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PLANNING A PROFITABLE ICM SERVICE

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Introduction

For agricultural dealers, there has never been a better time to introduce fee-based crop consulting services. Precision equipment and genetic technology have made new resources available for high yields, but they have also increased the complexity of information management and decision-making in all areas of crop production. The situation has created an opportunity for dealers as well as independent consultants to profitably market services. Public sector demonstration projects conducted under the leadership of Iowa State University Agronomy and Agronomy Extension - such as the Butler County ICM Project, an element of the Iowa Integrated Farm Management Demonstration - have documented that a comprehensive integrated crop management (ICM) service program returns $8 to over $30/A/yr from management improvements.

There are also some successful independent consultants who are demonstrating the potential for integrated crop management (ICM) services. In a 1994 survey of consultant's customers by ISUE Sociology Extension, 74% indicated they received a $2-$5 return for every dollar they invested in a crop consultant's services. Yet, as a group, private consultants do not actively market their services, relying instead on word-of-mouth recommendations. There is a much larger market available that has barely been tapped. (Results of ISUE Sociology Extension surveys of both consultants and their clients can be found on the Agronomy Extension web site at http://extension.agron.iastate.edu/waterquality/projects/nwiagrib.html>.)

Throughout Iowa, dealers typically provide some nutrient and pest management recommendations for free, to promote product sales. They may make one or a few field observations during the year, although generally not frequently enough to be considered a scouting program. Recommendations are generally made as a "reaction" to a problem rather than taking an integrated approach to identifying and preventing potential problems. And as farms get larger and technology more complex, customers are asking for more assistance, which is harder to provide on shrinking margins. Yet when managers and agronomists think
about fee-based services, there are a lot of questions and uncertainties because this is a new business model. The most difficult questions have been summed up in the phrase "the transition from free to fee". Since 1993 a special project in northwest Iowa has provided technical and business planning assistance to a group of progressive dealers seeking to establish fee-based crop management services. Lessons learned in the project are being used to develop workshops for the ISUE Agribusiness Education Program. Some of the key insights derived from that project will be presented here.

A Vision of the ICM Service Model

The first hurdle in planning a profitable service business is to develop a vision of the service and differentiate it from whatever services are already provided free. Consider the following points:

- Only an integrated program which offers planning and specific recommendations, not just options, can command a high enough price to be viable. Stay away from menus (limited services, limited acres) and make the service comprehensive for the crop enterprise. Current interest in precision agriculture has many farmers and dealers looking for pieces of the package, like better soil sampling. Although the business plan may define some levels of service, overall it can only be profitable if it deals with a systems-oriented, whole farm approach. Then the service can become not just a "hired hand", but the customer's partner and trusted advisor.

- A true ICM service is tailored to the needs of each individual client and farm, and leads them to progressively more refined management of time, inputs, records, machinery. Do you know your customers' management practices and decision-making well enough to identify the priority profit-limiting variables in their current operation? These could be different for each operation and they will change with time. Working on profit-limiting variables may not always be high-profile. They could be as simple as planter adjustment or as profound as changes in machinery or rotations. But they are the reliable sources of profitability for the business and the customer year after year.

- Some of the dealer's most advanced customers should be involved in the vision process, but beware of simplistic surveys. Don't forget that only hindsight is 20:20. It is better to meet and start a "dialogue" with progressive farmers about what ICM service can mean for their operation. A profitable ICM service will provide more information, and more integration of information, than they have ever received. The customer may not know what they want... because they haven't experienced it yet!

A Business Plan That Includes Marketing

A successful service starts with a complete business plan. This "road map" may be refined as the service progresses, but its important to start with a complete picture of what you are trying accomplish and how you plan to get there.

- The plan includes a goal statement for the business, description of targeted customers and what concerns are likely to make them interested in the business. The plan describes the service that will be offered, how it will be managed, staffed, supported and marketed.

- To help target customers, ISUE surveys show that, as a group, consultant users differ from non-users in having more education, farming more acres, and having a higher gross farm income from agricultural products. They often have large livestock operations that consume much of their management time and want more help with the crop production side. The project has found that dealers serious about a quality ICM service have no difficulty recruiting clients from among their
best customers, even for their highest cost service option package. They also have found their services increase customer loyalty and recruitment in other parts of the business.

- A fee-based service has to be independent of sales and have dedicated staff. Businesses which "try out" services with a few customers but without dedicated staff end up missing too many opportunities to improve the customer's profit through planning, observation and recommendations. ICM is year-round work. During busy planting and harvest seasons, the service provider has to be available when clients need them, not just not when sales or application schedules allow.

- The marketing plan is crucial. It describes how the ICM service differs from the competition, including the free services your company already provides - and how that difference will be sold. The better staff are at verbalizing the difference between the fee and free services, the easier it will be to charge for them, and "sell" them.

**Marketing the Service**

The higher quality of service a dealer already gives away, the more difficult it will be to charge for service. So how does a business determine what quality of service they presently offer? The keyword is "individualized".

- Do you know your customers' operations so well that you can identify each one's "hot button"? Every producer has one or two priority management concerns that they would pay for help to solve. These may or may not actually be their main profit-limiting practices - but they are the concerns that can sell them on a service. On the other hand, a service that does not analyze and address the real profit-limiting practices cannot be successful in the long run. Are your free services individualized or standardized? Would highly individualized services be valuable to your clients?

- Part of marketing the service is marketing the agronomist/manager/service provider. The higher the quality of the service provider - including their experience, knowledge, "people skills" - the easier it will be to charge for their services. In a project survey of "top" customers of a large dealership, respect for agronomy staff was rated far more important than price as the reason why they purchased their inputs from that company. This also shows why competition on the basis of low price is NOT the effective way establish a service business.

**Staffing the Service**

A crop management service can only be profitable if there is someone whose job it is to make it a success! The service manager's job description is another crucial part of the planning process. A shortage of qualified employee candidates in the local job market has been a difficulty for some dealers trying to start a fee-based service.

- The service manager/agronomist must have primary responsibility for the service and not be pulled away to other duties. As a way of making the manager share in the success of a profitable service, some form of incentive may be appropriate.

- He or she must enjoy the challenge of giving each client individualized attention, of working alongside customers to continually upgrade their operation on a field-by-field basis. This is a real source of job satisfaction for many professionals and is likely to increase retention of staff in the business as well.
• He or she must be willing to work with records - plans, field records, yield monitor data. Scouting is an attractive aspect of services because there could be a “coup” of finding and solving some unsuspected field problem in season. However, the fact is that winter planning is the “unsung hero” of the ICM process, reliably profitable but less glamorous. While specific practices like scouting and soil testing are very important, the key to making them really pay off for the customer is integrated information management. Evaluation of complete crop enterprise plans and field records allow the service to demonstrate to the client exactly how they have benefited from their investment.

• The manager must be able to verbalize what the service offers and how it is different from the competition in terms that the client can understand. As precision agriculture applications get more complex, this amounts to skill in practical education as well as agronomy and salesmanship.

The challenge in planning a profitable crop consulting service is to develop new ways of thinking about adding value through refined management. And then helping the customer to appreciate what is possible. Even the most successful operations can be fine-tuned. Often producers who are already effective and profitable are the first to invest in an ICM service. They may already systematically look for “profit-limiting variables” in their operations and understand the value of a comprehensive service that brings expertise and a fresh perspective from a trusted source.

The Northwest Iowa Agribusiness Integrated Crop Management Project

Iowa State University Extension and the Natural Resources Conservation Service are providing leadership for this project, which seeks to increase the capacity for ICM practice and the availability of ICM services to Iowa farmers. Funding has been provided by USDA, and U.S. EPA Region VII through the Iowa Department of Natural Resources. All dealers in a nine-county area of northwest Iowa are eligible to work with the project, which provides both agronomic and business planning assistance. The Agribusiness Association of Iowa helped to bring the public and private sector groups together in 1993 when the project was started. ICM is a priority for the public sector partners in the project not only because it increases farm profitability, but also because it is an environmentally sound approach to crop production. Additional information about the project is available on the ISU Agronomy Extension Water Quality web site at http://extension.agron.iastate.edu/waterquality/.