

MAR 16 1993

UNIVERSITY OF IDAHO

Maintaining your customer base in the retail farm supply business

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Who is easier to sell to — an existing customer or a prospect? The answer is easy — the customer. Yet often we take our existing customers for granted, and when we do, we may be missing an opportunity.

The shrinking customer base

In recent years some agribusiness supply firms have been facing a shrinking customer base. This reduction in customer numbers has been with us for a long time. Farmers have been leaving the farm in large numbers since the 1950s. In addition, the fall-out of the agricultural recession of the early 1980s has decreased the total customer base that these firms share.

The other side of this coin is that as the number of farms has declined, the acreage of farmland has remained relatively constant. What this implies is that most farms that have gone out of business have been incorporated into existing farms. The further implication is that each of your customers has become a larger part of your sales. Given these changes, protection of your customer base has become more important than ever. First, it has become harder to win new customers, and second, it really hurts when you lose an existing customer.

Two types of customers

Farm suppliers deal with two main types of customers: businesses and individual consumers. Although business-to-business sales account for the majority of transactions, business-to-consumer sales are also important. Examples of business-to-consumer sales would be sales of lawn and garden equipment by implement dealers, sales of dog and cat food by feed dealers, and sales of garden seed, fertilizer, or plants by fertilizer dealers. These sales

are welcomed because they often generate larger margins than sales of the larger-volume farm inputs to farmers.

Let's look at each customer type in more detail. Business customers are in business to make a profit. To satisfy them, you must improve their returns. You will be judged on three criteria: *how sure* customers can be of improvement in production efficiencies (what is the probability your product will do what you say it will do?); *how much* their profit will improve; and *how soon* it will improve. It should be evident that the better the chance of making this profit, the larger the profit, and the sooner you can deliver it, the more you will achieve a higher level of customer satisfaction.

The individual consumer, on the other hand, may have slightly different objectives. Although there are people who look for products or services to improve their financial well-being, many times what you sell them is viewed in a value-to-price relationship. This is what economists call "utility" — the satisfaction the consumer gets from using the product or service. This satisfaction is determined by the value of the difference between what the customer paid for the product and what he or she receives. In addition to a direct financial value, these benefits may be convenience, consistency of service, comprehensiveness of warranties, or the image that the product projects.

Two types of suppliers

Single-product supplier

The supplier who sells a single product (or a small number of closely related products) to a single market faces the greatest marketing risk. If your market dries up, or if you have product problems,

you could be in big trouble. You have no additional products or markets to fall back on and usually no second chance with a market that you disappoint. However, when there are no substitute products or services for what you sell you have the potential for good earnings because you can be the best satisfier in the market.

With this concentration comes an unparalleled opportunity to match the market's needs with your product and service offerings. Not only do you have things and services that fulfill what the market wants, you have expert knowledge. This knowledge allows you to critique a customer's operation and offer suggestions that will increase efficiency.

For instance, you might recommend that a dairy operator separate a herd into three groups by production so that the groups can be fed differently. Due to your combination of expertise and market experience you should be able to add the largest amount of value in the shortest amount of time with the greatest reliability. You should be the most satisfactory supplier and have the most highly satisfied customers.

Broad-based supplier

The broad-based supplier has a different set of tools. Product and service diversification spreads business risk. If one market declines, earnings continue to accrue from other areas. In addition, good performance in one area can rub off on other areas of the business. A case in point would be the customer who is satisfied with the fertilizer from the local farm supply co-op, which leads to the purchase of livestock feed from the same firm.

Unfortunately, it can work the other way too. A problem with one product line in a business can lead to decreased sales in other areas. Thus the successful diversified supplier develops two proficiencies: (1) creating a family of interrelated products and services and (2) developing a talent for damage control so that problems in one area have minimal spillover effects on other products or services.

Cost minimization versus customer satisfaction

There is no question that there is a clear relationship between customer satisfaction and firm profitability. "Profit comes from keeping the customer happy" is an adage that rings true. But how to keep customers happy is the \$64,000 question.

When talking about business, economists speak of minimization of this or maximization of that. However, a conflict arises in that few if any companies can minimize costs and maximize customer

satisfaction simultaneously. The result is you have to find some middle ground such that you don't "give away the store," yet you provide your customers with quality products and service at reasonable prices.

Cost-minimization approach

The cost minimization approach focuses on price and generally relies on little service. Why wouldn't a firm want to take this approach? In the farm supply business, both you and your customers are likely planning to be around for a while. You count on their business this year and in the future. Likewise, the customer assumes you're going to be in it for the long haul. This relationship dictates that you cannot focus on short-term rewards and sell something that may not be in your customers' best interests.

In addition, the cost minimization approach tends to make a firm more vulnerable to competition. The one-shot deal that a farmer buys might be okay until he or she really thinks about it or the competition points out the short-sightedness of the purchase. This approach will also be less profitable due to its focus on price and its smaller margins.

Customer-satisfaction approach

The best approach comes through maximizing customer satisfaction. You must be willing to make long-term investments in projects. Examples might be a customer hotline for product information or ordering, extended warranties or "full-service" packages, and customer newsletters with technical tips on management and product information.

In addition, your firm must be willing to take into account customer opinions and qualitative assessments about your business, not just cost-oriented dollars-and-cents items. For example, spending a little more on quality employees or painting your place of business to provide a neater appearance can pay handsome dividends. Generally speaking (though not always), what's good for the customer is good for your business. Do you feel good about the services and products you are providing the customer?

The customer satisfaction approach emphasizes building a trusting relationship with your patrons. This leads to the ability to get a price premium and a larger profit due to a less price-oriented focus by the customer. How is this accomplished? By knowing your customers so well that you really know what they want.

The customer satisfaction approach nourishes repeat business. Transaction costs (costs related to sales) are lower because it's easier and takes less time and sales expense to make a repeat sale than it does

to sell a prospect. The question in this case is no longer *why* the customer should buy your product or do business with you, but *which* products and *how much*. Communication costs are lower because happy customers serve as a volunteer sales force.

Finally, this strategy allows you to be better protected from competition. Customers don't jump immediately to new products or switch as readily to a lower-priced competitor.

Steps to customer satisfaction

Set high standards. How does your firm gain customer satisfaction? A good first step is to set high standards for your firm and your employees. Employees need to feel driven to achieve these standards. These standards illustrate the need for good employee morale and training. Employees feel satisfaction when they accomplish challenging goals.

Know what the customer wants. The company needs to be obsessive about knowing what the customer wants. This means top-to-bottom involvement, from the boss to secretaries and truck drivers. When an employee discovers a customer's need or problem, it must be communicated to the organization, and not only to the boss, but between groups of employees — between sales/field staff and fertilizer mixers, between truck drivers and office personnel.

Make informal customer contacts. Another useful method of determining customer needs is through informal contacts. Take time to visit with your customers. This is important for outside salespeople and equally important for the owner or manager. Informal contacts should take place on the customer's turf (farm or ranch). This makes the customer feel that his or her business is important to you, and the visit can be the basis for a discussion regarding how well you are serving the customer's needs.

Conduct a customer panel. Formal customer contact can be initiated through a customer panel. You could invite several key customers to your place of business for coffee and cookies after closing, or invite them to lunch or supper. Make a point of having specific questions to ask them, and give them time to talk and critique openly. It all comes down to maintaining a "hypersensitivity" about what your customers need. Typically, this is easy for the sales and service people in your organization but needs to be ingrained in all employees.

Write a thank-you letter. An annual personal thank-you letter from the owner or manager can make your customers feel good about doing business with you. It doesn't take much time, and should not go out

with the monthly statements. Perhaps stagger the mailing (A through F in January or February, G through L in April or May, and so on) so all customers don't get their thanks at the same time. Make sure you, as owner or manager, sign it.

Send a newsletter. Some firms find that a monthly or semimonthly newsletter is a good way to maintain contact with customers (and prospective customers, too) and say, "You're important to us." The newsletter can provide technical tips on management and product use.

Don't oversell. Creating and managing customer expectations help to maintain goodwill. The idea is to control communications with your clientele so that you don't oversell your products or services. In fact, it is far better to undersell. Know what level of service you can provide or how well your products perform and make sure they exceed what you promise. The end result is that the customer is pleased, impressed, and feels that he or she has gotten a good value for the money.

Design for the extreme user. Products and services themselves should be designed to maximize customer satisfaction. They should be designed for the "extreme" user. A product should withstand heavy use and a service should provide benefits for the demanding consumer. In the fertilizer and agrichemical industry, this may mean providing soil tests or crop scouting or taking the manufacturer's representative to visit the customer. In the livestock feed industry, it may mean offering services such as ration balancing, water testing, or management assistance. This approach minimizes the number of customers likely to be dissatisfied.

Use satisfied customers in your sales efforts. Satisfied customers can be a useful sales tool. The most credible persuader is a satisfied customer. Many companies refer to this as "proof of performance." A signed testimonial or results from a yield plot or split feed test provide excellent sales ammunition. Encourage happy customers to talk to others. They are generally flattered to be asked to share their thoughts and results of doing business with you. Recommend that prospects visit with satisfied customers. You may want to consider offering a finder's fee or commission to customers who help you gain new business.

Offer special sales for customers. Sales held specifically for customers make them feel good about doing business with you. The sales can do two things: (1) increase sales and (2) provide a thank-you to valued customers. These can be annual events that customers come to expect or unscheduled surprises.

Survey your customers. Often, an agribusiness may find it useful to run a formal survey of customer satisfaction. Scales for rating customer satisfaction would follow questions about particular customer service attributes or products from your company or competitors. Analysis of the results can uncover areas where competitors are strong or weak. This can help you discover chinks in the competition's armor, places where their weaknesses can provide your business opportunity. Such an approach also measures where your firm is strong and weak. There are almost always some positive and negative surprises that come out of a market survey of this type.

The down side of dealing with customers

As you're well aware, things aren't always rosy dealing with customers. There are circumstances when you have to smile, grit your teeth, and do what you have to for the sake of the customer. Then there are occasional complaints. When a disgruntled customer returns to your business, be thankful. Most dissatisfied patrons won't return; they'll switch suppliers. In fact, only one in seven will return. Not only do the remaining six not return, they share their dissatisfaction with other present and potential customers. View the disgruntled customer as a business consultant who is offering critical insight into your business.

When dealing with a displeased customer, listen carefully and ask lots of questions. Make sure you understand the complaint. Make necessary changes, and attempt to satisfy the customer as best as possible. Make sure that both you and the customer understand what you will do to solve the problem.

Considerable judgment goes into making a complaint settlement. You must consider the potential for retaining the customer's business once the settlement is made. There are times when you will lose the customer regardless of what you do, and he or she will discredit you despite your good-faith settlement.

Are there times when you should give a customer "the pink slip?" We don't usually think of this option, but there are situations when it may become necessary. There may be instances when you can't provide a product or service that the customer is demanding at a reasonable return. Or more typically, you have a customer who can't or won't pay bills on time or at all.

Finally, a customer's negative effect on the business may be stronger than his or her contribution to profit. This may be the situation when a conflict arises between a key employee and a customer, and you're in danger of losing the worker because of the conflict. You must weigh the value of the employee, including hiring and training expense, against the profit contribution of the customer. Another example may be the group of prospects who refuse to patronize your business because "so and so" is presently doing business with you. Again, you have to weigh the tradeoffs, and determine a course of action.

Putting it all together

Below you'll find a quick checklist of recommendations that have been covered in this publication. Use it as an idea generator for developing and maintaining good relations with your customers. Anything you do to improve your working relations with them will pay big dividends.

Customer service checklist

- ___ 1. Make periodic visits to customers' farms or ranches.
- ___ 2. Convene formal customer panels to discuss needs.
- ___ 3. Send customer newsletters.
- ___ 4. Develop proof of product performance with the help of customers.
- ___ 5. Hold special sales for customers.
- ___ 6. Conduct customer needs surveys.
- ___ 7. Send a personal, yearly letter from the owner/manager thanking customers for their business.
- ___ 8. Handle complaints quickly and appropriately.

Further reading

- Desatnick, R. L. 1987. *Managing to keep the customer*. San Francisco: Jossey-Bass Publishers.
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Issued in furtherance of cooperative extension work in agriculture and home economics, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, LeRoy D. Luft, Director of Cooperative Extension System, University of Idaho, Moscow, Idaho 83843. We offer educational programs, activities, and materials without regard to race, color, religion, national origin, sex, age, or disability, in accordance with state and federal laws.