Cooperative Management Series

# Customer Segmentation in Agricultural Cooperatives

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Nearly all businesses today are becoming more market focused, and your cooperative is no different. An important part of sharpening that focus and delivering your products and services more efficiently and profitably is targeting specific market segments. Targeting products, services, and pricing structures toward the "typical" cooperative customer is no longer effective.

To some extent, the "typical" customer no longer exists. Economists describe the distribution of farm sizes as bi-modal. A relatively small number of large farms account for the majority of production. There are a large number of small farms. The number of small farms is actually increasing. However, small farms account for a small share of production. Mid-sized farms often characterized as typical family farms, are declining in both numbers and in share of total production.

Table 1 illustrates the customer profile for an Oklahoma wheat cooperative. When customer accounts are sorted by sales volume, customers in the first quartile delivered over 70% of the cooperative's wheat and fertilizer volume. Customers in the smallest quartile accounted for only 1% of wheat volume and 4% of fertilizer sales. Because of this increasingly diverse customer profile, cooperatives are reexamining issues such as volume discounts and are developing different strategies to serve each market segment.

**Table 1. Oklahoma Wheat Cooperative Customer Profile Wheat and Fertilizer Volume by Quartile**

| | Average Wheat Delivered (bushels) | Share of Total Wheat Receipts | Average Fertilizer Sold (tons) | Share of Total Fertilizer Sales |
|---|---|---|---|---|
| Largest 75 customers | 75,000 | 70% | 70 | 70% |
| Top middle 75 | 12,000 | 20% | 15 | 18% |
| Bottom middle 75 | 5,500 | 9% | 8 | 8% |
| Smallest 75 customers | 1,700 | 1% | 4 | 4% |

## Customer Segmentation

Customer segmentation involves organizing your overall customer base into groups that value the same things and might require similar products or services. Typically, most cooperatives segment their customers by size or type of operation. A familiar size-based model, developed by David Kohl, agricultural economist at Virginia Tech, includes for distinctive customer groups, or quadrants, each with very different needs. They are:

- Sundowner—Farm revenues under $50,000 and over $35,000 in non-farm income. This group is referred to as sundowners because they often farm after the sun goes down. Because their goal is to maximize the rural lifestyle, they are typically interested in convenience, time-savings, and technology.
- Family Farms—More of the traditional family farmer, this group has farm revenues between $50,000 and $150,000 annually. Many in this quadrant are focused on preserving equity and finding low-cost solutions.
- Commercial Operators—Focused on growth, this group has farm revenues of $150,000 to $500,000, and off-farm income ranging between $20,000 and $60,000. They are often technologically savvy, interested in educational opportunities, and networking, and may require the services of industry and business specialists.
- Large Scale Operations—The largest and most aggressive of the quadrants, this group has farm revenues of between $500,000 and $20 million. They also may have outside partners of shareholders, conduct side ventures, are interested in forming strategic alliances, and require the services of a variety of specialists.

Segmenting customers by size can help the cooperative focus on those producers who will be in business long-term. Because of the shifting profile of agriculture, it is essential for cooperatives to maintain relationships and market share with the largest farmers. In many cooperatives, the top ten key accounts represent over 50% of total volume. Every member of the cooperative is important, but everyone losses if we fail to attract the large producers. Large producers are also in the best position to bypass the cooperative and deal directly with companies for their crop inputs.

## Other Approaches to Segmentation

Many cooperatives apply customer segmentation with their own twist. The Oklahoma cooperative in Table 1 cross-references their customers in the top wheat quartile and top fertilizer quartile. This allowed the cooperative to identify two segments for immediate action. The first segment consisted of loyal large producers with large wheat deliveries and large fertilizer purchases. These customers were identified as key accounts and the management team went out of their way to involve them in listening sessions, and customer appreciation efforts. They are also identified as potential board candidates. The second segment, high fertilizer-low wheat or high wheat-low fertilizer customers were targeted for one-on-one visits to determine how the cooperative could earn their remaining business.

An Illinois cooperative segments customers not by size, but by their business relationship. Instead, Dennis Montavon the manager of Effingham Equity, asks questions such as: “Are they a good credit risk? Do they preplan their input purchases? Are they willing to let us deliver feed in the evening, or apply fertilizer during the winter months?” Focusing on customers in those categories allow the cooperative to become more efficient, competitive, and profitable as a business.

These two co-op examples illustrate that there is more than one way to segment your market. But one factor is key—you must strive to identify and serve segments that can provide a profit to your cooperative. While meeting customer needs is critical, the cooperative must also meet its own long-term needs to survive.

The annual board planning retreat is an ideal time to analyze your cooperative’s customer base and reexamine your marketing efforts and product and services packages. Outside consultants or staff from the Bill Fitzwater Program at Oklahoma State University can assist you in market analysis and customer segmentation. Understanding your customer base and realizing that one size cannot fit all is essential for the long term viability of your cooperative.



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