



TEACHING NOTE

BASF: differentiating on service innovation

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Overview

The BASF case study explores the decisions of Neil Bentley, Director of Marketing, as he implements a new marketing strategy to try to differentiate the company on information and service through a crowded distribution channel. The study reviews the market demographics that have prompted this strategy, the pivotal role of the recently created innovation specialist position, and Neil's expectations of the strategy's reception in the industry. The reader is guided through market segment prioritization, industry relationships, and possible implications of Neil's strategy. Critical to this case study are relationships between manufacturers and end-users in a business-to-business market, and how positioning and differentiation are transferred through product channels.

Statement of Relevance

BASF's strategy in the agriculture industry highlights the challenges of manufacturers who are one step removed from the end-users they serve in a relationship-based industry. Although focused on the relationships between chemical manufacturers, distributors and food producers, the ideas and issues discussed in this case can easily be applied to the food industry or non-agricultural businesses. Many challenges faced by BASF executives are common to other firms who try to deliver value through a channel, making this case useful to readers who wish to explore these and related issues.

Teaching Objectives

- Market Segment Targeting: BASF, like all companies, has limited resources. The case study exhibits a prime example of how a company must consider tradeoffs between pursuing a wide customer base and specializing in niche market segments.

Segmentation and market share data are introduced and their implications evaluated.

- **Distribution Channels:** the use of intermediaries provides several challenges for manufacturers to overcome. Differentiation and new product line offerings in a non-exclusive distribution channel may not clearly be communicated to end-users. Multi-line distributors create a value proposition for end-users by providing a breadth of product offerings and provide objective advice to buyers. Manufacturers who want distributors to express preference for their products are challenged to provide justification for doing so.
- **Relationships:** Farmers value their relationships with distributors over every other source of information. Manufacturers who seek to insert themselves in those relationships risk being seen as invading the distributors' ownership of those contact points. However, manufacturer's product expertise is valued by both distributors and end-users.

Target Audiences

The target audience for the case is working professionals in food and agricultural business. Although the case study revolves around a chemical company, the critical issues and themes of the case can arise in all industries and professions. The case study could be used in masters and undergraduate programs as well. Themes of this case include: altruism vs. selfishness, innovation vs. invention, consolidation of the grower vs. consolidation of the channel, and selling products vs. solutions.

Case Discussion Items

Instructors can use the following questions to help participants prepare for discussion:

- A. What are the key strengths and weaknesses of BASF's organization?
- B. As consolidation concentrates buying power into fewer farms, and fewer retailers, how can BASF communicate a differentiated message? What are the potential risks and rewards from the innovation specialist strategy?
- C. What role does information about the market and customer base play in the BASF strategy? How are retailers likely to respond to innovation specialists?
- D. What role does trust play in the various levels of the channel? Will a strategy of altruism lead to product opportunities?
- E. What returns on the investment in innovation specialists should BASF consider success? Is five to ten times a salary the right expectation? What other metrics should the company be considering?

Activity and Questions Highlights

- What are the key strengths and weaknesses of BASF's organization?

BASF is recognized for its strong R&D. Scientific advances are integral to the culture and history of the company. Using innovation specialists to convey this to end users brings opportunities and challenges.

While products are delivered through retailers, innovation specialists provide an opportunity for BASF to communicate a differentiated message directly to end-users and to influence the channel while doing it. That said, the market is crowded with competitors who are also trying to communicating their messages. Many competitors have complimentary lines of seeds and genetics that can provide a platform for their own value propositions. The use of innovation specialists to communicate value may sharpen BASF's voice in the marketplace, but the return on that investment and its effectiveness as a tool for differentiation have not yet been formally documented.

- As consolidation concentrates buying power into fewer farms and fewer retailers, how can BASF communicate a differentiated message? What are the potential risks and rewards from the innovation specialist strategy?

Vital to the successes of BASF has been the communication of differentiation to end users. This will become substantially more important as customers become bigger and their product purchase decisions more impactful. Using innovation specialists to prompt communication among BASF, the retailers, and farmers that BASF identifies as long-term players provides an excellent opportunity. In the relationship-driven agriculture industry, personally delivered messages carry more weight than other promotional

methods. Differentiation can be achieved by making sure that the messages delivered are genuine and consistent.

BASF must be mindful of certain drawbacks and risks. First, innovation specialists will not directly generate revenue. Innovation specialists create value for BASF by helping farmers and retailers grow their business, thereby increasing the opportunity for sales of BASF products. BASF also must consider the possibility of competitors mimicking their approach if it is successful, which would increase competition in the market for this type of service and thereby hinder successful differentiation. In addition, some believe the industry is moving away from the relationship focus and becoming more price and performance drive. If this shift does occur, BASF will need to formulate methods that are not relationship driven in order to effectively communicate value information to end users.

- What role does information about the market and customer base play in the BASF strategy? How are retailers likely to respond to innovation specialists?

One of the most critical factors to the success of BASF is developing and maintaining accurate data on the market and customer base. Selecting the proper targets and knowing a market's demographics is critical to innovation specialists being effectively and efficiently allocated. However, even if an innovation specialist is well allocated, it is difficult to determine the return on BASF's investment in a specific region. Certain customer satisfaction and sales increases may suggest the strategy's success, but it is difficult to determine the exact impact of the innovation specialist has relative to market fluctuations. There isn't an easy answer to this problem. BASF should consider the impact innovation specialists have on customer loyalty, potential cross-sells, customer satisfaction and other metrics that may build a broader picture of the impact than traditional revenue metrics.

Retailers may support the concept of innovation specialists if they see value in the role. That value is most easily measured by increased revenue. Conflict may arise when the BASF priorities for opportunities and retailer priorities for opportunities are not aligned, unless the innovation specialist has a clear priority to support the retailer first. However, that approach may be costly to BASF. It is likely that retailers will not be supportive of helping a manufacturer develop a direct relationship with farmers. Trust will be critical in order for retailers to support the approach.

- What role does trust play in the various levels of the channel? Will a strategy of altruism lead to product opportunities?

Trust is paramount to the success of innovation specialists in the relationship driven business environment of agriculture. BASF has the challenge of producing trust in two distinct populations – retailers and farmers. Innovation specialists should always operate in the interests of the farmer first and retailer second. Conveying this early and explicitly is integral. An innovation specialist would certainly destroy trust, if he or she violated

the explicit promise to prioritize BASF last. This is likely to be tested by farmers and retailers. Innovation specialists who act altruistically should have higher levels of trust, which should lead to higher likelihood of following recommendations if those recommendations show positive outcomes. There are a lot of “ifs” there. These connections may not always be directly cited by retailers and farmers in their buying decisions, but may have influence nonetheless.

- What returns on the investment in innovation specialists should BASF consider success? Is five to ten times a salary the right expectation? What other metrics should the company be considering?

BASF hopes that by growing the market for targeted retailers and farmers, and being partners in that growth, they will see revenue growth. This strategy may have longer term returns and be difficult to measure in the short term. However, internal support for this program may wane if shorter term results don't become evident. There should be clear objectives and measurements at specific points to monitor this process. Intangible and difficult to value assets like goodwill should be considered when thinking about the returns of innovation specialists. Having innovation specialists paid on a salary basis further promotes the idea and credibility of altruism. Commission based employees would prompt skepticism among many retailers and growers. Metrics that should be considered in evaluating innovation specialist performance should include market share, product diversity, and customer satisfaction indicators.

Teaching Strategy Statement

The case can be broken down into three main components: what prompted BASF's new strategy, how it was implemented, and evaluation of the strategy. The learning objectives and specific details regarding the case study are spread throughout the case and are often touched upon after necessary background information has been provided. This case was developed to be reviewed in two forty-five minute blocks, after one to two hours of group discussion. The first forty-five minutes revolve around group reporting. The remaining forty-five minute block will consist of instructor led discussion in a free-flowing manner with audience participation. Although the questions included will most likely be the highlight of discussion, different audiences may choose to focus on specific questions or topics not identified above.

The first component of the case is a review of the history of BASF and an analysis of the market in which it operates. This is used to create a foundation for understanding why BASF developed and implemented the innovation specialist strategy. Key concepts that should be noted are: market characteristics and attributes of the agricultural industry, changing farmer demographics, consolidation of retailers, and the importance of targeting high opportunity market segments. Figures 2 and 3 display the current agricultural retail market and the value farmers place on relationships in the industry. Participants should utilize the themes of these graphs to help understand BASF's thought process for the innovation specialist role. Lastly, figures 6 and 7 show research BASF has used to prioritize high value market segments.

This first part of the case study provides the answers for the first two identified questions (A and B), which provide much of the groundwork for topics discussed in later portions and

other questions. The second component, the strategy's implementation, presents the need for strong business relationships with retailers and farmers. The need for BASF to differentiate its offer in a crowded marketplace should be stressed by the instructor. Furthermore, concerns regarding the innovation specialist's loyalty to the retailer, farmer, and BASF are discussed. The merits of an altruistic business approach are considered and its risks examined. Participants should evaluate how the responsibilities of an innovation specialist align with the specialist's goals. A heat map, figure 8, is provided to help illustrate how an innovation specialist's dedication to increasing grower yield and his loyalty to the retailer and BASF can be strained. The importance of trust, communication, and collaboration remain central to this component of the case.

In the closing portion of the case, the audience is challenged with the task of deciding how BASF's strategy should be evaluated. The instructor should realize that there is no right answer, but that the discussion should focus on the thought processes and analysis of the participants. Indicators of success for innovation specialists are mentioned, but how efficiency and effectiveness should be accurately measured and the expectations for returns on investment are left up to the participant's discretion.

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