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# E-Commerce Disruption Pushes Ag Retailers to Focus on Distribution and Service

**By Will Secor**
*Economist,*
*Grain and Farm Supply*

**Inside...**



## *Key Points:*

- E-commerce remains a relatively small but growing segment of the overall agricultural retail marketplace.
- Online ag retail startups are compressing margins for traditional ag retailers through increased competition and price transparency.
- E-commerce platforms that lack a physical footprint will struggle to fully serve farmers, especially in the tight and uncertain time windows endemic in production agriculture.
- Traditional ag retailers are doubling down on their competitive advantages while building their online presence.
- An omni-channel strategy will be necessary for ag retailers to survive and grow in the digital age. This strategy requires investing in technologies to allow multiple avenues for farmers to interact with an ag retailer including through an online platform.

## *Introduction*

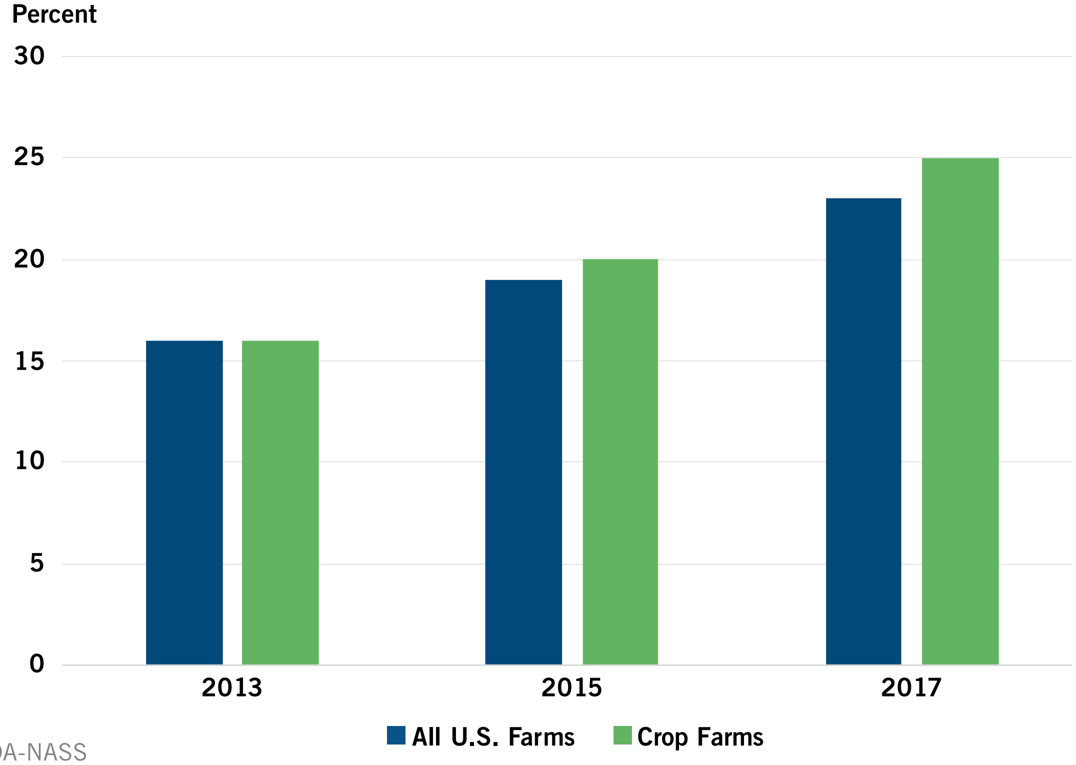
Many in the agricultural retail industry are transfixed by the rapid development of e-commerce start-ups in the space. Two hyperbolic claims illustrate the debate around the future of e-commerce in ag retail:

1. The likes of FBN, AgVend, Agroy, and other online ag retail websites are nothing to worry about.
2. E-commerce will be the death of traditional ag retailers.

While the discussion about online ag retail can often devolve into an "either-or" choice between these claims, the future of traditional ag retailers is more nuanced and lies somewhere in between. Online competition will continue to grow and pressure margins for traditional ag retailers in the years ahead. Amid this digital disruption, many brick-and-mortar ag retailers will adapt to survive and thrive.



**EXHIBIT 1: Share of Farms Purchasing Inputs Online**




Source: USDA-NASS

## *Farmers Moving Online*

Today, a small percentage of crop farmers are purchasing inputs online, but that is starting to change. In 2017, USDA figures show that only 25 percent of crop farmers purchased inputs online. (*See Exhibit 1.*) In 2013, 16 percent of crop farmers did this. For all farmers, the number purchasing inputs online has jumped 40 percent over these four years.

This trend is likely to continue. For one reason, larger farms are more likely to purchase inputs online.[1] Thirty-nine percent of farms with $250,000 or more in sales purchased inputs online compared to 24 percent of farms with sales of $10,000 to $99,999. (*See Exhibit 2.*) As a result, as farms increase in size, more farmers are going to purchase inputs online. Additionally, rural internet access will continue to improve, further encouraging the practice.

On average, a new generation of farmers will be taking over decision control of the farm in the next eight years, according to Purdue University research.[2] These younger farmers will likely be more comfortable with technology. According to Purdue, nearly 60 percent of the younger generation on multi-generational farms were members of Generation X and around 35 percent were Millennials.[3] A Pew Research Center report on technology use across generations show that these generations are similar to one another. Additionally, these two generations differ from Baby Boomers' use of technology, the generation that makes up nearly 70 percent of the older generation on multi-generational farms. For example, around 90 percent of Millennials and Gen Xers own a smartphone compared to just 67 percent of Baby Boomers. Around 85 percent of Millennials and 75 percent of Gen Xers use social media compared to less than 60 percent of Baby Boomers.[4]

A preference for digital media indicates that younger farmers may prefer e-commerce.[5] However, less experience farming may cause them to seek out in-person advice and purchase via traditional channels. Either way, the next generation's ability and desire to interact digitally will push ag retailers to find ways to provide personalized advice via a digital platform instead of just face-to-face.

**EXHIBIT 2: Share of Farms Purchasing Inputs Online**

By Economic Class


Source: USDA-NASS

## *Margin Erosion*

Despite relatively low sales, e-commerce companies pose a threat to brick-and-mortar ag retailers in two ways:

1. Any new competitor will erode sales and margins to some degree. While it is difficult to pinpoint the impact of e-commerce's early growth amid so many changes occurring in the industry simultaneously, some ag retailers see early indications of its effects. Some ag retailers have seen margin compression in the low single-digits from more intense competition, including from e-commerce companies. Additionally, some ag retailers have seen a slight dip in volume in recent years particularly on generic chemicals.
2. E-commerce sites increase transparency for product prices. These sites provide farmers with several sources of product price information that are just clicks away. Farmers are able to leverage that information in negotiations with traditional ag retailers.

Traditional ag retailers that bundle products and services together under the product price are losing some customers to e-commerce sites that provide only the product. The e-commerce channel allows cost-sensitive farmers to eliminate service costs like custom application and product warranties. Farmers are seeing these prices and pushing traditional ag retailers to reduce their own prices accordingly.

## *Adapting to Survive*

Traditional ag retailing is already undergoing transformational changes from manufacturer mergers, farmer consolidation, and technological changes along the agricultural supply chain. These changes are forcing traditional ag retailers to alter their practices and strategies to better compete and meet their farmer-customers' needs.

The growth of online ag retail will accelerate this change. However, it will not change the basic business model of ag retailers consisting of distribution and service provision. Instead, e-commerce will pressure traditional ag retailers to better communicate the value of both, or to separate these two elements of their business.

Traditional ag retailers have largely bundled service with their product price. This service includes recommendations, warranties and re-sprays, handling and storing the product, and performing independent research. Because of this bundling, traditional ag retailers' product prices are often higher than those found on e-commerce sites.

As e-commerce brings more product price transparency – and as more products become available online – traditional ag retailers will be under pressure to lower prices. In order to remain profitable and respond to this price pressure, traditional ag retailers will need to better communicate the service provided with the product or separate the service and the product and lower the product price. Additionally, ag retailers can promote stand-alone services such as soil sampling.

Focusing on the competitive advantage traditional ag retailers have in distribution and service and investing in the right technologies will allow them to succeed in the changing environment.

**Distribution: An Omni-Channel Future**

The ag retailer's goal as distributor is to get farmer inputs from manufacturers or other distributors to farmers as efficiently as possible. Traditional ag retailers have invested in equipment, facilities, people, and relationships to do this. E-commerce platforms generally invest in digital assets to facilitate transactions while outsourcing the physical movement of the product.

The physical footprint of traditional ag retailers is one key competitive advantage. This creates a moat around their strategic position. Without physical assets and control of the flow of goods, a distributor cannot determine how it will execute its basic function: Move product from upstream to downstream.

E-commerce platforms without a physical presence will struggle without this physical footprint in agriculture – especially because of the tight and uncertain time windows farmers face due to a number of factors including pest pressure and weather.

However, e-commerce will likely be just one channel for existing traditional ag retailers. An omni-channel strategy will likely be necessary in the digital age. This strategy provides a farmer multiple avenues to interact with an ag retailer. A full, online interface may be standard in the coming years with chat, video calls, e-commerce, service scheduling, and other capabilities embedded in the online platform.

Nutrien Ag Solutions (formerly Crop Production Services) has launched a digital platform that will start them down this omni-channel path. Its platform does not initially have e-commerce capabilities, but the intent is for this to occur in the future. With Nutrien Ag Solutions' scale, a solo approach is possible. However, this will not be an option for many ag retailers.

An example of an alternative, omni-channel approach is CommoditAg. Numerous ag retailers have banded together to supply crop protection products online under the separate company, CommoditAg. The ag retailers have the physical footprint to provide timely delivery or

convenient pickup locations to a host of Midwestern states while also enabling growers to access product through an online website.

An omni-channel strategy can also mitigate margin compression by allowing farmers to self-segment. The farmers who just want a product can go online and quickly order their product. Farmers who seek out recommendations or additional service can contact their ag retailer's agronomy staff. Products sold online, or even in store, with limited or no-service can be sold at a lower price to compete with online-only crop input suppliers. There are two keys for this strategy:

- The cost of servicing these online sales must be sufficiently low to maintain margins.
- The ag retailer must remain disciplined about customer segmentation. For example, an ag retailer cannot provide discounts to non-online buyers or recommendations to online buyers.

**Service Provision: Re-Evaluating Service Strategy**

Ag retailers are more than distributors. They seek to be a trusted advisor to their farmer customers. A significant part of this trusted advisor role encompasses being a reliable service provider. As more sales slowly move to an online channel, the traditional ag retailer will likely analyze and tweak their service offerings. These services include pesticide and fertilizer applications, soil sampling, product guarantees, product support, and consulting.

The ag retailer focusing on services has a larger risk exposure to farmers' changing needs. Farms that are growing larger will have the capability to perform their own services. For example, a large farm may have enough acres to make a spray rig economical to own or have their own on-farm agronomist. Ag retailers focusing on services will need to be nimble in responding to the shifts on farms in their area in order to mitigate this enhanced risk. Changes ag retailers will likely face include farmers purchasing their own sprayer, adopting variable rate technology, hiring their own agronomist, changing production practices, or facing new environmental regulations.

An ag retailer that is looking to unbundle service from the product faces additional risks:

- Will farmers pay for stand-alone services at prices high enough to maintain profitability?
- What services will farmers demand most?
- Do services require a different type of sales approach, and is the current sales staff capable of executing it?
- Does providing these services require new or different assets or technology?

Customer segmentation is also important as the needs of different farmers continue to diverge. For example, the best service to a small farmer will often be different than the best service for a large farmer. A large farmer may define an ag retailer with the best service as the one that can deliver products the fastest. A smaller farmer may define an ag retailer with the best service as the one that provides the most in-depth recommendations. Both attributes are valuable to different categories of farmers, but each farmer may prioritize them differently. Looking ahead, it will be essential for an ag retailer to understand the services farmers demand from off-farm businesses in each of the important customer segments the ag retailer serves.



**Technology**

For both distribution and service provision, investing strategically in technology upgrades will be critical:

- Enhanced back-end technology may be required to create an online sales platform that links with inventory and operations data in real time.
- Logistics software and telematics will allow ag retailers to increase efficiency in delivering products to farmers, providing farmers with application services, and reducing overhead costs.
- Learning about, adopting, and providing a cutting edge, valuable farm data analytics platform will help ag retailers continually improve recommendations and maintain their position as a trusted advisor.

## *Conclusions*

Online ag retail will continue to evolve in the coming years with its impacts growing in scope and magnitude. However, the often extreme statements of those discussing its prospects typically misstate the reality of e-commerce's current state.

Moreover, traditional ag retailers will adapt to these changes amid an already rapidly shifting industry environment. These changes will likely create direct competitors with today's e-commerce startups and tighten a focus on providing services to ag retailers' farmer customers.

Traditional ag retailers transforming into the ag retailers of tomorrow will face the headwinds of changing farmer customers' needs, ever-updating and upgrading technology, and the ag retailer's view on change.

E-commerce will grow and continue to impact today's traditional ag retailers. It will force many ag retailers to change how they operate. Ag retailers that successfully embrace the challenges introduced by e-commerce will succeed as tomorrow's cutting-edge ag retailers.

## *References*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[5] Fullerton, C., W. S. Downey, M. Gunderson, and N. Thompson. 2016. *Decision Making on Multigenerational Farms. Themes Report, West Lafayette, IN: Purdue University.*


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