Strategic Commentary from The Hale Group, Ltd.

Strategic Initiatives

Vol. 3 No. 3

Discover.

Analyze.

Strategize.

Implement.

Measure.

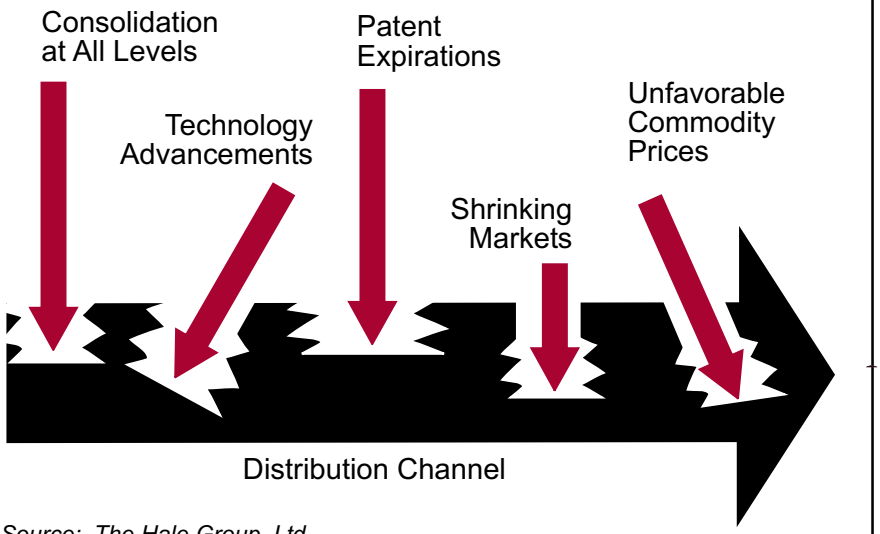
The Art of Supply Channel Relations

Profitably Acquire and Retain Key Channel Partners

US agriculture is facing many challenges as a result of turbulent changes and unfavorable economic conditions including overcapacity and resulting margin pressure. This, in turn, is reflected in the wave of consolidations at all levels, leading to the emergence of mega-distributors, suppliers, competitors, and growers. These market-dominating giants often become removed from the marketplace and develop marketing strategies that better serve internal bureaucracy and short-term financial fixes than long-term external customer needs and value creation.

Nowhere is this better demonstrated than in the distribution channel relationships in the agricultural input industry. The recent market and structural transformations in this industry have increased pressures on manufacturers and distributors resulting in *continued on page 2*

Turbulent Times in the Agricultural Input Industry



Source: The Hale Group, Ltd.

strained relationships, distrust, and marketing plans and decisions designed for self-preservation versus the needs of important channel partners. Too much internal focus often leads to independent strategies resulting in conflicting tactics and adversarial relationships.

A strategic process that is focused on reversing the impact of adversary channel relationships and developing serious, committed and ongoing relationships with targeted channel partners is necessary. Companies that utilize this type of process to foster key channel relationships have the ability to defend and expand their competitive position.

Industry Challenges

Managing Mega Players - Too often, mega players think they are the market, causing counter-productive battles as the estranged partners chart independent courses. This usually results in lost opportunities and declining market position for the mega players as smaller and more nimble competitors aggressively pursue their customers.

Changing Technology - Technology changes and shifts in the value chain are affecting the traditional value of brands, go-to-market systems, and distribution economics. Communication technology, for example, can effectively develop live contact between manufacturers and any of 5,000 or more mega growers. Many of these growers readily accept and expect to communicate with the company of their choosing!

Substitutable Products - Off-patent and "me-too" products lead to the substitution of generic for brand name products, which are available to mega-distributors, mega-competitors, and even mega-growers. The evolving mega-distributors now command significant market share through their proprietary private label brands and marketing muscle.

Margin Squeeze - Margins in the entire distribution channel will likely continue to be under pressure as substitutable products abound and industry over-capacity exists. This pressure continues to entice manufacturers to implement marketing strategies designed to lower discount and program expenditures to the channel or even circumvent the channel system and design communication systems and sales tactics to directly influence selected growers.

Food System Consolidation - Consolidation within the food industry is also occurring and will have direct and dramatic affects on the agribusiness industry. As these food manufacturers, distributors, commercial restaurant operators, and retail grocers gain market share through consolidation, so does their influence on food and crop production and processing.

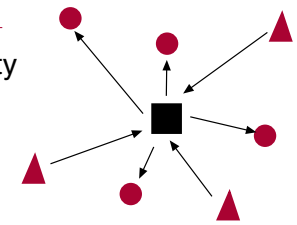
Consumer Demand - Consumers will continue to ultimately determine the future of the food and, subsequently, the agribusiness industry through their demands. Today's consumers have high expectations. They demand variety, convenience, and nutrition.

These and other changes are inevitable. The time is ripe for agricultural input companies to develop and implement unique strategies that take advantage of the opportunities now available and proactively chart their own course.

Selecting Supply-Chain Partners: Transactional *versus* Targeted

Transactional Selection
"Old Model"

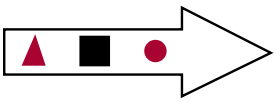
- Price and Availability
- Multiple Suppliers
- Commodity View
- No Commitment
- Silos Created



Paradigm Shift

Targeted Selection
"New Model"

- Collaboration
- Cultural Integration
- External View
- Focused Strategies / Tactics



Source: The Hale Group, Ltd.

Build a Customer-centric Strategy with Key Channel Partners

A company's ability to grow profitably will depend on a limited number of key relationships. In the future, individual strategies / tactics must be developed to proactively pursue leaders in the supply chain, as well as key growers. Failure to do so will result in companies serving shrinking markets, and being shut out of key market segments.

Suppliers, distributors, and dealers should create individual strategies for building channel partnerships centered on a marketing focus in place of traditional and sometimes adverse distribution channels in place today. Choosing and nurturing key supply chain partners is a *strategic* issue with today's successful companies.

Traditionally, many organizations in the agricultural supply industry have followed a **"transactional"** course to select suppliers and / or distribution channels. This traditional selection method served their needs well as new technology was introduced and adopted, patents protected brands and margins, and distributors and dealers needed to access all supply sources to ensure a base portfolio of products to meet growers' needs. Suppliers simply needed trucking and distribution outlets to fill a logistics role and adopted, by default, a mass marketing approach.

In the future, successful companies will proactively **target** supplier or distribution partners based on a variety of strategic values and develop individual strategies for each key mega-supplier or mega-distributor.

Individual strategies / tactics must be developed to proactively pursue the targeted supply chain partner. Developing and implementing such a focused strategy often requires a change in organization, a reallocation of traditional marketing and sales programs, and most importantly, a cultural change of thinking in the area of alliances, resource requirements, and methods of determining short and long-term profitability. In short, an organization must shift rapidly to a new strategic paradigm. The ***Strategy of One™,*** a process used by The Hale Group to assist companies in profitably acquiring and retaining targeted channel partners, is depicted above. This diagram outlines the major steps in the development of a strategy that leaves the "transactional broadcast mentality" behind and has the power to rally an organization around present and future high impact targeted channel partners.

Strategy of One™

The process of fostering key channel relationships to enhance competitive position

1. **Review** the competitive landscape
2. **Define** company objectives
3. **Identify** targeted channel partners
4. **Build** strategies unique to each partner
5. **Develop** tactics to support strategies
6. **Implement** the plan with each targeted partner
7. **Revise** plans annually or as necessary

Continuous Process

Source: The Hale Group, Ltd.

The best way to implement the ***Strategy of One™*** process is to develop account-based teams (cross functional and / or multi-level management teams). The objective of these teams is to define and create alignment between the targeted partner's organization and needs, and the company's skill set and benefit statements. This team concept will continue to grow in importance as channel partners begin to develop functional relationships focused on reducing the inefficiencies that exist in redundant systems / organizations.

The Payoff

For firms committed to partnering with targeted strategic channel partners, the payoff for successful implementation of The Strategy of One™ process can be rewarding. Some examples of these payoffs include:

- **Increased Efficiencies**
  - Reduce costs through combined supply chain opportunities.
  - Create sales synergies by leveraging the sales force of each group to better target mutual customers.

- **Knowledge Building**
  - Share data for a more complete information base.
  - Build the information base contributed by each partner into knowledge advantage for the partnership.

- **Brand Enhancement**
  - Develop a synergy of partnership that can enhance brand awareness and better protect against competitive threats.
  - Produce private label brands to rejuvenate mature products for the supplier while adding marketing opportunities for the distributor partner.

- **Shareholder Value**
  - Create value by ensuring long-term company vitality through customer loyalty.
  - Cultivate customer loyalty by creating value for long-term customers.
  - Nurture a channel partnership and create value for the ultimate and mutual customer, the mega- grower.

In today's environment, mega-customers require more than just products from their supply source. Key growers require a broader set of product features and benefits that go beyond the capabilities of single entities in the agricultural input supply chain. We can no longer pit our product against competitive products alone but rather strategically focus on our supply channel versus competitive supply channels.

The mega-customers and the pressures they apply will not go away anytime soon. Successful suppliers and distributors / dealers will build strategies to attract and retain these profitable customers. The secret to success is focus, organizational flexibility, and a **Strategy of One™.**

About The Hale Group

The Hale Group is a consulting and advisory partner assisting companies develop fact-based strategies to contend with an evolving landscape. The underlying philosophy of the firm's efforts on behalf of its clients, and in collaboration with them, is to formulate strategies that enable clients to break through the market clutter and identify platforms for growth.

The Hale Group has developed proven processes and tools to help organizations gain perspective on the opportunities and challenges within an industry. The level of The Hale Group's participation can take many forms from addressing the overall process or an individual part of the process. However, in whatever capacity we participate, the desired outcome is for our clients to be successful.

Our products and services include:

- *Strategy*
- *Organizational Effectiveness*
- *Market Research*
- *Operating Efficiencies*
- *Opportunity Analysis*
- *Mergers & Acquisitions*

For more information about The Hale Group or to view other Strategic Initiative articles, visit our website at www.halegroup.com or call us at 978.777.9077 (Boston) or 415.285.3616 (San Francisco).