

## **IMPLEMENTING FEE-BASED ICM SERVICES**

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### **The Northwest Iowa Agribusiness Integrated Crop Management Project**

Since 1993, a group of agrichemical dealers and public sector agencies, including Iowa State University Extension (ISUE) and the Natural Resources Conservation Service (NRCS), have been exploring the potential for fee-based crop management services in northwest Iowa. The Agribusiness Association of Iowa helped to bring the public and private sector groups together. In 1995, funding from USDA, and later also U.S. EPA through the Iowa Department of Natural Resources, established the Northwest Iowa Agribusiness ICM Project. The objective of the project is to demonstrate comprehensive, fee-based ICM services by dealers, ideally as separate profit centers. 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.

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. With the advent of yield monitors and precision farming technologies, demands for more detailed observation, recommendations, planning and information management assistance are increasing - while product profit margins are shrinking. Some progressive businesses that have made significant investments in expert agronomy services for their customers are now beginning to question the conventional wisdom "farmers won't pay for services that other dealers give away free". In fact, public demonstration projects have thoroughly documented that comprehensive ICM services are a profitable business opportunity in Iowa. To be successful, however, the ICM provider must be not just a scout, not just a soil testing service, but the producer's partner and trusted advisor in the whole range of crop management decision making.

Public sector partners in the Agribusiness ICM project hope to "grow" the capacity for ICM practice and availability of ICM services not only to increase farm profitability, but also because ICM is an environmentally sound approach to crop production. Other efforts beside the project include the

Agronomy Extension Agribusiness Education Program, which sponsors this conference, and information and education provided to Iowa's independent crop consultants.

### **What is ICM?**

Integrated crop management, as the concept has been developed in Iowa, is a systems approach to crop production that, at its best:

- takes into consideration all of a producer's resources - soils, manure nutrients, machinery and labor availability - into an individualized, site-specific plan;
- is based on predetermined goals and refined production practices, including part-field management and the new tools of precision agriculture technology;
- is documented by complete cost-of-production accounting.

Planning is the essential activity in ICM, the systematic collection and use of site-specific information to make management decisions. The ICM planning process is naturally related to the use of precision agriculture technology, providing the information management tools needed to determine which strategies are really profitable. The value of digitized soils data layers to organize other information collected with global positioning in the field is a high-technology application that demonstrates a fundamental principle of ICM - the importance of soils as a crop management unit.

### **Fee-based ICM Services**

Only a few consultants presently provide comprehensive ICM services in Iowa. Communicating with others about the potential for fee-based services, however, is often difficult. Dealers, who are farmers' major source of crop management information, may not have a clear idea of how a comprehensive ICM service would differ from the free services they already provide. In 1995, ISU Extension Sociology surveyed managers and agronomists from 43 of 47 northwest Iowa dealers and found most believed they were "already doing ICM", when in fact the services they provided were individual parts of a total ICM program (Petrzelka et al., 1996). Even businesses with a major investment in expert agronomy services usually specialize in specific areas such as soil nutrient testing or pest scouting. Yet studies of business models for services have shown that only an integrated program which offers planning and advice, not just options, can command a high enough price to be viable. A comprehensive service which makes the business truly a partner with the producer in all aspects of management - from pre-season planning through post-season crop enterprise recordkeeping - can really boost profitability, and prove it.

Under the leadership of ISUE, implementation projects conducted throughout the state since 1988 have demonstrated the potential profitability of ICM services which increase the efficiency and intensity of crop management. Compared to their management practices before an ICM service program, in the Butler County ICM Project (1988-1991, an element of the Iowa Integrated Farm Management Project) fertility management refinements alone increased farmers' profits from \$8 to over \$30/A./yr (Brown et al., 1995). In the state-funded Model Farms ICM program (1990-1992), which implemented ICM services in three counties (Kossuth, Carroll and Sioux) crop enterprise records documented increased profits averaging \$10-\$20 /A./yr for participants. In the USDA Blackhawk Watershed ICM Program (Sac County, 1991-1993) benefits to participating farms averaged \$8-\$10/A./yr. Profitability of ICM has been further demonstrated in other conservation projects funded by the U.S. EPA and the Iowa Department of Agriculture and Land Stewardship.

Customers also perceive the value of fee-based services. In a 1994 survey of users of crop consulting services in Iowa conducted by ISUE Sociology Extension, 74% indicated they received a \$2-\$5 return for

every dollar they invested in a crop consultant's services. That survey also showed that, as a group, consultant users differed from non-users in having more education, farming more acres, and having a higher gross farm income from agricultural products. These results, and those of studies being conducted as part of the Agribusiness ICM Project, show that farmers purchasing services are already high level managers, oriented toward more intensive management of information (through computers, financial records) who value the unbiased recommendations and "second set of eyes in the field" that the consultant provides. They also may be producers who put a lot of management effort into livestock and appreciate a service that can help them manage their crops with the same intensity.

The consultant user survey also showed that few consultants aggressively "sell" their services, relying instead on word-of-mouth recommendations. This suggests they have only tapped the leading edge of the market and many other potential customers remain to be contacted. The Agribusiness ICM Project has found this to be true. Reputable dealers who put a quality ICM service business plan in place have not had difficulty recruiting clients from among their best customers, even for their premium level, highest cost service option package. They also have found their services increase customer loyalty and recruitment in other parts of the business.

### **Lessons learned from the project**

Presently eight northwest Iowa dealers are actively involved in the project. These cooperators are at various stages, from preliminary planning and test marketing to complete implementation of comprehensive services. Each has taken advantage of different things the project's public partners have to offer and developed a unique business model. From their experience, and from that of other businesses which are still considering services, the following observations can be made:

- Start with a complete business plan, that outlines not only how the service will be managed, staffed and supported, but also how it will be marketed. The marketing plan differentiates the ICM service from the competition, *including the free services which may be offered by the same company*. It describes which clients will be targeted, and which of their main production concerns the service will initially use to create interest in what they can offer.
- ICM can't be offered as a menu. 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 - "I" stands for integrated.
- The service must be a separate profit center within a larger business, or have dedicated staff. ICM is year-round work. A successful ICM consulting business absolutely requires dedicated employees who won't be reassigned to sales or other tasks during peak times for scouting, sampling, working with harvest records and plans. Businesses trying to make a trial run of services to one or two clients before setting up a separate profit center will defeat their own efforts if staff commitment is not secure. The ICM service also needs a manager, an individual whose job it is to make it a success.
- It is hard to make money without pushing to increase per acre charges. A fee-based service can't trim enough expenses to become profitable, and it doesn't need to. Expanding the scope of the agronomic, technical and in some cases financial decisions the service can consult on is a surer way to add value for the customer. Complete cost-of-production accounting allows the service to document the economic value of specific recommendations.

- Make the service a partner with the farmer. Frequent personal contact, and presenting firm recommendations, not just options, are crucial. Dealers usually do not have in-depth information about their customers' on-farm resources and operations and are not accustomed to taking the customer's management skills into account. Gathering this information is important so as not to proceed too slowly with aggressive management recommendations. ICM services emphasize the importance of communication. The customer must be made a partner in the effort and risks of refining management.
- A shortage of qualified employee candidates in the local job market has been a problem for some businesses. Both sound agronomy and good "people skills" are needed for an ICM service provider to build a relationship with clients. However, responsibility for an ICM service with appropriate incentives may also be a good way for a dealer to retain qualified agronomists.
- ICM will be needed by businesses that want to sell precision agriculture. The technology for GIS/GPS is already the terms of the competition among large dealers. In the 1995 ISUE survey, 88% of NW Iowa businesses interviewed already had some clients with yield monitors. Many more do today. However, there are still missing links in the analysis of which precision agriculture strategies and technologies are really profitable. ICM can help answer customers' questions about 'what will it do for me?', and the answers will become more precise over time as consulting services and producers become partners in the overall process of planning-intensive crop management.

#### **Literature Cited**

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