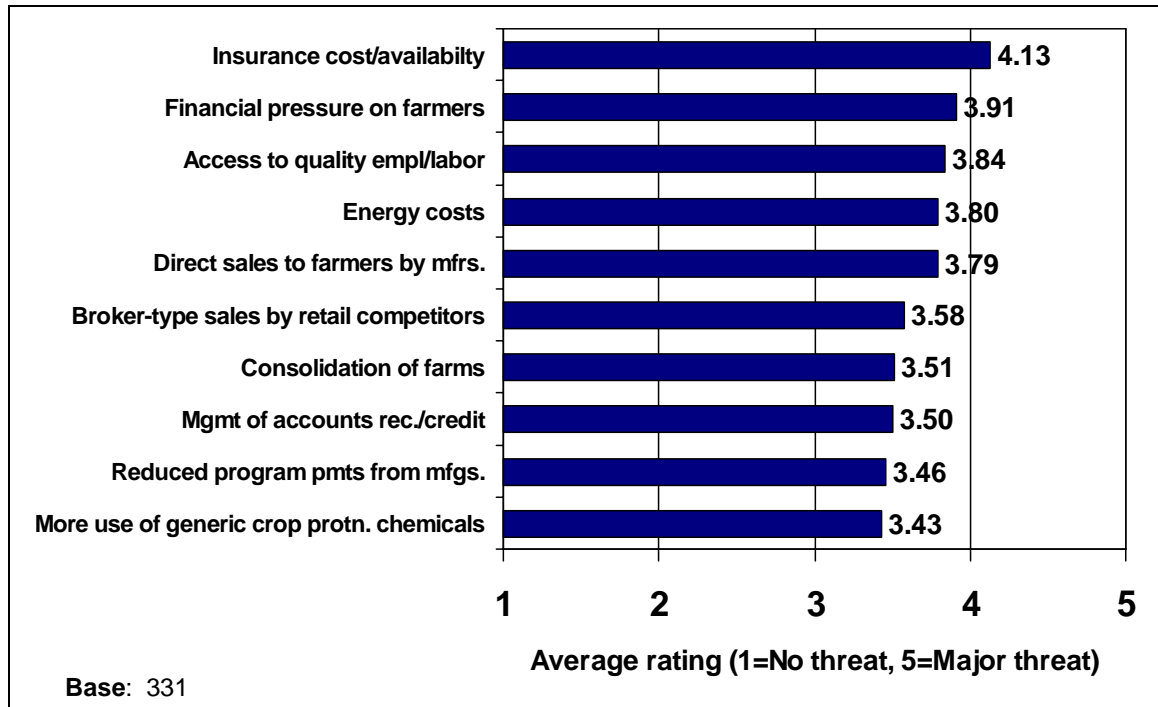
The competitive environment also affected respondents' ratings of potential general threats. Insurance/cost of insurance was still the top rated general issues challenge, however access to quality employees and labor and energy were both rated second at 4.13 out of 5 (Figure 25). Intense competition in a market for sales and profits may carry over into intense competition for employees as well. Management of accounts receivable/credit was also rated a significantly greater challenge by those in competitive markets.

Figure 25. Future Challenges: General Issues by Market Competition Level



To summarize the threats and challenges respondents were most concerned about; Figure 26 shows the top 10 challenges across all categories. Insurance cost/availability was the highest rated challenge expected, followed by financial pressure on farmers and access to quality employees/labor. Energy costs were another important threat to profit. On the sales side, direct sales to farmers by manufacturers and broker-type sales by retail competitors were both in the top 10.

Figure 26. Top 10 Challenges Expected



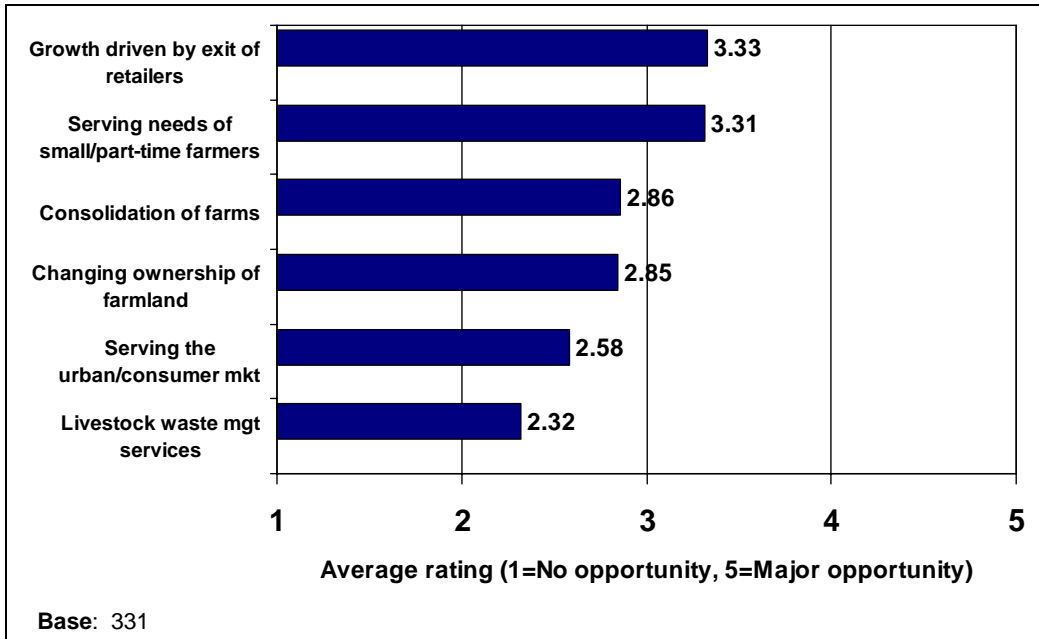
Expected Business Opportunities

Respondents were asked to rate several types of business opportunities on the perceived impact they would have on enhancing profitability for the firm in the next 2 to 3 years.

Overall, the biggest differences in perceptions of opportunities occurred between firms of different sizes – perhaps due to their different levels of resources and channel power. These differences are pointed out throughout this section. And, unlike the challenges/threats, the competitive intensity of the market did not seem to impact how respondents viewed different opportunities.

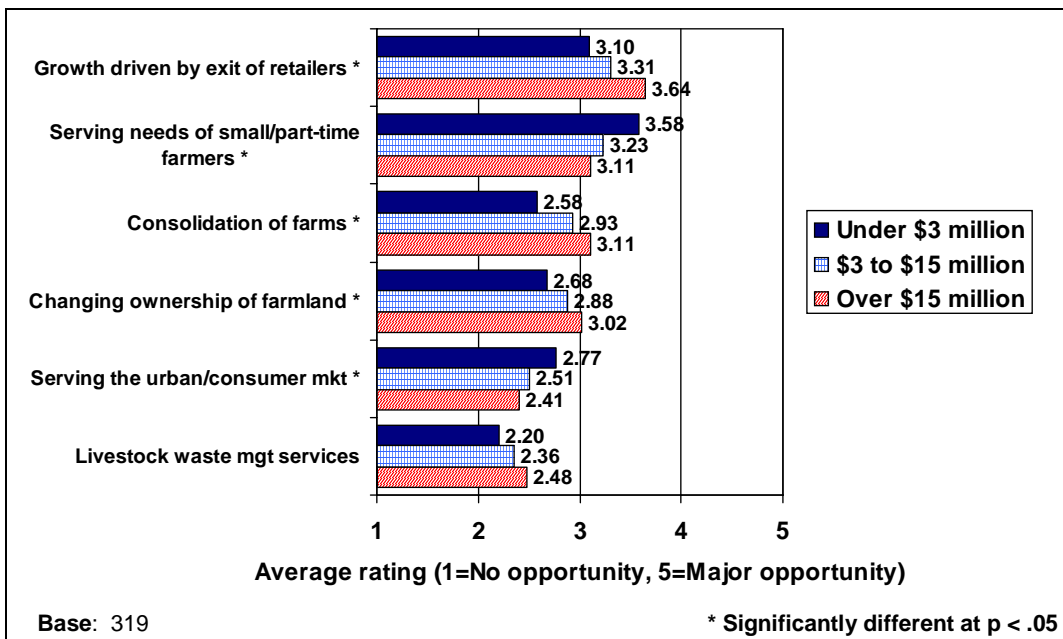
Of the 6 market issues explored, the highest 2 rated opportunities were: growth driven by the exit of other dealers in the market area and serving the needs of smaller, part-time farmers (both rated 3.3 out of 5) (Figure 27). Neither consolidation nor changing ownership of farmland appeared to offer much opportunity, nor did the urban/consumer market or livestock waste management services.

Figure 27. Future Opportunities: Market Issues



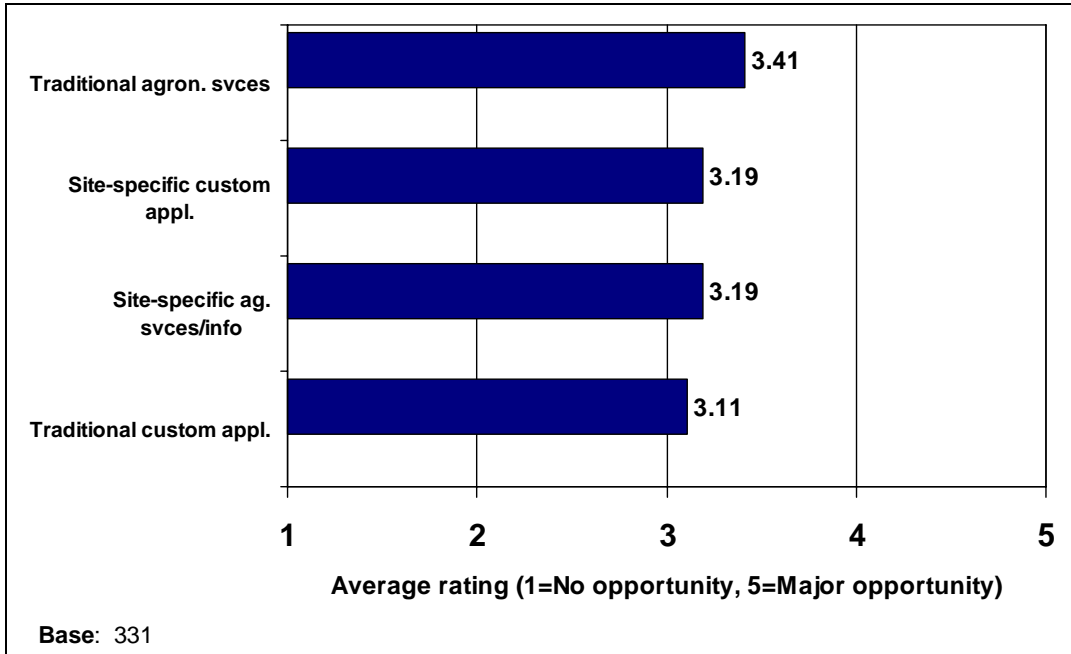
Among market issues, smaller firms (under \$3 million in total retail crop input sales) saw more opportunities in the areas of serving the needs of smaller, part time farmers and the urban consumer market than did the larger firms (Figure 28). The other market issues, though, were rated as potentially providing more opportunity to enhanced profitability by the larger firms than the smaller firms. Only livestock waste management services were not rated significantly different by one size firm over another.

Figure 28. Future Opportunities: Market Issues by Firm Size



Among the agronomic services considered, traditional agronomic services (not custom application) were expected to offer the greatest potential for enhanced profitability, and rated an average of 3.4 out of 5 (Figure 29). Site-specific (precision) agricultural services and site-specific (precision) custom application services were both rated an average of 3.2 out of 5. Traditional custom application services were rated as having the least opportunity for enhanced profit among the 4 service areas explored.

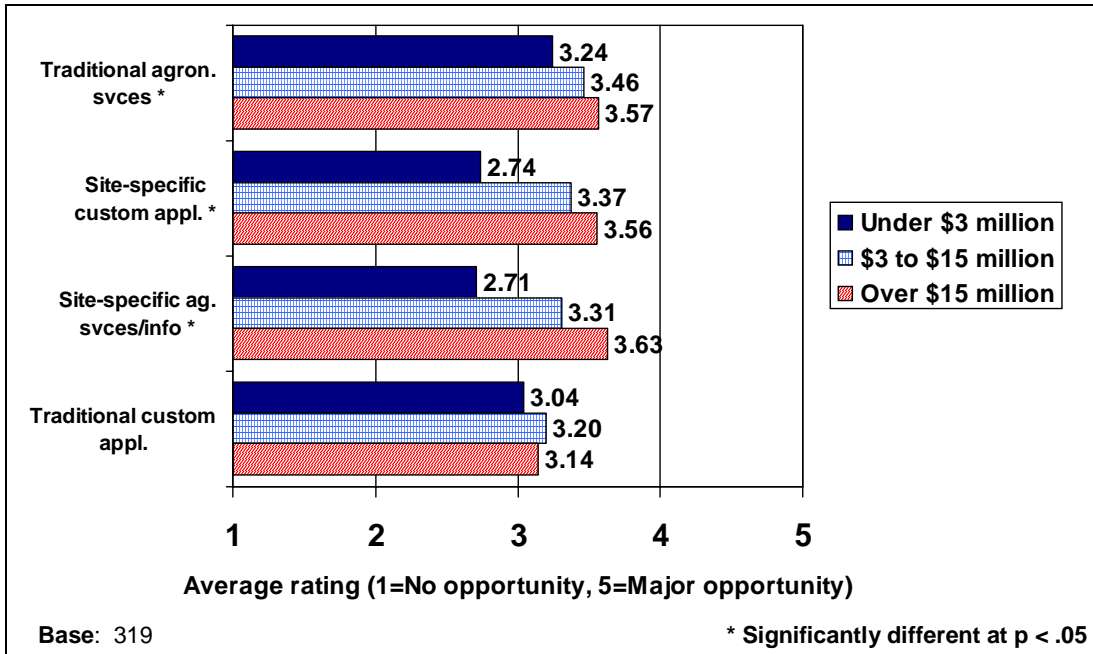
Figure 29. Future Opportunities: Agronomic Services



The potential impact on profit of several of the agronomic services varied by firm size. With the exception of traditional custom application services, all of the agronomic services were rated higher by large firms (over \$15 million in total annual retail crop input sales) than by midsize or smaller firms (Figure 30). Site specific agronomic services and application services were both rated much lower as a potential opportunity by the smaller firms, probably due to fewer resources available to dedicate to the newer technology.

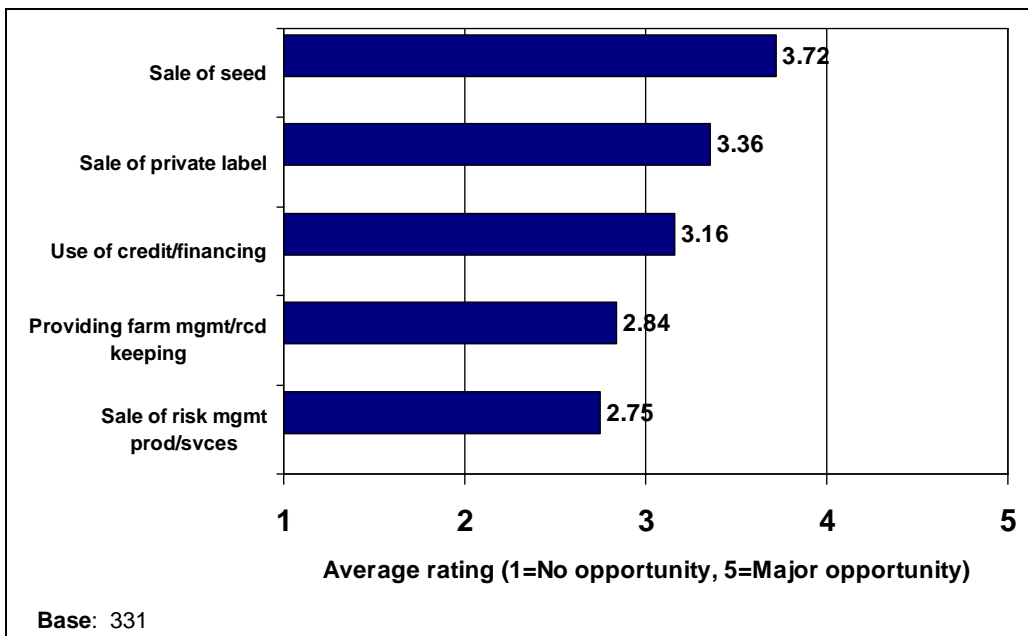
As might be expected, the potential for site-specific services was rated higher in the Midwest than other states as well, and higher by cooperatives than by either publicly or privately owned firms.

Figure 30. Future Opportunities: Agronomic Services by Firm Size



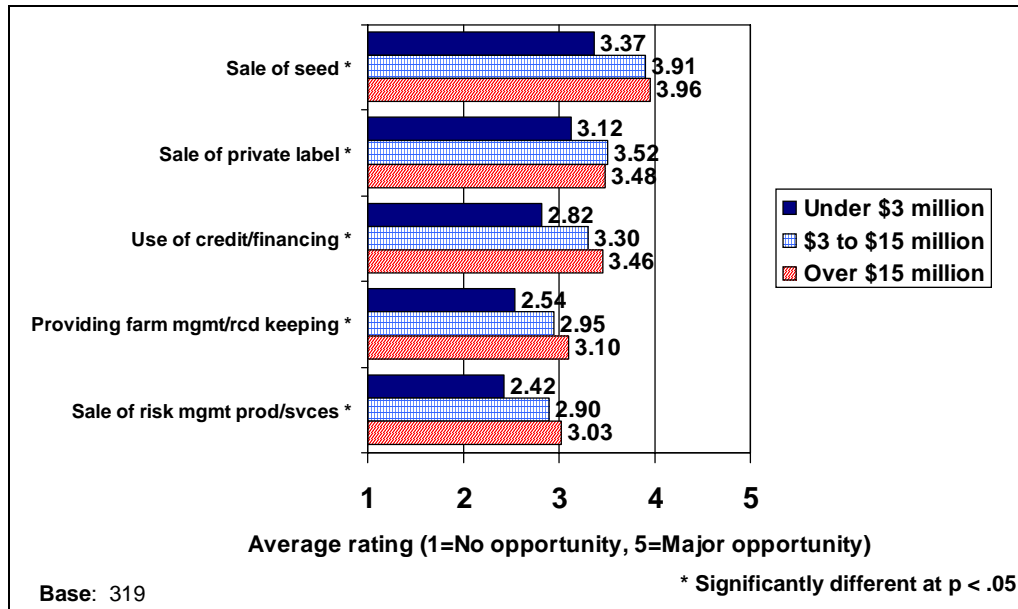
The potential of several product opportunities was also explored. Sale of seed (traditional and with input and/or value-enhanced traits) was rated the highest opportunity for enhancing profitability, at 3.7 out of 5 (Figure 31). Sale of private label crop protection chemicals, seed, etc. was rated second highest at 3.4 out of 5. Use of credit/financing as a profit center, providing farm management/record keeping services, and sale of risk management products and services were all rated lower.

Figure 31. Future Opportunities: Product Opportunities



For the potential product opportunities specified in the questionnaire, the smallest firms (under \$3 million in annual retail crop input sales) perceived the opportunities to be lower than the midsize and large firms (Figure 32). Moving into new product areas normally means investments in both physical and human capital. And, these results may well reflect the resource advantages larger firms have when it comes to considering adding new products and/or services to the existing line.

Figure 32. Future Opportunities: Product Opportunities by Firm Size



Among the manufacturer/purchasing issues considered, the most opportunity was seen for creating closer partnerships with basic manufacturers of fertilizer, seed and chemicals (3.4 out of 5) (

Figure 33). Direct purchase of products from manufacturers and pooling purchasing power with other dealers both were rated approximately 3.1 out of 5. Purchasing products outside of the traditional distribution channel, increased program funds from basic crop protection chemical manufacturers, and representing the products of a single basic crop protection/seed manufacturer exclusively were all rated as being less likely to be opportunities in the next 2 to 3 years.

Only two of the manufacturer/purchasing issues explored were significantly different by firm size. Smaller firms (under \$3 million in total annual retail crop input sales) were less likely to feel that a closer relationship with basic manufacturers would provide an opportunity for enhanced profit in the future (

Figure 34). Midsized firms (\$3 to \$15 million in total annual retail crop input sales) were the most likely to see an opportunity in representing products of a single basic crop protection/seed manufacturer exclusively relative to either smaller or larger firms. When broken out by firm type, the group that was more likely to see opportunity in representing a single manufacturer was the publicly owned firms rather than the cooperatives or privately owned firms.

Figure 33. Future Opportunities: Manufacturer/Purchasing Issues

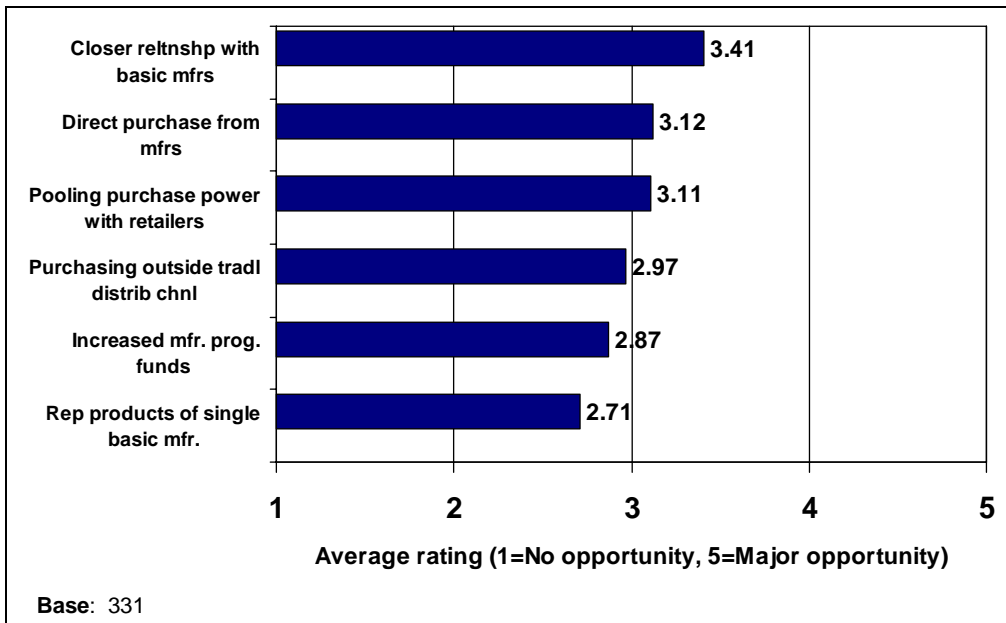
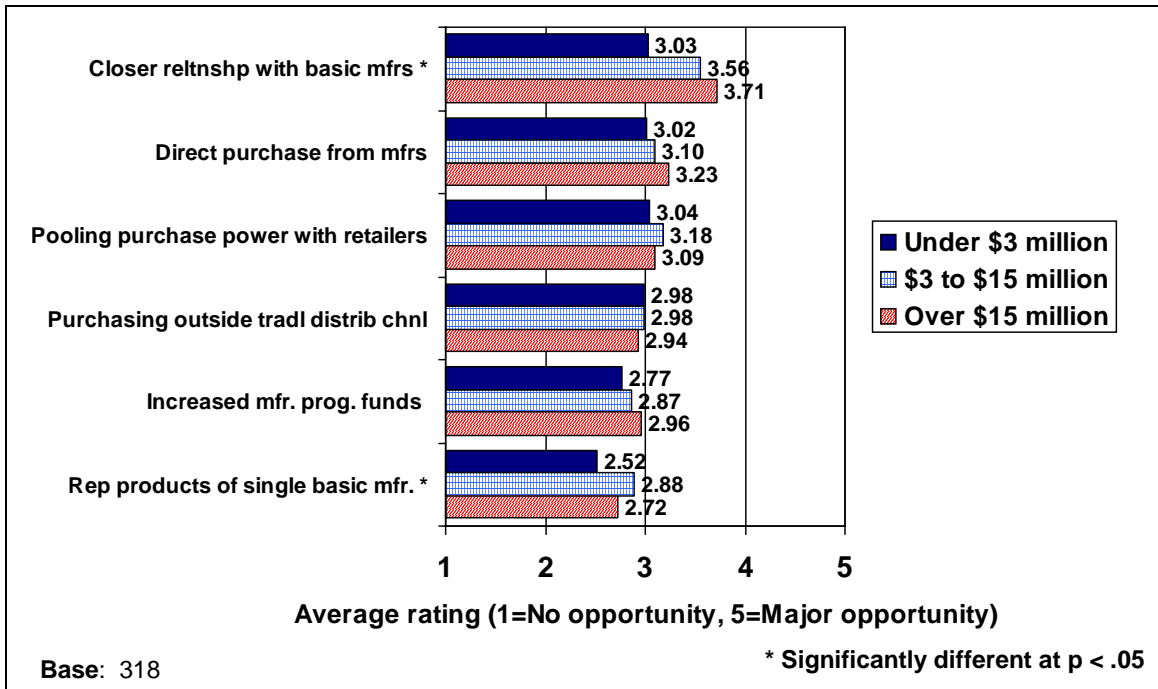
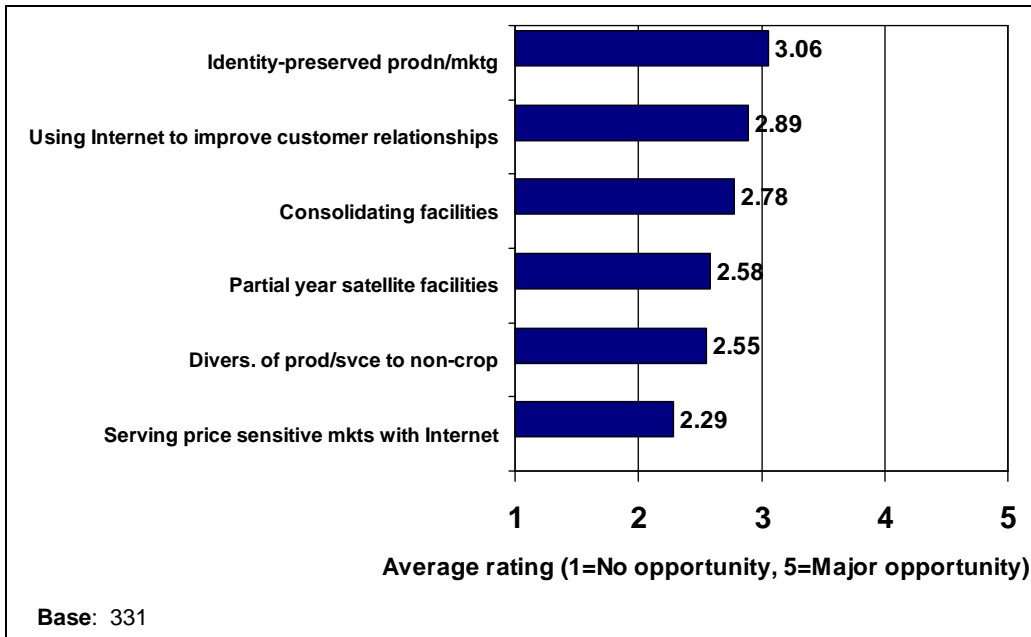


Figure 34. Future Opportunities: Manufacturer/Purchasing Issues by Firm Size



None of the issues relating to new business models and operating efficiencies were seen to offer huge potential opportunities overall. The highest rated was participation in identity-preserved crop production and marketing (rated 3.1 out of 5) (Figure 35). Using the Internet as a way to improve customer relationships, consolidating facilities, partial year satellite facilities, diversification of product and service offerings into non-crop input areas (feed, hardware, etc.), and serving price-sensitive markets with Internet-based solutions were all expected to provide minimal opportunities to enhance profit in the next 2 to 3 years. It is important to note that these are average scores. Especially for these less traditional activities, opinions are likely more varied with some dealers seeing significant opportunity in a given activity while many others, operating in different markets, see almost no opportunity.

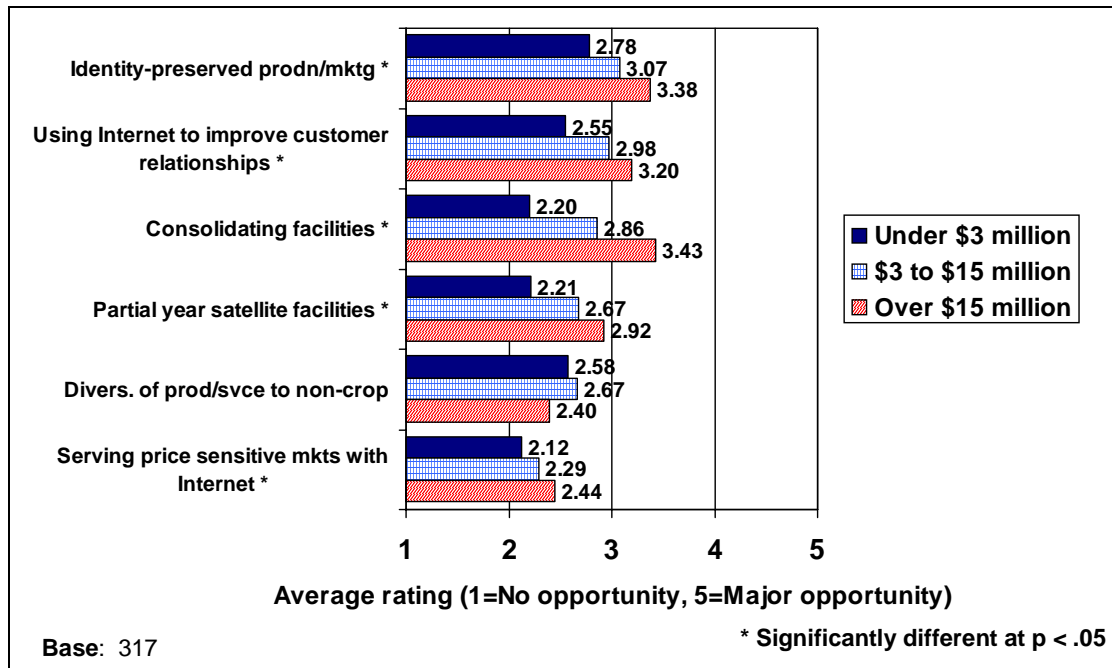
Figure 35. Future Opportunities: New Business Models/Operating Efficiencies



With the exception of one of the new business model/operating efficiencies opportunities, larger firms saw more potential opportunity in this area than smaller firms (

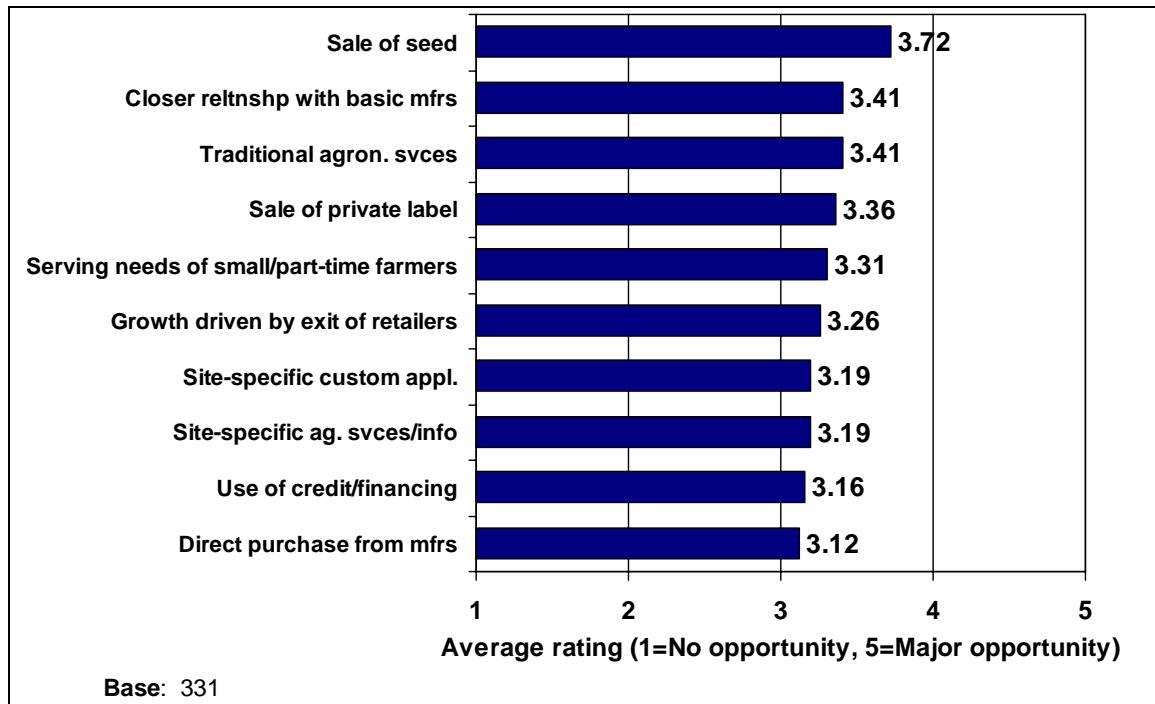
Figure 36). The only opportunity this didn't hold for was diversification into non-crop areas, where there was no statistical difference between the different firm sizes. The biggest gap between the largest and smallest firms was in the opportunity due to consolidation of facilities. This may be because the smallest firms are more likely to be the facilities being consolidated rather than the ones left to take advantage of the opportunity.

Figure 36. Future Opportunities: New Business Models/Operating Efficiencies



To summarize the future opportunities expected to enhance profit in the next 2 to 3 years, Figure 37 shows the top 10 opportunities. Seed sales (traditional as well as input and/or value-enhanced traits) were seen as the top opportunity. Respondents also felt that creating a closer relationship with basic manufacturers and traditional agronomic services were the 2nd and 3rd biggest opportunities.

Figure 37. Top 10 Future Opportunities



The Role of the Dealer

Dealers play a number of roles for both their farmer/customers as well as for manufacturers and producers of fertilizer, chemicals and seed. Respondents were asked to rate how important each role was currently and whether they expected that role to become more, less or stay the same in importance over the next 2 to 3 years.

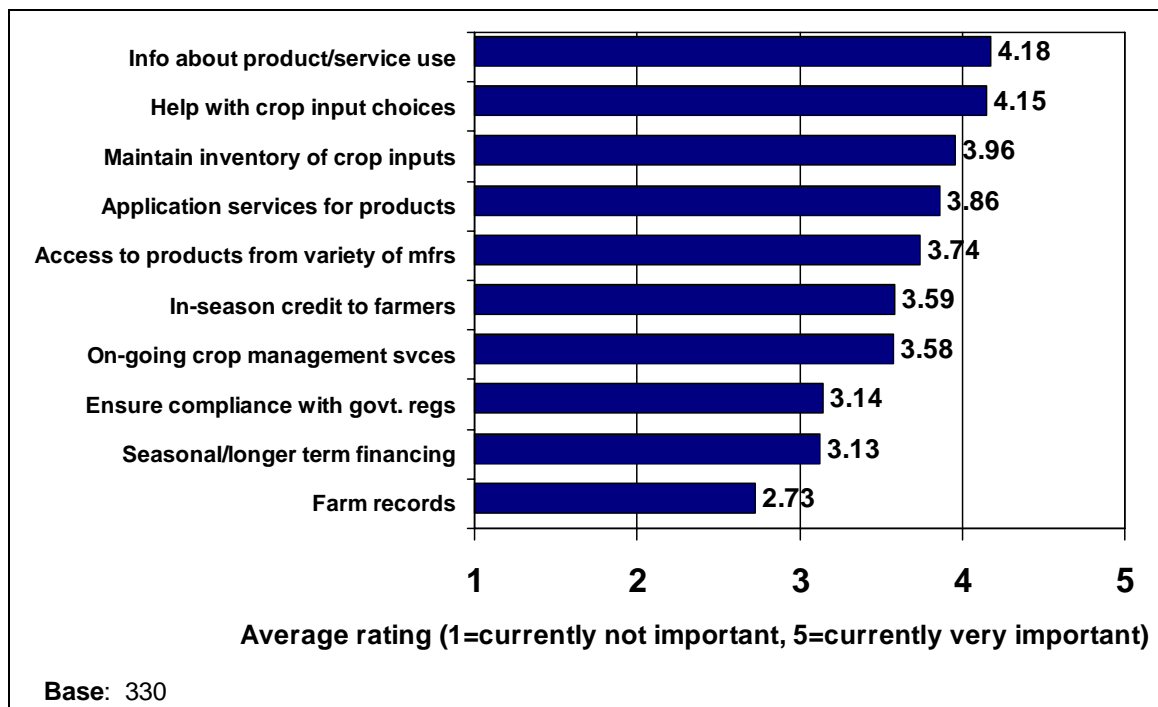
The top two roles that respondents felt they played with their farmer/customers were both service oriented: providing information about product/service use and help with crop input choices (Figure 38). Maintaining inventory of crop inputs and providing application services for crop inputs were also seen to be fairly important roles. In general, respondents did not see their current role to be ensuring that farmer/customers were in compliance with government regulations, offering seasonal or longer term financing, or keeping farm records.

A few of these roles varied with firm size, but some of it could be due to firm type. For example, midsize firms (\$3 to \$15 million in total annual retail crop input sales) felt they were more likely to assume the role of providing in-season credit to farmers and providing application services for products sold. Large firms rated providing seasonal or long term financing and on-going crop management services more important than the two smaller firm sizes.

Size also had some impact on changes expected. Providing in-season credit to farmers was rated likely to become more important in the next 2 to 3 years, as was providing seasonal or long term financing and on-going crop management services. Smaller firms (under \$3 million annual total retail crop input sales) were more likely to expect to see an increase in their role of providing access to a variety of manufacturers.

Breaking these roles out by firm type, publicly owned firms were more likely to see their role having to do with financing: both providing in-season credit for farmers and providing seasonal or long-term financing. However, cooperatives and privately owned firms were more likely to see their role to be providing application services for the products they sell.

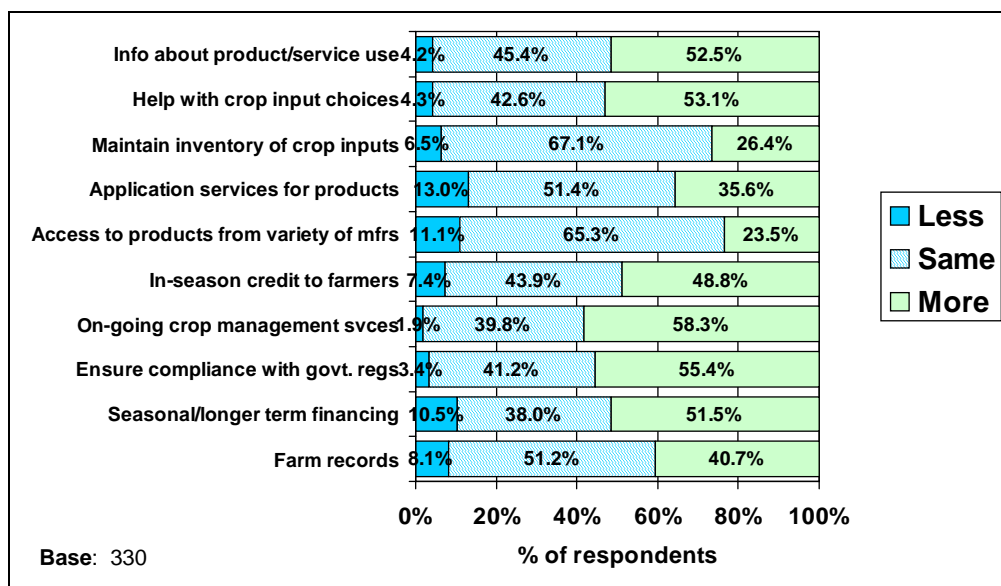
Figure 38. Role with Farmer/Customer



Though providing on-going crop management services was not rated as one of the top roles dealers play currently with their farmer/customers, it was the area expected to grow the most in importance over the next 2 to 3 years (

Figure 39). Over half of the respondents also expected their roles to increase in terms of ensuring farmer/customers were in compliance with government regulations, providing help with crop input choices, providing information about product/service use, and providing longer term/seasonal financing.

Figure 39. Change Expected in Role with Farmer/Customer

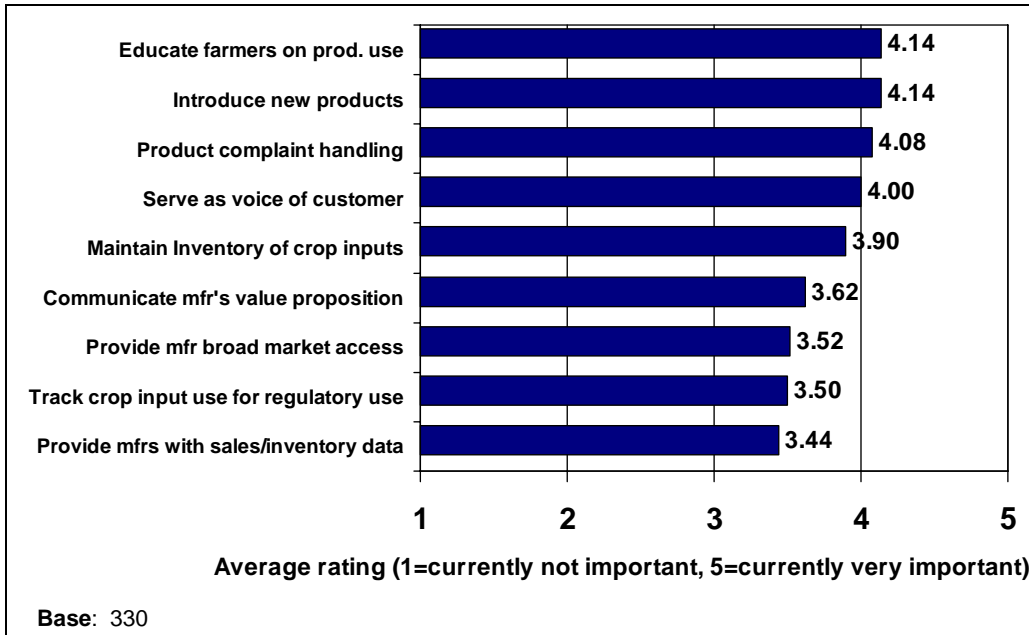


The top three roles that respondents said they played with manufacturers/producers were directed toward the customer on behalf of the manufacturer: educating farmers on proper product use and introducing new products to the market (both rated 4.1 out of 5), and product complaint handling/trouble shooting (rated 4.1) (Figure 40). Serving as the voice of the customer to the manufacturer was also rated as an important role dealers played. The other potential roles played by dealers when working with manufacturers/producers were also rated as fairly important: maintaining inventory of crop inputs, communicating the manufacturers' value proposition to farmers, managing customer relationships to give the manufacturer broad market access, tracing crop input use for regulatory purposes, and providing manufacturers with data on product sales, inventory levels, etc.

There were few firm size differences in respondents' view of their role with manufacturers/producers. Midsize firms were more likely to feel it was important to maintain an inventory of crop inputs while midsize and large firms were more in agreement about the importance of their role in providing manufacturers with data on product sales than were the smaller firms. There were no differences in roles played with manufacturers/producers by firm type or geography.

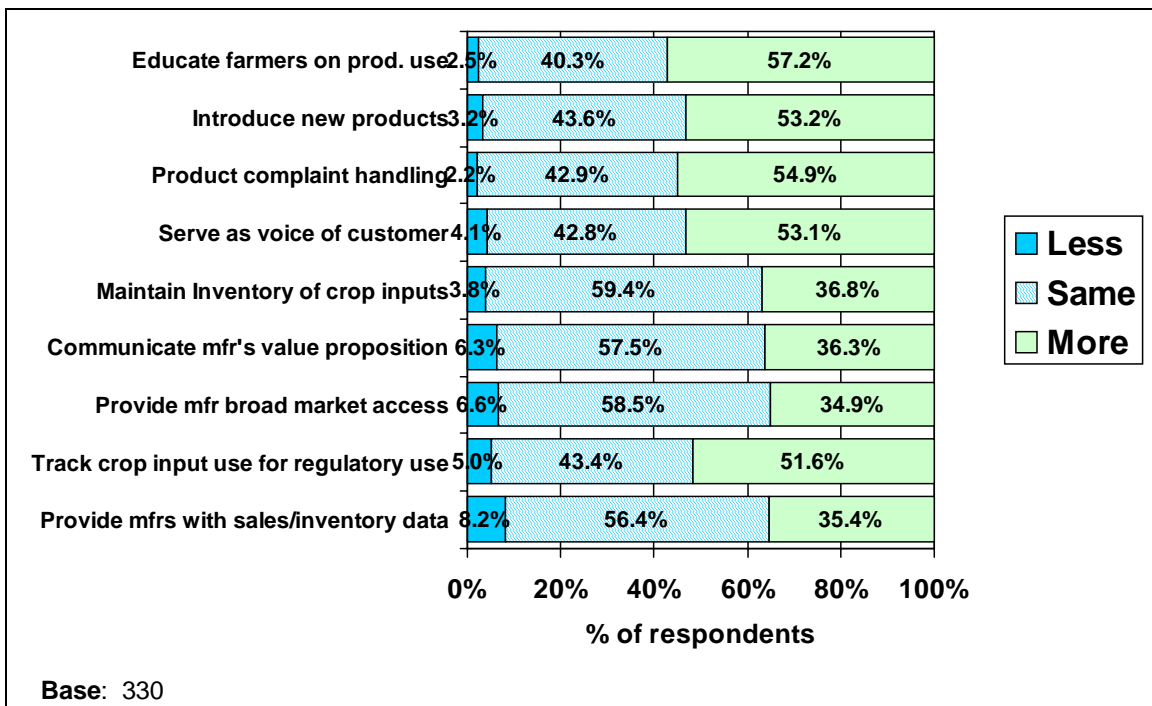
The biggest increase in the importance of different roles expected was in educating farmers on product use, with over 57 percent expecting that role to increase in importance in the next 2 to 3 years (Figure 41). Over half of the respondents also expected an increase in the importance of

Figure 40. Role with Manufacturers/Producers



product complaint handling/trouble shooting, introducing new products to the market, serving as the voice of the customer to the manufacturer, and tracking crop input use for regulatory purposes. The larger the firm, the more likely they were to expect the importance of their roles to increase in the next 2 to 3 years with respect to serving as a voice of the customer to manufacturers and for tracking crop input use for regulatory purposes.

Figure 41. Change Expected in Role with Manufacturers/Producers



Conclusions

Many dealers recognize the changes occurring in the distribution channels for crop production chemicals, fertilizers and seed. The biggest threat to profitability seen in the next 2 to 3 years is the cost and availability of insurance. This was true for all sizes and types of firms in various geographies. However, there are also important threats to profitability seen due to other factors: financial pressure on farmers, access to quality employees and labor, and energy costs. Those in more intensely competitive markets perceive these threats to be even greater than those in less competitive markets.

In general, respondents did not agree as much with respect to which opportunities offered the most potential over the next 2-3 years. Opportunities were very dependent on the size of firm and the resources they had available. Overall, seed sales were seen as an opportunity, as were forming a closer relationship with basic manufacturers and providing traditional agronomic services.

Currently, the most important roles that dealers play with farmer/customers focus on the interpersonal areas: providing information about product/service use and providing help with crop input choices. Product-specific roles come next: maintaining inventory of crop inputs and providing application services. In the next 2 to 3 years, respondents expect the interpersonal roles to increase in importance, while more dealers expect product-specific roles to remain about the same.

In looking at roles played with manufacturers/producers of crop inputs, respondents felt that their top three roles were in representing the manufacturer to the farmer/customer (educating farmers on product use, introducing new products, and product complaint handling/trouble shooting). Information transferred from growers to manufacturers, i.e., serving as the voice of the customer to the manufacturer, was rated 4th. These four roles were all expected to increase in importance in the next 2 to 3 years.

Dealers see the challenges ahead and are looking for ways to strengthen their role in the distribution channel. Most of those roles will require strong skills in information transfer, interpersonal skills, the ability to sell and provide services, and to capture value from information.

Appendix: Questionnaire