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Agriculture Practice

Unlocking the online retail opportunity with European farmers

What can digital retailers in the agriculture sector do to encourage what could be a €10 billion market?

by Jillian Ardrey, Nicolas Denis, Clarisse Magnin, and Julien Revellat

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European farmers are early adopters in many areas—for example, yield improvement, sustainability, and animal welfare. In one area, though, they appear to be late adopters: they rarely go online to buy core inputs, machinery, and agritech.

That was the finding of a 2019 McKinsey survey of more than 1,000 farmers in seven countries—Belgium, Denmark, France, Germany, the Netherlands, Poland, and Spain.[1] According to that research, only 13 percent of European farmers had made an online purchase of seeds, fertilizer, crop protection, animal feed or animal-feed additives, farm equipment, or software or other agritech in the previous 12 months.[2] Moreover, their general view of online retail was one of skepticism.

However, these attitudes and practices might be changing because of the coronavirus pandemic; a follow-up survey in May 2020 found that a much higher percentage of respondents are now saying they prefer to purchase agricultural products online. The implication is that there is an opportunity for companies in the agriculture industry to accelerate their online presence, work out omnichannel

strategies, and maybe even change their business models entirely to meet farmers' needs better. In this article, we set out the barriers to online retail in the European agricultural sector and then discuss how to address them.

Online-purchasing paradoxes

There are two interesting paradoxes in regard to European farmers' online-buying behavior.

One is that even though they do not purchase much online, they have proved willing to adopt new technologies and practices in many areas. More than half of dairy and livestock farmers, for example, use animal-health-optimization software. In the industry as a whole, more than 40 percent invest in holistic management and back-office and operational-efficiency software.[3] Even so, there isn't a single product category in which online retailers lead other buying channels (such as in-store retailers, company sales representatives, and farmer–dealer or co-ops) in the sector. Online retail does best in farm equipment[4] (13 percent) and worst in animal-feed additives (3 percent) (Exhibit 1).

European farmers do not purchase much online, but they have proved willing to adopt new technologies and practices in many areas.

[1] The research surveyed 100 farmers in each of the following segments: dairy and milk in Denmark, livestock in Denmark, cereals and crops in France, dairy and milk in France, cereals and crops in Germany, livestock in Germany, cereals and crops in Poland, and fruits and vegetables in Spain. It also surveyed 50 farmers in each of the following segments: cereals and crops in Belgium, fruits and vegetables in Belgium, cereals and crops in the Netherlands, and fruits and vegetables in the Netherlands.

[2] Results are from the respondents directly involved in purchase decisions of agricultural products. Farm-equipment purchases surveyed included both new machinery and replacement parts. We defined agritech broadly, including holistic farm management, farm back-office efficiency, farm operational efficiency, yield monitoring and mapping, input productivity optimization, water management, precision feeding and nutrition, precision breeding, and animal-health optimization.
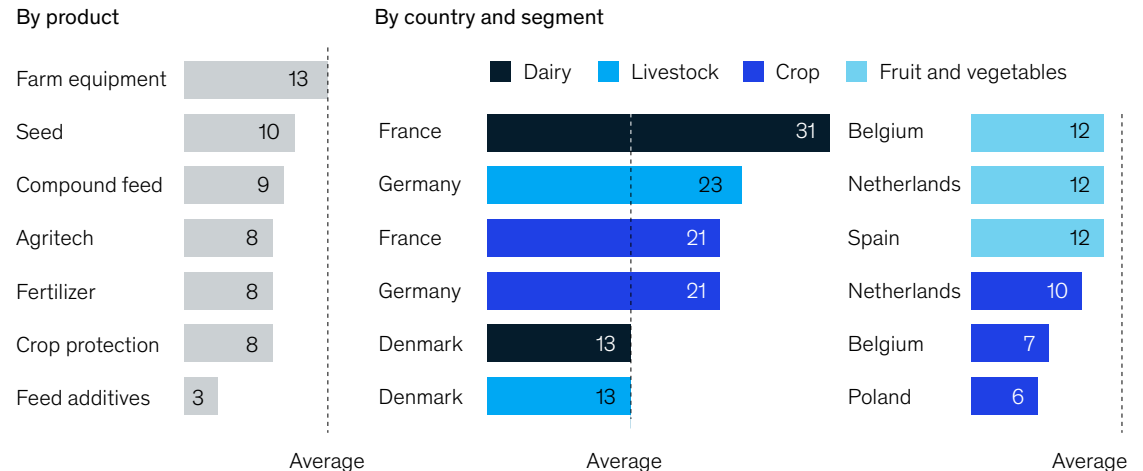
[3] "Holistic management" is defined as an integrated agritech system that enables farmers to improve all aspects of management. It covers compliance, crop-economics, inventory-management, pricing, and risk-sharing models. "Back-office software" refers to an agritech platform that enables farmers to run more efficient back-office operations. Examples include accounting and payment processing, calendar and planning programs, and collaboration tools. "Operational-efficiency software" refers to software that helps farmers plan, monitor, and analyze all operational activities. Examples include fleet management, guidance systems, and production planning.

[4] The 2019 survey question asked about farm equipment as one large category that included both new machinery and replacement-part purchases. In the 2020 postpandemic survey, we separated new machinery and replacement parts into two categories. On this basis, farmers were nine times more likely to purchase replacement parts online versus buying new machinery online.

Exhibit 1

Online retail penetration varies by country, segment, and product.

Online penetration[1] by farmers, % of respondents

By product

Farm equipment	13
Seed	10
Compound feed	9
Agritech	8
Fertilizer	8
Crop protection	8
Feed additives	3

Average

By country and segment

■ Dairy ■ Livestock ■ Crop ■ Fruit and vegetables

France	31	Belgium	12
Germany	23	Netherlands	12
France	21	Spain	12
Germany	21	Netherlands	10
Denmark	13	Belgium	7
Denmark	13	Poland	6

Average   Average

[1]Online penetration figures represent the percentage of decision-making farmers who stated that they made at least one purchase within the last 12 months of the core products surveyed (seeds, fertilizer, crop protection, animal feed or animal-feed additives, farm equipment or software/agritech), with the exception of the figures by product, which only represent actual online purchase for the specified product.
Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)

The other paradox is that even though Europe's farmers don't currently purchase much online, they appear to have no trouble with the *idea* of doing so, as they use online resources during the customer decision journey (CDJ) (Exhibit 2).

Of survey respondents, 87 percent say they prefer to conduct initial product research online; 65 percent repurchase online. A third say they prefer to purchase online, but only 13 percent actually do so. The gap between preference and action can be startling. In Belgium, for example, 39 percent of cereal and crop farmers say they would prefer to buy online, yet only 7 percent do (Exhibit 3).

Such gaps represent an opportunity lost—and it isn't a small one. The European agricultural and agricultural-equipment retail markets have annual revenues of around €138 billion.[5] At the moment, we estimate that the European online agriculture market is only €150 million to €200 million. Respondents to the 2020 postpandemic survey reported that they planned to spend 24 percent of their total spending on agricultural input, farm equipment, and agritech, equivalent to a €33 billion market. There are different ways to feasibly capture at least €10 billion, considering the size of countries and agriclusters[6] and the potential for increasing online purchases (Exhibit 4).

European farmers are willing to adopt new technologies, and they already use online resources in their work, including when researching products they are thinking about buying. But few actually click through to purchase online. Why? And what can be done about it?
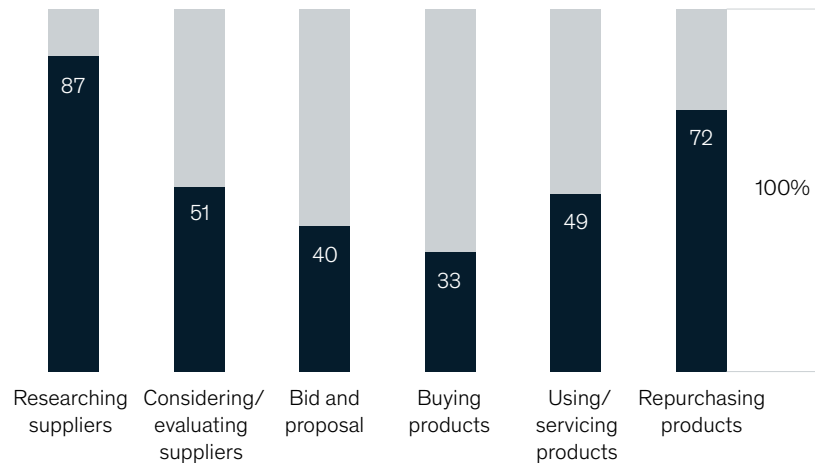
[5] Including approximately €50 billion for animal feed, €46 billion for agricultural equipment, €13 billion for crop protection, €10 billion for seeds, €16 billion for fertilizers, and €5 billion for agritech. Market sizes are calculated based on averaging the findings from several industry reports.
[6] If European farmers increased their online purchases, the opportunity in the four largest country/agri-segment pairings—German crops and cereals, German livestock, French crops and cereals, and Spanish fruits and vegetables—is equivalent to €11 billion.

Exhibit 2

At many phases of the customer decision journey, a large percentage of European farmers prefer nondigital options.

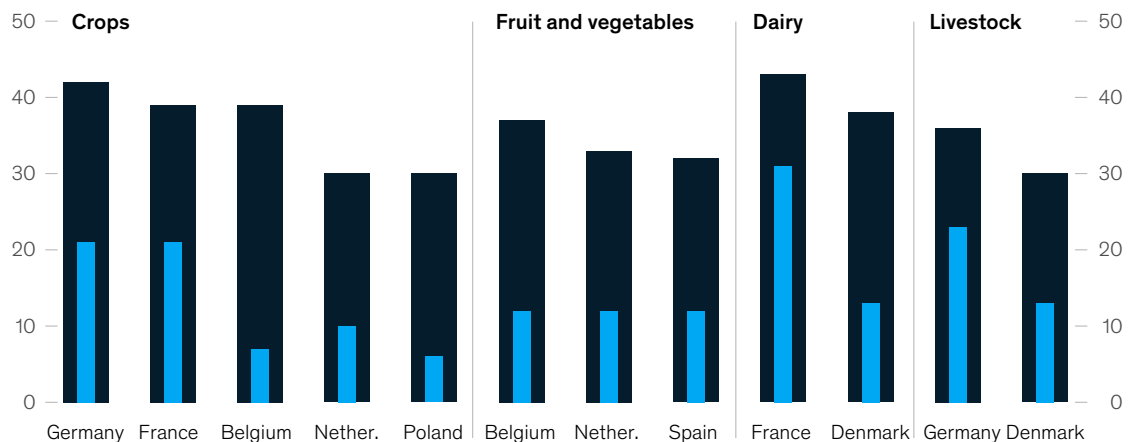**European farmers' preference for digital interaction throughout stages of the journey,** %

	Researching suppliers	Considering/ evaluating suppliers	Bid and proposal	Buying products	Using/ servicing products	Repurchasing products
	87	51	40	33	49	72

100%

Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)

Exhibit 3

There is a gap between farmers' expressed willingness to buy online and actually doing so.

Farmers' expressed willingness to buy online vs actually doing so, %

■ Farmers who prefer to buy online[1]   ■ Farmers[2] who have bought online at least once in the previous 12 months

Crops

	Germany	France	Belgium	Nether.	Poland
Prefer online	42	39	39	30	30
Bought online	21	21	7	10	6

Fruit and vegetables

	Belgium	Nether.	Spain
Prefer online	37	33	32
Bought online	12	12	12

Dairy

	France	Denmark
Prefer online	43	38
Bought online	31	13

Livestock

	Germany	Denmark
Prefer online	36	30
Bought online	23	13

[1]Farmers who state that they would strongly or somewhat prefer to use digital channels, rather than physical ones, to make purchases.
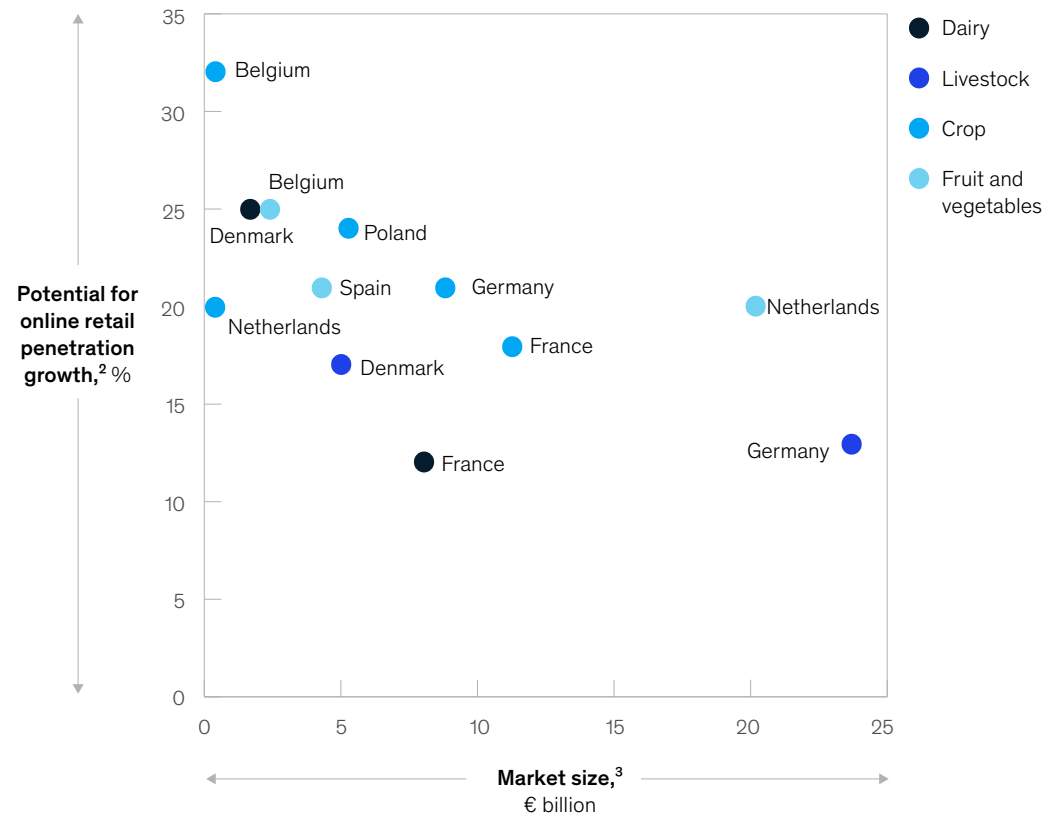[2]Decision-making farmers (who actually make purchases) only.
Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)

Exhibit 4

The European online agricultural market could be more than €10 billion by 2025.

Market potential[1] for online retail penetration growth

Chart legend:
- Dairy
- Livestock
- Crop
- Fruit and vegetables

Y-axis: **Potential for online retail penetration growth,[2] %** (0 to 35)

X-axis: **Market size,[3]** € billion (0 to 25)

Data points:
- Belgium (~0.5, 32) — Crop
- Belgium (~2.5, 25) — Crop
- Denmark (~1.5, 25) — Dairy
- Poland (~5, 24) — Crop
- Spain (~4.5, 21) — Fruit and vegetables
- Germany (~8.5, 21) — Crop
- Netherlands (~0.5, 20) — Crop
- Netherlands (~20, 20) — Fruit and vegetables
- France (~11, 18) — Crop
- Denmark (~5, 17) — Livestock
- France (~8, 12) — Dairy
- Germany (~24, 13) — Livestock

[1]McKinsey expert estimate based on a €138 billion market.
[2]Potential calculated by measuring the delta between not being share of farmers who say they prefer to buy digitally vs share of farmers who have actually bought online once within the last 12 months (results collected in survey).
[3]2016 gross production value for each country x cluster market as provided by FAOSTAT.
Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)
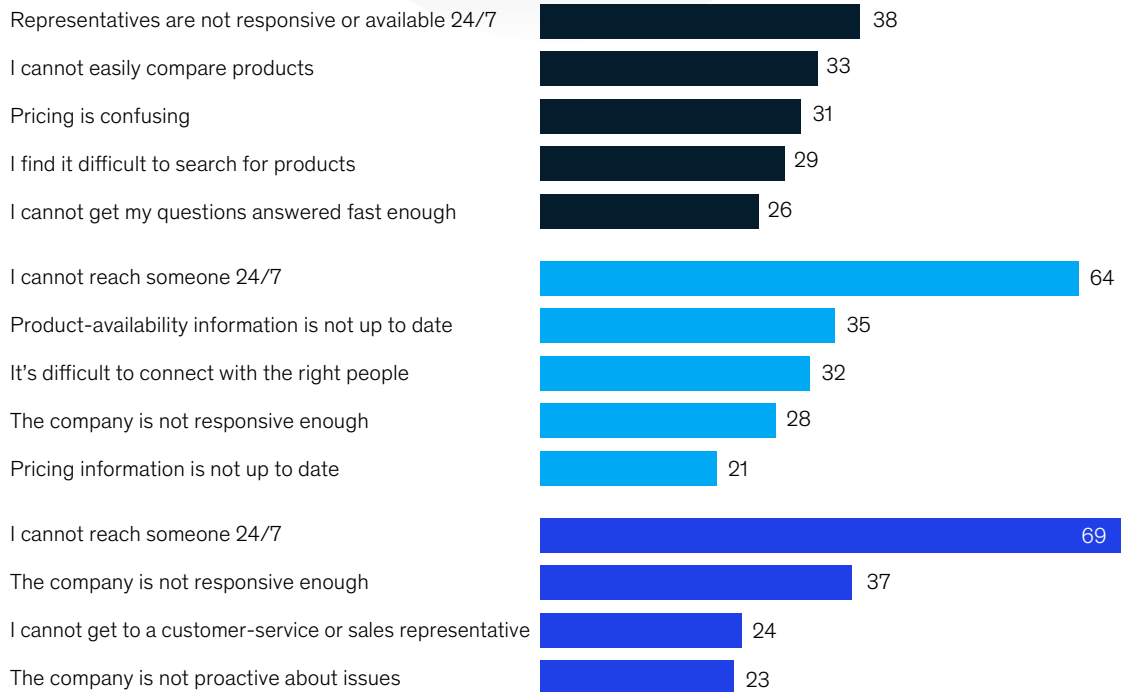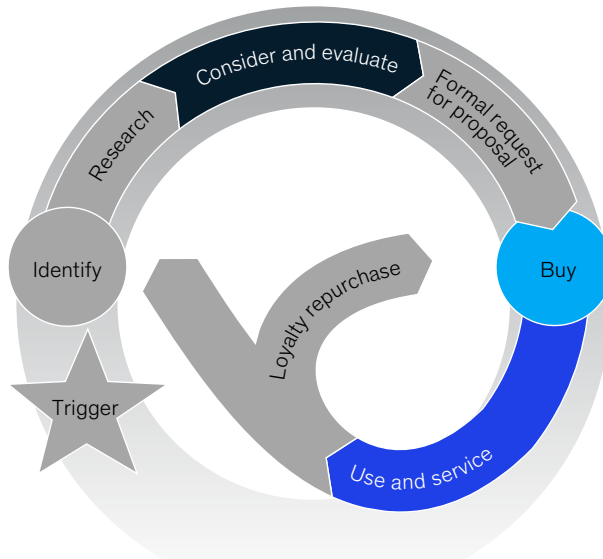
The barriers to online agriculture retail

The slow development of the online agriculture retail market in Europe is, in many ways, a self-inflicted wound. It just isn't easy enough for farmers to go digital. Indeed, at a number of points along the CDJ, it is almost painful (Exhibit 5).

Specifically, during the initial research process, 33 percent of survey respondents complain that it is difficult or impossible to compare products, and 31 percent say pricing is confusing. Many of the farmers stop their online experience right there. Even among those who move on to purchase, however, the complaints keep racking up. Among

Exhibit 5

A poor experience throughout the customer decision journey is one reason for low online penetration.

Pain points in the customer decision journey,[1]
% of respondents

Representatives are not responsive or available 24/7	38
I cannot easily compare products	33
Pricing is confusing	31
I find it difficult to search for products	29
I cannot get my questions answered fast enough	26
I cannot reach someone 24/7	64
Product-availability information is not up to date	35
It's difficult to connect with the right people	32
The company is not responsive enough	28
Pricing information is not up to date	21
I cannot reach someone 24/7	69
The company is not responsive enough	37
I cannot get to a customer-service or sales representative	24
The company is not proactive about issues	23

[1]Only included responses from farmers who currently purchase products online.
Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)

them are not being able to reach someone 24/7 (64 percent), difficulty connecting with the right representatives (32 percent), lack of real-time product availability (35 percent), and unclear pricing (21 percent). And after purchase, the pain continues, with common complaints about lack of responsiveness and availability. Those results are broadly consistent among all seven countries and all types of farmers in the survey.

Even among those who did buy online, the lack of enthusiasm for doing so was glaring. Online retail lagged behind farmer dealers and retailers in all the most common reasons for choosing a particular purchase channel—for example, in value for money and in ease of comparison, ordering, and searching (Exhibit 6). And remember, those are the opinions of the minority who made the leap; it is no wonder that others haven't felt much reason to change.
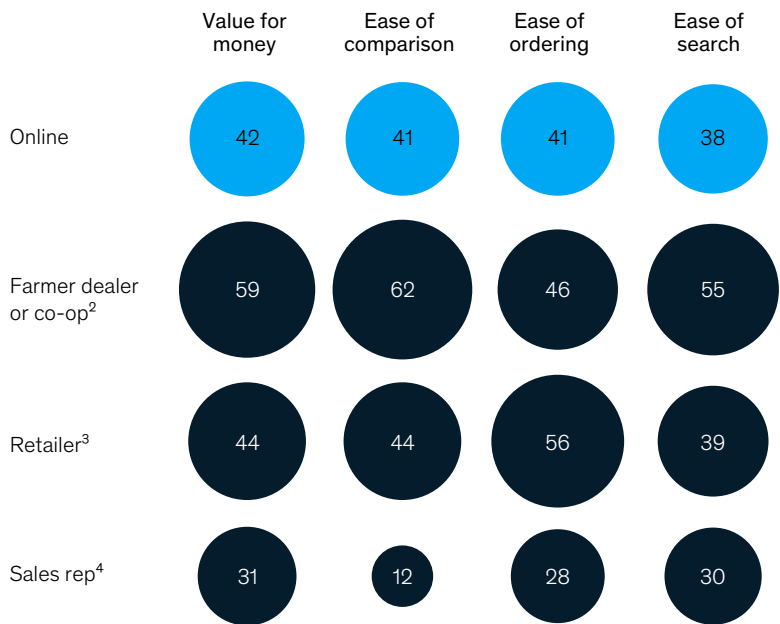
Proving that farmers aren't digital averse, they rely on many digital sources (such as online searches, brand and company websites, and social media) to identify new products and conduct initial research. Apparently, however, they don't trust these sources enough to go any deeper—likely because most of these data sources can't be validated as accurate and are provided directly by suppliers of products.

Farmers appear to perceive suppliers as profit-driven; they aren't seen as advisers with farmers' best interest at heart. Thus, while company sources were heavily used for initial product research, they were used much less often to evaluate products. Instead, farmers went to other sources, such as university research, to play that role (Exhibit 7). Once farmers have left suppliers' websites to evaluate products elsewhere, they don't have a habit of coming back to the original sources for purchase.

Exhibit 6

Online buying does not rank first in any of the most-common reasons to choose a particular purchase channel.
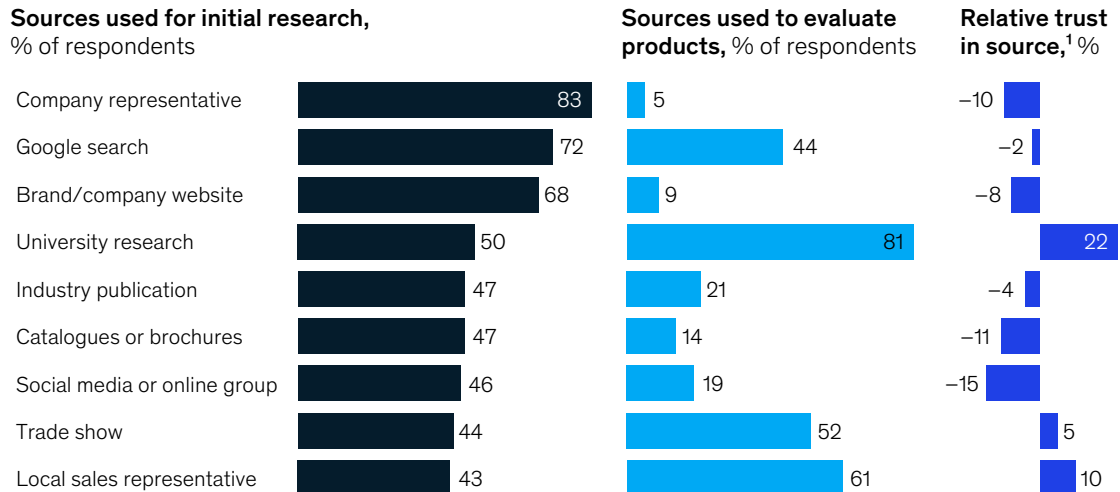
Channel usage by characteristic,[1] % respondents who name these reasons for purchasing through a particular channel

	Value for money	Ease of comparison	Ease of ordering	Ease of search
Online	42	41	41	38
Farmer dealer or co-op[2]	59	62	46	55
Retailer[3]	44	44	56	39
Sales rep[4]	31	12	28	30

[1]Only considered responses from decision-making farmers.
[2]An autonomous association of farmers united around a geography, a type of culture, or the combination of both.
[3]Private companies, usually with a local footprint that distribute to farmers a large range of input and equipment products.
[4]The field-sales organization of input and equipment providers.
Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)

Exhibit 7

European farmers have a high degree of skepticism when it comes to product evaluation.

	Sources used for initial research, % of respondents	Sources used to evaluate products, % of respondents	Relative trust in source,[1] %
Company representative	83	5	−10
Google search	72	44	−2
Brand/company website	68	9	−8
University research	50	81	22
Industry publication	47	21	−4
Catalogues or brochures	47	14	−11
Social media or online group	46	19	−15
Trade show	44	52	5
Local sales representative	43	61	10

[1]Calculated by measuring % difference in trust score of a given source compared with average trust score. For trust score, farmers measured from 1 to 5 how much they trust a source, where 1 = lowest trust and 5 = highest trust.
Source: McKinsey Agriculture Digital Customer Decision Journey Survey, September 2019, Europe (n = 1,007)

Is there a 'COVID-19 effect'?

In late May 2020, McKinsey surveyed 100 European farmers in the same countries and segments to get a sense of how their digital preferences and usage might be changing. Although the sample size was small, half of the farmers surveyed had participated in the original survey. The results were compelling, with a much higher percentage of farmers buying online and a more positive attitude toward digital retail. That is consistent with what we have seen in other sectors.

The COVID-19 crisis is of major concern; all farms surveyed report worse economic performance since the start of the pandemic, and 75 percent were pessimistic about the prospects of the postcrisis economy. In addition, 95 percent say they are considering adjusting purchasing behavior to minimize physical interactions.

Compared with the precrisis survey, there is a 36-percentage-point increase in farmers' desire to use digital channels to make product-purchase decisions and a 36-percentage-point increase in their desire to use digital channels to make actual purchases. The bottom line: in 2019, only a third of European farmers surveyed reported wanting to use digital channels to purchase; in the more recent, smaller survey, 69 percent say they do (Exhibit 8). Across Europe, that adds up to almost four million more farmers who say they are ready to use online channels as their main sources of ordering.
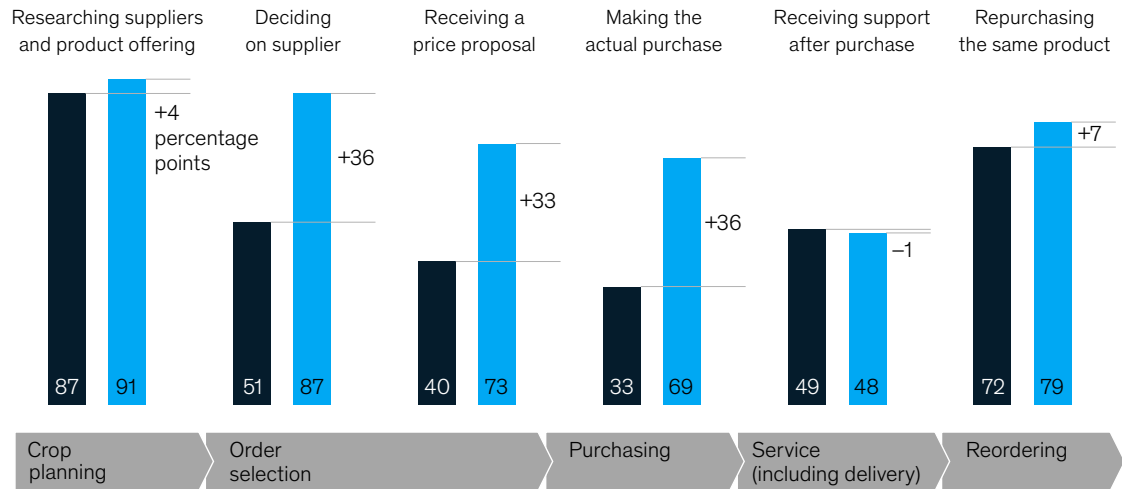
Exhibit 8

Due to COVID-19, the willingness to go digital seems to have grown substantially.

Preference for digital interaction across the customer decision journey,
% of respondents

■ 2019 pre-COVID-19
■ 2020 post-COVID-19

Researching suppliers and product offering	Deciding on supplier	Receiving a price proposal	Making the actual purchase	Receiving support after purchase	Repurchasing the same product

+4 percentage points

+36

+33

+36

−1

+7

| 87 | 91 | 51 | 87 | 40 | 73 | 33 | 69 | 49 | 48 | 72 | 79 |

Crop planning	Order selection		Purchasing	Service (including delivery)	Reordering

Source: McKinsey Agriculture Digital Customer Decision Journey Survey, May 2020, Europe (n=100).

Capturing the online opportunity

Even if the COVID-19 pandemic is making more European farmers willing to do more of their business purchasing online, it is still the case that, so far, they have found the process unappealing. Companies therefore need to offer a better experience. The problems associated with online retail for agriculture aren't impossible to solve, as other sectors have demonstrated. With that in mind, here are some ways to do better:

— *Improve the online experience.* Creating a positive experience will likely increase farmers' desire to purchase online. Companies need to focus on solving the biggest pain points, such as enabling 24-hour availability; quickly responding to online requests and queries; ensuring that all information is accurate, up to date, and accessible; and improving the data that representatives have when starting an interaction (50 percent of farmers mention representatives not having access to the histories of their conversations as a reason not to buy online).

Achieving 24/7 availability may not be feasible for all players in the near term. However, focusing on improving response time during core daytime hours, seven days a week, could go a long way to meeting farmers' expectations. As consumer companies trend more and more toward 24/7 customer service, farmers too are likely to shift toward a more "instant" mentality. That is why it is important for players in the market to start thinking and working toward 24/7 service, or as close to it as possible.

Enabling the use of mobile phones is also important to engaging farmers throughout their CDJs, as that is their clear preference: 92 percent use a mobile device to research or purchase products. If not everything can be done via the phone, laptops are the next preferred option (82 percent use them to research or purchase products). Finally, while it is important to improve the online experience, that shouldn't be done at the expense of other strategies. All survey respondents who bought online say they also used offline channels. The goal, then, should be to create solid and integrated omnichannel capabilities. For example, a website should make it easy to direct farmers to the nearest store or to a salesperson.

— *Focus first on the highest-potential markets.* Such markets are those that are large, with big gaps between a stated preference for and actual online buying. For example, fruits and vegetables in Spain make up a €17 billion market in which 38 percent of respondents say they are willing to buy online—but only 12 percent do so. Cereal and crop farmers in France are in a similar position: in that €12 billion market, 36 percent are willing to buy online but only 21 percent do.

— *Target consumers based on their stated propensity to use digital.* For example, farmers who use agritech are almost five times more likely than those who don't to purchase online. It makes sense, then, to make that cohort a priority. Similarly, those who reorder online are twice as likely as those who don't to complete first-time purchases online; they are another priority target segment.

To segment and target different farmer groups, companies could start by developing a cus-tomer-attractiveness matrix that sets out the most promising segments against order size (frequency and amount spent) and mix (type of orders and profitability). On that basis, they could develop specific digital services, such as first-time-purchase discounts, bulk discounts, services, education, and security.

— *Build trust.* Trust is an important element in building a strong relationship with farmers—and thus encouraging them to use company websites all along their CDJs. At the moment, however, many farmers appear not to trust company websites to provide complete information: they break away from them to evaluate products (and often don't come back). While 68 percent of survey respondents use a company website to identify new products, only 9 percent use them to compare or evaluate products. For that, 81 percent turn to university research. However, the research shows that trust can be built. If farmers have already used a product and trust that it is of high quality, 72 percent are comfortable reordering the product online. Possible actions to build online trust include ensuring transparent pricing, embedding third-party product comparisons, and integrating university research—perhaps even partnering with universities to provide that information.

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As any number of retailers can attest, building a successful online strategy is complicated, requiring new practices, the development of more sophisticated data analysis, and the implementation of seamless operations from the warehouse to the buyer. But complexity is no excuse for delay. Indeed, given the possibility that European farmer behavior could change considerably because of concerns related to the COVID-19 crisis, the case for acceleration is getting stronger.

Jillian Ardrey is a solution leader in McKinsey's Denver office, **Nicolas Denis** is a partner in the Brussels office, and **Clarisse Magnin** is a senior partner in the Paris office, where **Julien Revellat** is an associate partner.