Agronomy Margin Risk

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In my last few newsletters I have been discussing my research on the risks areas in grain marketing and farm supply cooperatives. The results, which were based on intensive examination of ten case study cooperatives, identified grain volume as the largest risk bucket followed by grain margin and fertilizer margins. The relative results varied across cooperatives. Fertilizer margin was a major source of risk for at least one case study cooperative.

Just like grain margin, fertilizer margins can be impacted by multiple factors including purchase and warehousing strategies, shrink and, of course, competition. I would make a guess that competitive pressures are the primary factor behind fertilizer margin and agronomy department margin risks. Unlike grain, where location and throughput time are major factors, producers likely perceive more flexibility in sourcing crop nutrients and protectants. Cooperative members are both owners and customers and that structure creates the temptation for members to lobby for receiving their ownership benefits upfront through favorable prices.

Agronomy department managers often ponder whether pricing is the best vehicle to compete for volume. The dynamics of reducing prices to gain market share depend on both the importance of price on the producer's purchase decision and the reaction of the competition. Survey results suggest that price, access to a knowledgeable agronomist and reliable custom application rank roughly equally in fertilizer purchase decisions. If you dig deeper, you see that the relative importance varies across producers. Some producers are transactional, making decisions primarily on price while others put more emphasis on knowledge and relationship

Some of the strengths of the cooperative business model such as fairness and transparency become disadvantages when competing with price. Reducing margins across the board to entice that transactional customer may end up giving up more than is gained. Tailoring incentives to each customer run afoul of the cooperative concept of equal or at least equitable treatment. There is also the risk that your competitor responds with a similar bid creating a new normal at a lower level. It's easy to see the challenges in maintaining agronomy department margins.

If a grain and farm supply cooperative manager gets three wishes their first wish should be for favorable and consistent weather. Their second wish should be for disciplined fertilizer competitors. The final wish is easy to guess. A good cooperative specialist at a nearby university!