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## Differentiating On Service Innovation at BASF

### Case Background

1. Agricultural chemicals represent one of the six divisions of BASF, the world's largest chemical company. Unlike competitors—Dupont Pioneer, Dow AgroSciences, Syngenta and Monsanto—BASF has stuck to its core of producing branded herbicides, insecticides, and fungicides and has so far not participated in the seed sector. The agricultural division of BASF reported €5,446 MM in sales in 2014 . Approximately 30 percent of these sales were in North America. This puts it in the middle rankings of U.S. agro-chemical manufacturers.
2. Most manufacturers in North America sell their products through local or regional retailers, who carry multiple lines of private-label and manufacturer-branded seeds, fertilizer, chemicals and fuel, and who often handle the grains produced by farmers. Farmers value these local relationships over any other information sources.
3. Manufacturers must convey product offerings, positioning messages, and differentiation through retailers, many of whom have consolidated, just as farmers have.
4. In 2012, BASF announced the role of innovation specialists to promote ideas and product offerings to farmers through retail channels.
5. The innovation specialist works with retailers to prioritize which farms to serve, then helps develop strategies for improving yields on those farms. Key factors for prioritization are farm size and purchase history.
6. BASF calls large farms who purchase one or fewer BASF products, “prospects” and large farms who purchase two or more BASF products, “advocates.”
7. The innovation specialists have potential to drive sales, but concerns and potential conflicts include:
  - a. First, although the innovation specialist will always work in the interest of the farmer, the farmer's interest might not align with that of the retailer.
  - b. Second, the retailer's interest might not align with BASF. This is expected to be far more common.

- c. Third, BASF is concerned about farmer's perceptions regarding whether innovation specialists actually provide unbiased advice. Altruistic motives are rare and often subject to skepticism.
- 8. Early reports on the effects of innovation specialists are positive. BASF product sales and customer satisfaction are up, even in a declining market.

### **Case Objectives**

1. To assess the complications and difficulties of implementing a company's position and segmentation strategies through a crowded B2B channel.
2. To identify the potential challenges of differentiation using value-added information and service.
3. To gain insights into the role and importance of trust between buyers and sellers.

### **Discussion Questions**

1. 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?
  - a. In general, how could BASF strengthen its position?
  - b. What competitive responses do you anticipate?
  - c. As you consider a market in which an elite group of customers has significant buying power, do you think relationship selling will become more or less important in the industry?
  - d. Do you think the tactics employed by BASF and innovation specialists could work in industries outside of agriculture?
2. What role does information about the market and customer base play in the BASF strategy? How are retailers likely to respond to innovation specialists?
3. What role does information play in the flow of value from manufacturers to end-users? What information will be required in order for BASF to help retailers prioritize farmers?
4. How should a return on investment for this strategy be measured?
5. What policy should BASF employ when different data sources suggest contradicting results?

6. Since retailers compete against one another with similar products, what value do they bring to customers? How does an innovation specialist work with multiple retailers in the same market area? If BASF has information that will help farmers be successful, does the company have an obligation to share the same data with one retailer as another, particularly when they are competitors? How does this play in with retailer trust?

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

- a. How does BASF develop trust with two distinct segments—retailers and farmers?
  - b. What are some of the ways trust could be jeopardized with these two groups? How should BASF go about resolving damaged relationships?
  - c. Should BASF prioritize trust in one group more than the other? What are the implications of such a policy?
7. 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?
  - a. How should an intangible asset like good will play into the value brought by innovation specialists?
  - b. Would it be wise to link the salaries of innovation specialists to investment return, or would this jeopardize the altruism of innovation specialists?
  - c. Innovation specialists create value for growers. Does current policy allow BASF to capture this value? Should innovation specialists become a fee-based consultancy? What implications does this have for the value BASF brings to market? Are the marketing strategies and competencies for selling products the same as for selling services?