

\*\*\* M E M O R A N D U M \*\*\*

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DATE: March 19, 1994  
TO: Chuck Davis  
FROM: Vern Bell  
SUBJECT: Distribution Channels Strategy

#### THE PROPRIETARY REP/DEALER CHANNEL

DICKEY-john is changing! This should be no surprise since all companies must change to accommodate the competitive and social environments. The Rep/Dealer channel of the past is simply no longer the optimum way to reach the consumer for our types of products. As marketers, it is our obligation to monitor the changing environment and continually optimize our marketing mix Product, Price, Promotion, Place (distribution).

The single most significant change in the distribution channels, which reach farmers, is the evolution of the farm store merchandiser. History shows that this type of merchandiser starts out by discounting everything and consolidating volume from a variety of higher margin competitors. That is how they wipe out the Ma & Pop stores, such as short-liners. However, these entities inevitably broaden their product lines, add services and create increasingly up-scale stores. The underling cause of this tendency is the need to fatten margins, which are razor thin in the beginning. For more on this topic take a look at the case history of K-Mart in the Strategic Management text on my book shelf.

Products currently sold through the Rep/Dealer channel can be broadly classified as follows:

#### COMMODITY PRODUCTS

These include hand-held moisture testers and soil compaction testers. These products are, essentially, impulse buy products. Check the marketing text on my book shelf for a detailed description of the appropriate strategy for impulse-buy products. Clearly, these products are best sold through high volume merchandising channels. The "short-liners" can and will move some of these commodities, but they do not have the shelf space or merchandising expertise to reach the vast majority of the consumers. This is best done through the fast evolving up-scale farm consumer outlets.

John Deere's merchandising channel is the premiere example of this evolution. Let's call this trend the evolution of the farm store merchandiser. The Deere channel is, of course, closed to us for now. The Country General, and Midwest Marketing are other examples of farm store merchandisers. We appear to have some success with these. However, we must not stop with these two outlets. The goal is to have the product on the shelf, brightly packaged, and clearly labeled, whenever the consumer gets the urge to part with the pittance required to secure one of these items.

I believe our name recognition and quality image will allow us to sell at a slightly higher price than the competition. But, once more, our product simply must be on the shelf, next to the bad guy's product, at the very moment the consumer's wallet starts to throb, or we have lost the order and the bad guys increases market share by one unit. Virtually no one will cross the street, let alone hunt for one of our short-liners, to buy one of these disposable devices.

#### AFTER MARKET PRODUCTS

These include the Planter Monitors, CCS/CMS and Anhydrous Ammonia systems. These products are definitely not impulse buy items. The several thousand dollar price tag means the customer will make an assessment of features and benefits and will choose the product which offers him the over-all best value. Therefore, installation, service and technical support are important factors. However, our short-liners definitely don't have a monopoly on these services. And our reps provide little, if any, support. Again, the business environment is changing. As marketers we must discern that change and adapt to it.

For the same reason you can buy Tires, Mufflers and get your car serviced at Walmart and K-Mart, the fast evolving consumer farm-stores will inevitably offer aftermarket chemical/fertilizer applicators and planter monitors. The only question is, will they offer DICKEY-john product, or our competitor's offering. Our strategy must address this trend.

#### A NEW DISTRIBUTION CHANNEL STRATEGY

We simply must develop a new strategy, more consistent with the social and competitive environments, or we will continue losing market share to upstarts. Since it is impossible to sustain a competitive edge in either Product or Price, I submit our strategy should focus first on Promotion and our Distribution channels (Place). We have already improved the appearance of the moisture tester and developed packaging which is appropriate for farm store merchandisers, thus tweaking the promotion quadrant of the marketing mix, now we need to modify our distribution channels. I suggest the following steps to a more effective channel.

1) Cull out ineffective Proprietary Channel dealers over the next several months. This effort will reduce the number of Proprietary Channel dealers to 20% of the current legion. Use the following criteria:

- Eliminate those who won't comply with \$100.00 minimum order.
- Establish a minimum yearly dollar volume which will achieve the 80/20 goal. Stick to it! Eliminate those who don't meet the yearly dollar volume.
- All new dealers must release for shipment their first year minimum dollar volume to become a Dj dealer.
- All dealers must install and service our aftermarket products, or they go. Eliminate those who don't.

I view these as short-term accommodations. Longer term I prefer Dealer Agreements, rather than a blanket policy. I also strongly encourage sales goals for each dealer. Limited DICKEY-john marketing manpower prohibits implementation of these more aggressive moves at this time. But, stronger control measures are needed to create an effective dealer program.

2) Give notice of termination to all the Farmstead Reps on July 1, 1994, per their respective Rep Agreements. In my opinion they simply do not provide adequate value to offset the \$200,000/year we pay them.

3) Aggressively pursue new consumer channels, such as Midwest Marketing and Country General.

4) Reorganize the sales department as follows:

- Eliminate the Proprietary Channel BUM position. This position is no longer relevant.
- Establish three new marketing positions: a Merchandising Sales Manager and two Product Manager positions.

The Merchandising Sales Manager will have roughly the same qualifications as an OEM Account Manager, but possess significant experience developing merchandising channels. His charter will be to develop all merchandising channels addressing the farm consumer. In this capacity he will work with the OEM Account Managers to develop their account's merchandising sales channels (Deere, Case, Agco). He will develop new proprietary channels, such as the farm consumer channels. He will also administer DICKEY-john's dealer program. This individual's will focus on distribution (Place) and Promotion for all DICKEY-john labeled products addressed at the farm consumer market.

One Product Manager will be responsible for Planter Monitors and Sprayer Products. The other will be responsible for Analytical Instruments, Moisture testers and other consumer products. He may also serve the Marketing function for new proprietary DICKEY-john products such as the oil sensors. These individuals will focus on the Product and Price quadrants of the Marketing Mix. They will serve as the Marketing Department's representative on development teams, and manage pricing issues in cooperation with the OEM Account Managers. The OEM Account managers will continue to provide the Product Management function with regards to custom OEM developments.