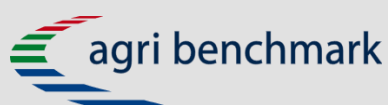
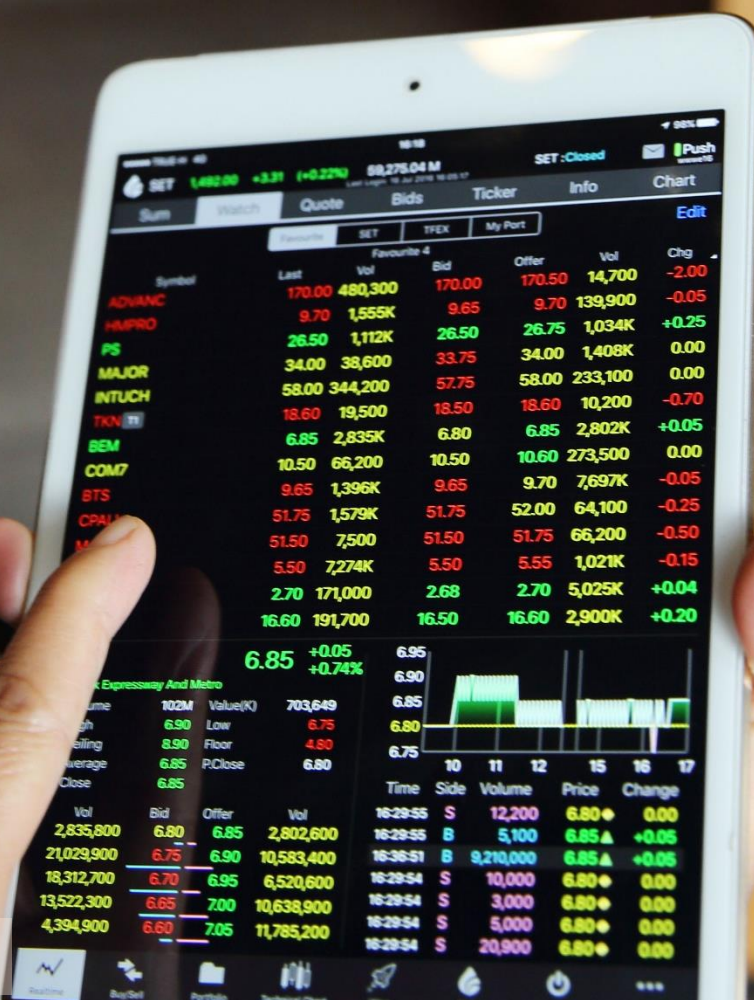


# Challenges and Perspectives in the Direct Marketing of Crop Inputs

by Travis Jansen and Yelto Zimmer



February 2021



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### 1 Introduction

The direct marketing of crop inputs by manufacturers is a topical issue in agriculture across the world. Increasingly sophisticated farmers, distribution networks, and online purchasing platforms are creating opportunities for large companies to move down the supply chain and remove some of the brick-and-mortar businesses they historically relied on for moving their products. While instances of direct marketing remain rare, the business environment in farming is certainly becoming more conducive to this business model.

The purpose of this research was to evaluate the potential for this business model in different farming regions across the world. This potential was based on the manufacturer's perceived opportunity for direct marketing and the level of competition they would face through direct marketing. Partners of the *agri benchmark* network from the UK, Uruguay, Argentina, Brazil, Sweden, Japan, USA, Ukraine, Russia, Australia, and Poland shared and discussed their perspective on this topic relative to their region of expertise<sup>2</sup>. This report is the joint outcome from this discussion process.

### 2 The Opportunities for Direct Marketing

The direct marketing of crop inputs by manufacturers was identified as an important research topic for *agri benchmark* given the obvious relevance of crop inputs in crop production. A shift away from using local dealers to a direct marketing model would present a significant change in the way farming communities operate and the way farmers make decisions about the inputs that they use. For reasons stated earlier, the direct marketing model appears to be more feasible than in the past and may be a potential opportunity for manufacturers of crop inputs.

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<sup>2</sup> These countries and their respective experts are: United Kingdom (Ben Lang, Cambridge University), Uruguay and Argentina (Juan Zweegman, Hillock, farm manager), Brazil (Mauro Osaki, Valentina Fazzolari, CEPEA, University of Sao Paulo), Sweden (Johan Lagerholm, Landmannen, advisor), Russia (Klaus John, independent advisor), Japan (Hisako Sakine, National Agriculture and Food Research Organization), United States (Kelvin Leibold, Iowa State University, extension service), Ukraine (Peter Mitchell, independent advisor), Australia (David Cameron, Farmanco, advisor), and Poland (Pawel Boczar, Hanse Agro, advisor). For any questions or comments regarding this report, please reach out to [travis.jansen@agribenchmark.net](mailto:travis.jansen@agribenchmark.net).

Across all regions, *agri benchmark* experts were aware of farmers who direct purchase their inputs but most stated that very few farmers buy their inputs this way. There were, however, several exceptions. For example, in Russia and Ukraine, large agro-holdings do tend to buy their inputs direct. Interestingly, *agri benchmark* partners from both regions pointed to the fact that it is, in fact, the agro-holding that seeks out the direct purchase opportunity rather than the manufacturer seeking out the farmer. This is likely tied to the discounts and financing options that these large farms can negotiate given the volume of products they buy. Manufacturers are wary of direct marketing in these regions, given a higher risk of their customers defaulting. For them, it is easier to pass this risk on to the local dealer. Somewhat similar to these countries, agro-holdings, larger farms, and large farmer “buying groups” (collectively  $\approx 100,000$  ha) in Brazil often buy their inputs direct from the manufacturer. Although the prices they receive are kept confidential, the local *agri benchmark* expert stated that these purchasing decisions are clearly tied to the volume discounts that can be negotiated for larger purchase orders.

Consistent with these examples, most *agri benchmark* partners said they believe that lower prices were the primary reason that a farmer might want to buy his/her inputs directly from a manufacturer. However, many were quick to point out that although the price might be lower, this is rarely at the top of the farmer’s priorities when purchasing their products. For most of them, it is more important to have access to good agronomy advice, financing, timely delivery, and good customer service. Because local retailers provide these services, they may be able to continue to successfully sell crop inputs to farmers despite manufacturers offering better prices.

### 3 The Competition for Direct Marketing

#### 3.1 Local Input Dealer

If input manufacturers are looking to direct market their products, they enter a new retail segment and will face new competition compared with selling only to wholesalers/distributors. In fact, one of their primary competitors will be the local retailers who also sell their products. In many countries, the current dynamic is that manufacturers have a sales representative who covers a large region and services local dealers by providing them with information about their products. They work together and serve different functions in the supply chain. However, as soon as the manufacturer begins selling to local farmers, they are taking business away from local dealers. Competing against local dealers will be manufacturers’ biggest challenge.

Replacing longstanding systems like a local farm input dealer is difficult. Local dealers have worked hard over the years to build relationships with generations of farmers and a lot of social capital and goodwill exists. Furthermore, farmers know that the value these local dealers provide extends well beyond their retail options and that buying inputs from manufacturers would jeopardize the availability of the other services that retailers provide.

One of the services that local dealers provide is agronomy advice from regional agronomy experts who have worked with the farms in that area for many years. For many countries, *agri benchmark*

experts described the significant dependence of farmers on the advice of their local dealer's agronomist. In most countries, the *agri benchmark* partner believed more than 50% of farmers rely on the advice of the retailer agronomist to make purchasing and application decisions. No common characteristics were discerned relative to the farmers who use these agronomists.

This would suggest that many farmers are not worried about the conflict of interest that arises as the retailer's agronomist looks to provide farmers with good advice while at the same time trying to sell them more product.

On the other hand, a significant number of growers increasingly prefer to get advice from independent agronomists rather than one tied to a local dealer. *agri benchmark* experts said that most farmers in Argentina and Uruguay utilize independent agronomists while a significant share of growers in the UK, Australia, Brazil, and USA do as well. For Russia, Ukraine, and Brazil, oftentimes the large farms and agro-holdings actually hire their own agronomists to guide cropping decisions rather than contracting external agronomists.

With regards to direct marketing strategies, this finding suggests that (a) local agronomy expertise matters a lot to many growers, and this would need to be replaced if farmers were to buy direct from manufacturers and (b) these relationships with agronomists will keep farmers loyal to local dealers, thus making it even harder for manufacturers to successfully compete against them. However, there remain some key questions:

- Is it possible for input manufacturers to identify and target growers who do not use this service from local dealers?
- At what price discount will farmers distance themselves from these relationships with their local dealers?

In addition to agronomy services, financing was also identified as an important service that local input dealers provide to their customers. In Russia, the larger farms use financing as a bargaining tool in the deals they arrange with their input suppliers. However, in other countries, it tends to be the smaller or medium sized farms who get financing from their input suppliers as they tend to have insufficient working capital or insufficient equity to secure a loan from the bank. Furthermore, in countries like Ukraine, Sweden, Brazil, and Poland, input dealers often are tied to a commercial grain purchaser and the farmer pays back their input debt with the crops they harvest (barter exchange). If manufacturers look to sell direct to farmers, it will be important for them to decide whether or not they are interested in taking on the administrative management and risk that come from offering financing arrangements. In cases where a barter system is common, replicating this process becomes even more complicated for manufacturers.

Although agronomy services and financing were the two topics discussed, *agri benchmark* experts also pointed to the accommodating nature of most local dealers. With the exception of Russia, most farmers often can get their inputs delivered to their farm very close to the time of application. Furthermore, local dealers often are happy to deal with exchanging products,

offering returns, and getting product out to a customer's field in an emergency situation. For farmers purchasing direct from manufacturers, crop planning would need to be more precise and proactive as it is unlikely that a manufacturer could accommodate any immediate needs. The one exception would be in Russia, where hired farm managers already must plan well in advance if they want to have their inputs available to them for the upcoming season. The reality of the infrastructure and distribution networks in Russia means that it is difficult to get products to the various farming regions in a timely manner. As a result, these farmers may be better suited to work directly with manufacturers as they are used to planning in advance and storing the product on their farm. The downside of this strategy is a lack of flexibility and sophistication in input use, in particular for responding to crop protection challenges as they arise. However, if infrastructure improvements over time allow for more flexible cropping strategies, it becomes unclear as to whether or not these robust product purchasing and application strategies will prevail.

Farmer storage of inputs and equipment limitations are other variables that change the ease with which manufacturers can sell directly to farmers. Of course, this will change depending on the type and volume of input purchased. For example, while many farmers in the United States would have storage for seed or crop care products, this would not be the case for bulkier or more dangerous products like dry fertilizer or anhydrous ammonia. Without the capacity to properly store all their inputs over an extended period, farmers rely on the prompt delivery of some inputs to their fields at the time or near the time of application. Such a limitation in storage capacities is relevant to many producers in Uruguay, Argentina, and Ukraine, but less so in Sweden and Russia, where many farmers tend to have more than 6 months' worth of storage even for bulky inputs. Some of these limitations have to do with regional farm business structures (i.e., most land is rented without any buildings for storage in Argentina or Uruguay) while others have to do with risks such as loss of quality or theft.

Another service that local retailers often provide is the custom application of inputs for products they sell. Farmers who depend on this service for managing their crops would need to find an alternative solution if they were to buy their inputs directly from manufacturers. However, it is expected that there is a strong overlap between growers who depend on custom application and rely heavily on retailer's advice. If this is true, access to custom application does not present a significant additional limitation for a direct marketing strategy.

In addition to providing value to farmers, there are also region-specific characteristics of local dealers that would make direct purchasing difficult. For example, in Japan about three quarters of the fertilizer and two thirds of all crop care products are sold through the JA Group cooperative which then, in turn, purchases the crops back from the farmers. With so much control of the agriculture market in Japan and a lot of trust from its farmer members, it is hard to imagine how or why a manufacturer would try to compete for this business.



### 3.2 Online “Marketplace” Stores

Two *agri benchmark* partners indicated that there have been significant investments made in agriculture technologies and platforms such as Farmers Business Network (USA)<sup>3</sup> and YAGRO (UK). While they operate in their own unique manner, the general premise is to improve the efficiency of crop input markets by reducing the search costs of pricing different products. In a reverse auction process, companies such as FarmTrade (USA) and YAGRO allow farmers to post the products they want to buy, and sellers bid on getting their business. One of the biggest benefits farmers realize from these platforms is comparing the cost of products that use the same active ingredient. This helps farmers find more generic products that are less expensive than the brand name ones.

The other major benefit these platforms offer is that they tend to be independent of any manufacturer of crop inputs. Therefore, farmers are more willing to share their data on the website, which then is used to create a database that allows for benchmarking with other farmers. This provides value beyond simply finding cheaper inputs as farmers can now compare their behaviours to others and see what works best.

The strategy for these businesses is to provide value to farmers at the cost of the manufacturer. Unless manufacturers are able to offer better discounts, they will have a tough time competing against these platforms that are working for the farmer to drive down the cost of inputs through price transparency and competition. This likely is one of the reasons why several large manufacturers will not supply Farmers Business Network with their products, which has led to an investigation by the Canadian Competition Bureau. Therefore, for these models to be successful, they will need enough market share to ensure that manufacturers will sell their products through these sites.

### 3.3 Case Study: Brazil

As farms continue to change across different regions, new buying models will work better for some farms and become more widely adopted. Brazil provides an excellent example of a crop input market where there are many different types of farmers who use many different input purchasing methods. In regions surrounding Mato Grosso (the hot spot of crop production in Brazil) there exist large agro-holdings and farmer buying groups that use their size to negotiate volume discounts directly with the manufacturer. In the south, where farms are usually much smaller, cooperatives are more common, and they purchase inputs directly from manufacturers on behalf of their members. Then, across the entire country, there are individual family farms that rely on their local dealers for inputs.

Bayer’s Orbia is an online marketplace where farmers can buy crop inputs and find buyers for their agriculture products. Orbia incentivizes farmers to use their platform by allowing them to

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<sup>3</sup> *agri benchmark* experts identified that Farmers Business Network is also operating in Canada and in Australia where they recently purchased an internet broker of chemicals called Farm Save.

accumulate “points” when they make a purchase. These “points” can be exchanged for a number of goods, including crop inputs, farm equipment, and even miscellaneous goods like cell phones, barbecues, etc. While products can be purchased from a number of different manufacturers, Orbia currently only provides “points” on purchases of Bayer, Boehringer Ingelheim and H2 Agrosiences products. In this way, Orbia works like Farmers Business Network or YAGRO by allowing farmers to purchase their inputs online and have the products delivered directly to their farm. However, there are two main differences between Orbia and companies like Farmers Business Network and YAGRO. The first is that Orbia is connected to an input manufacturer and incentivizes the purchase of Bayer products. The second difference is that Farmers Business Network and YAGRO are more heavily focused on collecting farmer’s data (yield, purchasing data, etc.) and using the collective information of their customers to provide recommendations to their customers and help improve farm management decisions.

## 4 Conclusions

- (1) Going direct can become a new marketing strategy for manufacturers, but in the foreseeable future it will not become an alternative to wholesale and local dealerships. In principle, this strategy is feasible in an environment in which a substantial share of the land is farmed by growers who do not heavily depend on their local dealers and the services they provide.
- (2) In some countries, the lack of on-farm storage capacities might be a strong limiting factor regardless of other issues.
- (3) Direct purchasing increases search and transaction cost for growers who no longer can “one-stop-shop” at their local dealer. However, at certain volumes, price discounts can outweigh these cost increases. Since these transaction and search costs are scale neutral (fixed), direct purchasing will become increasingly attractive as operations become bigger and can spread these costs across more units of input.
- (4) An alternative value proposition to lower prices might be that manufacturers can provide better service through direct marketing than local dealerships. While this is in contradiction to the assessment of the current strength and weaknesses of both marketing strategies, we think that manufacturers who direct market have the option to provide rather innovative and/or complex products and services compared with local dealerships. One example would be an outcome-based pricing model. In this model, a producer would use a manufacturer’s suite of inputs while also following their agronomy recommendations for input use. Provided the farmer achieves a certain yield, they will pay full price for their inputs. But, if they follow the directions and the yield is below an agreed upon value, they will receive refunds for a portion of the products they purchased.
- (5) Increased adoption of online video meetings during the Corona crisis are likely to make direct marketing more competitive. Compared to a telephone call or digital message, this new option for meetings allows people to build a much stronger relationships without having in person interactions. It might even prompt companies to hire higher qualified people because

without travel cost and time, the cost per customer service will still be lower than an in-person advice. Anyhow, from a grower's perspective the difference between purchasing from local dealers or from direct marketers will most likely become smaller.

- (6) Without an innovative product or a complex service offer, it will be very hard for manufacturers to compete against online platforms such as FarmTrade. Such platforms combine the positive features of both worlds: low prices and one-stop-shopping. Furthermore, they deliver increased price transparency as an additional benefit to growers.
- (7) There are two caveats:
  - (a) It is likely there is a first-mover advantage. Once direct marketing has been established, it might become difficult for independent online platforms to thrive.
  - (b) The one-stop-shopping issue could be overcome if manufacturers find a way to provide a full product line by licensing-in or purchasing the products that they lack from third parties.
- (8) When reviewing the discussions in the *agri benchmark* Team, the following open questions are decisive for a better understanding of the economic potential of direct marketing:
  - (a) What is the actual market share of growers that (primarily) use private crop consultants and who do not rely on local dealers for financing?
  - (b) What are the actual margins that local dealers currently make with larger farms?
  - (c) At what purchase volume can growers utilize the most efficient modes of transportation and storage for crop inputs (assuming these items are a significant portion in the cost of delivery from a local dealer)?



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