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Lenders Tiptoeing Onto the Internet

by:
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Last fall in Colorado Springs, several panel presentations and vendor exhibits left a deep impression on Dennis Hackett. First Midwest Bank's rural banking division president went home eager to share his thoughts. It turns out that two colleagues returned to Illinois with the same impressions. Hackett recalls: "When we sat down to review the conference, we all recognized that we better get on this electronic commerce or else we'll be left in the cold."

During the last year, Hackett has participated in e-commerce strategy sessions for First Midwest—a \$5.8 billion institution with 76 branches throughout northern Illinois. The agricultural sector is driving the development of a business-to-business strategy despite being a relatively small portion of the bank's commercial lending portfolio. Loan officers from the real estate and retail side report little e-commerce activity among their clients. Hackett, on the other hand, has plenty to share about what he sees happening in agriculture.

Scores of dot-coms have sprung up in the last couple years with promises to deliver goods and services faster and less expensive than agriculture's traditional distribution network. The Internet will handle \$120 billion in agribusiness transactions by 2005, Morgan Stanley Dean Witter Venture Partners claims. The Dutch-based Rabobank Group's <http://vTraction.com> offers a more colossal scenario, contending that within the next few years more than \$400 billion of the annual \$4 trillion global commercial food and agriculture market

will be traded online in vertical markets.

"E-commerce figures to work so well in agriculture because there are relatively few suppliers catering to such a scattered and diverse group of buyers," Hackett explains.

To date, there's been more talk than action. Farmers and ranchers aren't buying off the Internet in great numbers, but they're likely to as they become more accustomed to the technology. Many browse the Internet for price discovery and use the information to squeeze better prices from input dealers or local lenders.

Only a Matter of Time

Meanwhile, agribusinesses are shifting certain practices to the Internet as cost-cutting measures. For example, a First Midwest grain processing customer reports that Archer Daniels Midland has begun paying grain elevators electronically via automated clearing house (ACH). It's only a matter of time, Hackett figures, before elevators pay grain producers in the same way.

Email payments are, in fact, leading the shift into Internet banking. According to *Online Banking Report*, Web traffic at large banks is growing at a faster rate than the Web as a whole, with volumes at the 10 busiest financial sites increasing 84 percent during the last six months. By 2003, Forrester Research pre-

dicts, online credit will be a \$168 billion industry handling 3 percent of the total loan volume nationwide. This averages out to 2,750 loans per county.

Clearly, the Internet is going to shake up the competitive landscape. Success appears to hinge on looking at this new technology as an opportunity rather than a threat. Indeed,

recent visits with several members of ABA's agricultural and rural bankers committee show that Hackett is hardly alone in trying to figure out how to harness the Internet's vast potential as a sales and marketing tool.

Hackett oversees an ag lending operation that includes eight full-time loan officers and a \$125 million portfolio (with \$80 million in operating loans, equipment and farm real estate loans, and \$40 million in agribusiness). He's not sure how the Internet will enhance its mission of relationship building and serving all the financial needs of its current customer base. He's considering the idea of pursuing business nationally in some credit niches. Yet, he realizes that e-commerce success will begin with building upon the customer base.

First Midwest is making improvements to its 2-year-old Web site (www.firstmidwest.com). "Our

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farmers and agribusiness clients are saying 'Give me more ease to access our relationship,'" he explains. What this means is being able to draw online credit and do automatic payments at any hour from the comfort of their own home. "I couldn't name a single customer who wants new lines of credit via the Internet, although I know that this could be a part of our business."

As First Midwest devises a business-to-business strategy for the Internet, it's evident that electronic commerce won't soon be a profit center. "Over the short term," Hackett says, "we're looking at it as a vehicle to obtain additional business leads, for example, through inquiries from farmers."

Cooperative Marketing a Key

One of First Midwest's first steps may be to join an online credit marketing cooperative organized by ECI, the Glenwood, Iowa-based developer of Farm Equity Manager. Recognizing that high-traffic Web sites work almost exclusively with large banks, ECI is creating a means for small- and mid-sized community lenders to compete. The result is a qualified loan lead generation technology called www.OnlinEquity.com that notifies a lender when consumers in particular zip codes seek financing through participating Web sites. Although the 2,000 lenders who use Farm Equity are the initial target, is equally applicable for home, auto, personal, credit card, business and lease loans.

Two First Midwest ag loan officers recently attended a free ECI seminar introducing OnlinEquity.com. They're recommending that First Midwest pursue this option as well as iEquity – a private labeling program that allows lenders to apply this same technology to their own Web sites. The bank's e-commerce team is evaluating the OnlinEquity.com product line. "I expect it'll be a resource that's going to help us identify additional business," Hackett says.

Affordable access to online credit markets

is definitely a concern. Marc Meyer, a regional president for Iowa's Brenton Bank, wonders if state banking associations may want to pool resources of member institutions to act as one in e-commerce. Brenton Bank is a \$2 billion institution with 46 locations in Iowa and an agricultural loan portfolio of approximately \$200 million.

"Working on your own, you can't afford to buy the technology, let alone keep it current," Meyer says, noting that many grain and livestock producers have adopted cooperative marketing approaches to increase their buying power. "Look at the difficulty small pork producers have had in recent years," he observes. "To get the attention of packers and processors, they've had to partner with 15 of their neighbors."

Testing the Waters of New Markets

A year ago, www.brentonbank.com was launched. Through a series of enhancements, the bank now offers customers interactive capability for such services as accessing client data, funds transfers, loan advances, plus information about Brenton Bank products and services.

Meyer is president of Brenton's branch in Adel, a farm town of 3,500 people. He makes a point of asking prospective borrowers for startup

enterprises how e-commerce fits into their plans. Even many traditional retail outlets are at least thinking about providing an electronic sales and marketing channel.

"Not having to walk into a place of business is a big reason for e-commerce" in rural areas where

consumers often must travel great distances to retail outlets, Meyer says. The biggest issue working against local e-commerce initiatives is that many communities lack adequate broadband communications capabilities.

Meyer says the larger phone companies are beginning to install a fiber optic system in more populated parts of Iowa, but have yet to spend the additional millions of dollars to extend this service to the relative handful of potential users in small towns. Some local phone companies are installing faster systems to meet this need, but only in a few areas. If a business is planning on using an e-commerce strategy, the lack of broadband communication capabilities in some rural areas prevents them from locating there.

Fiber optic systems cover nearly all of the Wells Fargo Bank of Carrizozo's trade territory in south central New Mexico. President Scott Shafer says 14 percent of the \$50 million bank's retail customers use the bank's Web site principally to

pay bills and reconcile accounts. On the commercial side, a few customers have Web sites to buy and sell products. Yet, where he expects to see local e-commerce grow is through the area's large cattle ranch operators.

"Video sales of cattle have been taking place for 10 years," he says. "Area ranchers use this resource mainly to test the waters and to see what kind of prices they can get for cattle. As they become more comfortable with the technology, I expect them to take the next step and begin marketing cattle online."

Next Generation of Customers

Shafer suspects that a more significant long-term effect on rural communities has to do with the traditional ag family's struggle to make a living. As more farms and ranches are bought up for investment purposes, absentee owners won't have an allegiance to local banks.

"Local ranchers still view that local tie as important. Out-of-town investors will feel more inclined to use the Internet for their banking services because they don't have personal ties to the community. They may still bank through another Wells Fargo branch, but they're probably not going to be doing their borrowing locally."

"Younger customers have told us 'If you're not on the Internet, I'll take my business elsewhere,'" says Mike Mauldin, president of Security Bank – a six-location, \$80 million bank operating in the cotton and cattle country of northern Texas. For two years, customers have been able to take care of their business after clicking on www.security-bank.com. The Internet has enabled Security Bank to literally go international. After enlisting in the armed forces and going overseas, customers continue banking with their hometown facility via ACH. "Sitting here at the bank, it's even a lot quicker for me to transfer money from my own accounts electronically than it is to fill out the paper forms," Mauldin says.

He's counting on more efficient movement of documentation giving him more time for those customers who need more personalized service. He's also considering ways to bid on new markets that enable Web-savvy banks to broaden their geographic base.

There are likely to be many niche markets for ag lenders to consider, given the emerging trends in the agribusiness dot-com world. For example, Mauldin says Texas packers and feedlots have begun buying cattle from sell barns on the Internet. "You can look at pictures, get all the information you need and literally buy a pen of cattle without having a buyer physically on the spot. This is already happening a lot on the East and West coasts. I'm beginning to see some play in our area. We're going to see more as feedlots get comfortable with it and see that the information that they get is accurate."

"To survive as a smaller institution, you've got to embrace Internet technology," he says. "It's sort of like encoding checks. Nobody wanted to have to go to MICR, but now everybody does. Now, you see the same resistance

with check imaging."

Web Site as Billboard

In east central North Dakota, the Citizens State Bank of Finley

began doing check imaging in 1997. Yet, President and CEO Roger Monson has yet to see a need for his \$30 million institution to launch an interactive Web site. "It's like a billboard on the highway. You want to be out in the market early enough to meet the needs of your customers, but not by rolling out a product that nobody will use for two years."

"Our customers, especially the younger ones, are going to be using the Internet. And if we're not available to them there, we know that they'll be taking their banking business somewhere else."

says, are those producers purchasing and financing chemicals through the Web site of a regional supplier located 65 miles away in Grand Forks.

"On the Internet, your trade area is said to be the world," Monson says skeptically. "Well, that's true. But as an ag bank, you still are going to work on a regional basis. What we're waiting for is the customer base to em-

"...brace Internet banking. When I feel that the market is ready, we'll make the jump with a Web site that's fully interactive."

Bank of England

Gets On Internet

England, Ark. is cotton and rice country 20 miles southeast of Little Rock. In 1998, as part of its 100th birthday celebration, the Bank of England launched a Web site. As an informational site for this \$70 million institution (including \$20 million in agricultural loans), www.bankofengland-ar.com hasn't generated a lot of feedback.

However, Bank of England President Gary Canada anticipates a positive response when the Web site goes interactive in late September. "Over the years," he explains, "we have found the Bank of England name to be a drawing card and expect that will spill over to our Web site."

The bank's introduction to e-commerce practices began a year ago when several commercial customers began submitting invoices electronically. "That's worked very well with the exception of a customer who had a problem with a virus," says Canada, who anticipates growth in that area as well as through the Web site. "We realize, however, that we will always have a segment of our customer base that will prefer to come in to the bank and take care of their banking needs."

As chairman of the ABA's Agricultural and Rural Banking Committee through the fall of 2001, Canada says the lending industry has no choice but to learn to adapt to this new method of conducting business. "Our customers, especially the younger ones, are going to be using the Internet. And if we're not available to them there, we know that they'll be taking their banking business somewhere else." **jal**