
Marketing value-added in milk recording products and services

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Value-added marketing is a business philosophy that embraces the objective of developing and delivering higher-valued services to the customer, and selling those services to the customer on that basis. It is fundamentally opposite of commodity based marketing with high levels of price sensitivity and reliance upon personal relationships. In the past four years AgSource Cooperative Services and Cooperative Resources International (CRI) have adopted a value-added marketing approach which has placed equal value on products and the people necessary to deliver them. It has resulted in a significant improvement in results. In the twelve months ending in May 2004 AgSource had over 360 000 fewer individual cow recordings than in the previous twelve months. In April 2008 its annualized increase was 370 000 recordings resulting in a much stronger foundation for future success, particularly in an increasingly competitive but shrinking domestic market.

Key words: recording industry, Value-added, Information.

In the past twenty years much of the milk recording industry has been evolving from a structure with, in a given country or region, a single provider and exclusive service rights to a much more competitive and open market. This process is in various stages in different areas, but moving from monopolies to open markets is an evolutionary process. Historically, milk recording service providers have frequently been non-profit and/or government-based organizations, perhaps with subsidy, and consequently the price of services has generally been kept low to farmers. While this can be viewed as positive for the customer, it becomes a limitation if the insufficient profit generated by low prices results in less investment in product and service improvements. Perhaps even more limiting, the customer will equate price with value. Ironically, if less investment is made in products and services and customers perceive lower value, utilization declines, and lower volumes are applied against the high fixed costs associated with the milk recording business. This then forces prices higher, instead of lower, with even more pressure from declining demand. This could be described as the death spiral for a business or an industry.

Summary

Introduction

In the last four years AgSource and CRI have made significant investments in converting to a value-added business philosophy. That philosophy can be described as proactively looking for ways to enhance, augment, or enlarge our bundled package for the customer. It is about always seeking ways to create meaningful value and to exceed customer expectations and making our products and services so important to the customer that they cannot afford to replace us, without price being an issue.

The three-dimensional bundle of value

Value-added salespeople sell three things: the company, the product, and themselves. This can be referred to as the three dimensional bundle of value. In our experience, it has absolute application to milk recording organizations evolving from exclusive providers that may have received some form of external support to a competitive market fully funded by service revenue.

Company

It is easy to underestimate the fundamental impact the image of an organization or brand can have on marketplace success. In reality, little success can be expected from improvement in products and services without the foundation of a strong organization and positive brand image. By strong we mean reliable, trustworthy and with a history of commitment to quality service. We believe our structure as a member-owned and directed cooperative is positive in the marketplace, and our references here to members and customers is largely interchangeable. We were fortunate to have a positive reputation at AgSource and CRI before engaging in our conversion to a value-added organization. Without it, our challenge would have been much more difficult.

In spite of a firm foundation to build from, we did find the need to sell the value of AgSource/CRI in the broader sense, rather than relying on products and people. For example, we found that many of our customers had a relationship with and loyalty to their local field technician, but very little was applied to the organization that employed them. While this was positive in member retention when we faced competitive challenges, it could be a major limitation when we experienced employee turnover. We realized we needed to make the customer more reliant on our organization without decreasing their loyalty to the individual. This challenge is ongoing, but we feel we have made progress by involving more and different personnel in providing service, particularly to larger herds. We have employed a more focused brand strategy, and we have broadened our product and service offering. These steps have had a positive impact on making the customer feel more reliant upon AgSource and CRI as a whole, rather than just on the person regularly involved in service on the farm.

This concept also extends to the need to increase reliance on the organization for service rather than on external factors. For example, we cannot rely on breed programs or the dairy cattle breeding industry to sell or create demand for our services. While useful, they do very little to increase recognition of the value of the outstanding management information we provide. If we sell our programs to a new herd primarily on the basis it will allow them to receive progeny testing incentives or participate in breed recognition programs, we have made ourselves reliant on those programs, and potentially victims of them if changes outside our control are made. The potential that genomic evaluations may reduce the need for progeny testing is a current case in point. It is our responsibility to create recognition of value in what we do. To deliver real value means absolutely nothing in the marketplace if it is not recognized by the customer.

An organization cannot sell value that does not exist. The marketplace does an excellent job in the long run of sifting products and services that are not worth the price. In our organization we were fortunate again to have a strong foundation. However, we needed to apply more effort to differentiate ourselves from the competition, and to better coordinate market release of new products and services.

An important piece of value added marketing is the need to create differentiation within the industry. We cannot be offering the exact same products with the exact same look. There may be similarities and some parts of delivered product may overlap, but the entire package cannot be the same. This results in a commodity-based industry where price is the primary driver of a buying decision.

At AgSource we have adopted a strong commitment to new product development and enhancement. It is our goal to introduce at least one major new product or enhancement each year. Product releases are coordinate with field training, advertising, industry and member education, and marketing incentives.

- Our 2006 introduction of the Fresh Cow Summary and List, including the patented Transition Cow Index® was the most successful rollout of a new management option in AgSource's history. Members, with nearly a third of all the cows we record, chose to receive and pay for information that had not been previously made available. This option added value to our milk recording services at all levels: on-farm data collection, laboratory analysis, and the dairy records processing database. The information could not be provided without all three components.
- Earlier this year we introduced significant upgrades to our Udder Health Management package, including herd summary and individual cow reports related to milk quality and udder health. All members received these reports at no additional charge for the first three months and then chose to continue or discontinue receiving the report beginning in April. Although it is still too early to produce final retention numbers, initial results indicate we may see as much as a ten percent increase in utilization of these optional reports even though the improved products are sold at a higher price. Again, this is information that adds value to our field and laboratory services. Because much of it would be difficult to replicate on an on-farm system, it also adds value to the dairy records database.
- Our latest new product offering is the Profit Opportunity AnalyzerSM. This report benchmarks performance for our 5 000 herds in seven critical areas of management, applies economic values, and estimates for a herd what areas of management may carry the greatest opportunity for improved profitability. Valuable information that is once again only available from AgSource, reliant on a large database, and a product that adds value to our complete milk recording and laboratory service.

Another area of product differentiation that adds value is our increased offering of supply products in conjunction with our regular field service. While most of these products – milking gloves, ID tags, calf coats, etc. ... are available from other suppliers, we make it more convenient for our members to order them from us as part of their regular service. This becomes one more reason for them to stay with AgSource when offered competitive options, and adds value to our regular herd test. Our average annual growth in sale of farm supplies by our field staff has been 28% in the past three years.

People

If there is a “most critical” component to our three dimensional bundle of value it would have to be people. Changing attitudes, performance and perceptions of our own people has been our greatest challenge, but also our most rewarding achievement. Clearly, the most effective way to create recognized value is for us to sell our real value through a well trained field staff that believes in and understands the value and can explain it to our members. Making the necessary progress in this area has required a three-pronged approach: information, motivation, and separation.

- Information means training, expertise, and the confidence that it creates. It requires organizational and employee commitment. It is not enough to introduce new or improved products. An educated and effective field staff is required to ensure these products increase the value of our services to their members.

AgSource has significantly increased the required training and resources applied to field staff education. We have expanded training on product knowledge, have implemented required programs on selling and the importance of the value-added approach, and developed several new tools in the form of video and on-line programs to deliver this information. Time spent in small groups sharing experiences and information adds to the knowledge base of the local team. We have significantly upgraded the expectations of our field staff to be more than good service technicians. Dairy producers today expect sales people to know more about their products and how to use them. To deliver value we must exceed those expectations.

- Motivation is a combination of rewards and recognition that inspires achievement and performance. At its base level, it is the pride of being part of a successful organization committed to meeting the needs of its members. However, personal rewards and recognition are also important.

Compensation for on-farm milk recording services is a challenge, and our observations suggest there is tremendous variability in how field service personnel are paid by various organizations. We claim no special insights, and acknowledge the challenges associated with field compensation and changing the methods within it. We do believe, however, in the axiom that “what gets rewarded and recognized is what gets done.” We have made ongoing adjustments in how, and how much, we compensate our field staff and have increased the portion of their total compensation tied to the production of revenue. When introducing new products and services we have simultaneously implemented incentives tied to the successful sale of those specific items.

Recognition may be as important as compensation as a motivating tool. We have increased the opportunities to recognize our field staff for sales and service at the organizational and regional level. Monthly newsletters identify top performers in several areas of sales and service. Region managers are encouraged to more frequently recognize their staff in front of their peers. Many times we reward employees with organizational apparel for them or to give to their customers in order to increase brand awareness in the marketplace.

- Separation has been used sparingly, but is important. For employees who fail to adopt an attitude conducive to delivering and selling added-value, or who fundamentally do not believe in the importance of the products and services

we offer, we have found that they are happier and frequently more successful in another profession. Separation may be voluntary or involuntary and we are fortunate that most employees from whom we have separated have recognized themselves that they would not be able to meet our expectations and made the decision to resign or retire. These separations have the added benefit of sending the message to other employees that we do expect more. We highly value our people and commit tremendous resources to training and personal development. The time required to develop a person who may not wish to grow can be very counterproductive.

Attitude and a fundamental belief in the organization, the product, and its value to customer profitability are critical to the success of a value-added salesperson. One of the primary ways we measure effectiveness of our program is the percentage of active herds and cows actually tested in a month. Before adopting value-added sales approaches, our field staff would frequently respond to an objection related to price or inconvenience of the milk recording process by offering to skip a monthly test or to extend testing intervals. A value-added salesperson responds by emphasizing the importance of regular and complete information from a monthly test. Figure 1 shows the increase in annualized percentage of active cows tested since December 2003. The change from 89.4% to 92.7% on 600,000 active AgSource cows equates to approximately 237 600 additional individual cow recordings per year.

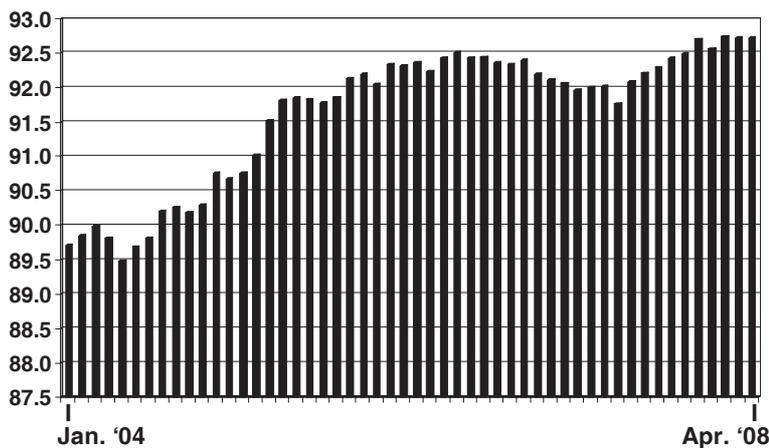


Figure 1. Monthly annualised percent cow tested (Jan. 2004 - April 2008).

Since committing to the philosophy of value-added marketing AgSource and CRI have experienced positive and measurable results. Although some of our recent success can be attributed to strong dairy prices and stable cow numbers in our primary market areas, the growth shown in Figure 2 could not have been achieved without the steps described in this presentation. Since 2004 our programs have increased substantially. As of April 2008, our gain in individual cow recordings the previous twelve months was 369 778 more than in the twelve months ending April 2007. Steady improvement has been achieved since initiating value-added marketing programs.

Conclusion

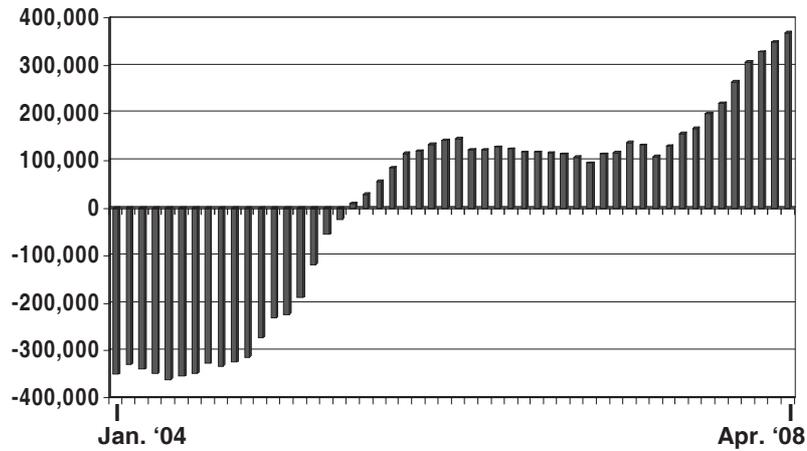


Figure 2. Monthly annualised change in total cow recordings (Jan. 2004 - April 2008).

Value-added marketing is a philosophy that has strong application to providers of milk recording services. It requires commitment from the organization at all levels, from the board of directors, management, and service employees. Milk recording organizations must continue to evolve to maintain their relevance and meet the needs of dairy producers. To be successful, we must continue to increase the value of our specific services, be less reliant on external programs, and increase producer recognition of value.

**List of
references**

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