WORLD BANK GROUP

AGRIFIN
Agriculture Finance Support Facility

# Client Segmentation in Agriculture Finance

## KNOWLEDGE NOTES

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## Introduction

Segmentation is at the core of a bank's strategy and marketing for all its business segments: wholesale, small and medium enterprise (SME), retail, or agriculture. This paper discusses the importance of segmentation in agriculture finance, approaches to segmentation, possible product and service offerings to different segments of agriculture players, organizational structures to serve client segments, and the process to be followed for effective segmentation. Relationship managers play a key role in revenue maximization, which is the main objective of segmentation. Relationship managers are responsible for new client acquisition and deepening the relationship with existing clients. The paper discusses how banks can leverage on the cadre of relationship managers and serve different client segment.

## What is Client Segmentation?

Segmentation is the process of defining and subdividing a large, homogeneous market like agriculture finance into clearly identifiable segments having similar needs, demands and characteristics. Customers within the same segment share common characteristics that can help a financial institution target those customers and market to them effectively.[1] Customer segmentation can also be defined as "the practice of dividing the customer into groups with similar characteristics in order to value offers, which are effective and unique"[2]. The grouping can be relevant in different ways to the marketing strategies of the financial institution. The critical factors that have a bearing in market segmentation are: clear identification of the segment, measurability of its effective size, its accessibility through promotional efforts, and its appropriateness to the policies and resources of the financial institution.[3]

The main objectives of segmentation are: (i) profit optimization for each segment, (ii) monitoring of clients to provide them with the most suitable value offer, and (iii) encouraging clients to grow in order to increase profitability by moving up the segmentation ladder.

1 Adapted from Lovelock and Wirtz 2011—lexicon.ft.com/Term market-segmentation

2 /4 Source: Retail Customer Segmentation in Worldwide Banking, 2011 /adkit---retail-customer-segmentation-in-worldwide

3 Source :http://www.businessdictionary.com

## Market Segmentation in Agriculture Finance

There are several factors that argue for the importance of market segmentation in agriculture finance. Firstly, a bank's customer base in the agriculture sector typically is heterogeneous. It might not be possible for banks to meet the needs of an entire market and hence they need to break down total market demand into segments and choose those that they are best equipped to serve. For instance, a bank may have broadly-spread branch distribution network, including in rural markets of the country, but its current capabilities might not be adequate to compete with peers in the corporate segment. This bank might be able to penetrate the rural market by reaching out to farmers, aided by a strong fleet of relationship managers in the field. This could help it build a strong farmer clientele base and gain market share. Such a bank may also garner a competitive edge over peers by tapping opportunities of value chain links with producer-farmer groups and corporates.

Secondly, customer needs differ and the products and services offered by the bank ought to cater to the needs of each segment. Though the agriculture finance market may be broadly segmented (for example, under corporate, small and medium enterprises or SMEs, and farmers), the needs of all farmers will not be uniform within the farmer segment. A small-scale or marginal farmer, who is engaged in agriculture for subsistence with very little marketable surplus, might require only simple agriculture loan products, such as a production credit to meet working capital requirements and finance for the purchase of simple farm tools. On the other hand, corporates engaged in agriculture finance may need not only sizable working capital but also structured finance products, investment credit, and trade finance facilities. Therefore, it is necessary to delve deep into each segment and make appropriate sub-segmentation that groups similar clients and offer products and services suited to the client segment.

Thirdly, segmentation helps gain market share. In certain markets, banks that were early entrants could find that they have competitive advantage and that there may be underserved segments. In such cases banks can develop uniquely appealing products and services and establish a leadership position in that specific market segment.

Fourthly, segmentation helps the bank target its marketing efforts effectively to focus on the relevant customer audience. If the bank were to introduce a new product such as equipment finance for farmers to purchase a milk-processing unit, it may direct its marketing communication and efforts specifically targeted at these units, based on their location. This will not only be effective, but also reduce the cost of marketing.

Lastly, segmentation analysis of performance helps banks fine tune their strategies, resources, capabilities and processes to develop products and service offerings to meet the specific needs of clients in that segment. Based on growth trends, banks could find high growth potential in some segments, or stagnant demand in others. In instances of the latter, banks may decide to go slow and retain high-value/low-risk clients. In segments in which revenue contribution is lower but that hold high growth potential, banks may design appropriate strategies to grow the clientele base and increase loan book size through cost effective customer acquisition strategies and simplified credit processes for smaller loans.

## Approaches to Segmentation

There are several ways to segment the market, such as through **demographic** segmentation (using factors such as age, gender, and income), **psychographic** segmentation (reflecting people's lifestyles, attitudes, and aspirations), **behavioral** segmentation (based on product consumption-related behaviors, including frequency, volume, and type of product usage), and **needs-based segmentation** based on the similar customer needs and wants, and the benefits that customers seek. From the perspective of agriculture finance, behavioral and needs-based segmentation may be relevant in identifying customers having similar needs and wants or demand characteristics and product usage[4].

### Strategic Segmentation

One common practice adopted by many banks is to broadly segment the agriculture market into three groups: **corporate, SME,** and **farmer.** This segmentation is undertaken based on the bank's loan exposure to the client, the client's profile, asset size, or turnover. Organizationally, banks carve out strategic business units to exclusively focus on developing business in each segment. Generally, banks confine their strategic segmentation to three or four broad segments.

Support for differentiation of the agriculture customer base under the categories of corporate agribusiness, agro-SME, and farmers was supported by a survey of 20 financial institutions by the World Bank's Agriculture Finance Support Facility, which found that most of the banks surveyed had segmented their agriculture customer base along these lines. It also found that the cut-off point between corporate agribusiness and agro-SMEs was determined by financial institutions' internal definitions, expressed in terms of assets, employment, or loan size. Activities undertaken by these segments are outlined in Table 1.

4 lexicon.ft.com/Term market-segmentation

**TABLE 1:** Strategic Segmentation, Client Categories

| |
|---|
| **CORPORATE AGRIBUSINESS** |
| Large corporations or companies that may be involved in the primary production of agriculture or livestock, but for which the main focus is processing, storage, transport, and/or marketing of agriculture commodities and/or livestock, agro-inputs, or agro-equipment. |
| **AGRO-SME** |
| Agro-SMEs are defined as small- or medium-scale enterprises, including companies, cooperatives and other formal producer organizations that may be involved in the primary production of agriculture or livestock, but for which the main focus is in the processing, storage, transport, and/or marketing of agriculture commodities and/or livestock or agro-inputs, including agro-dealers and traders. |
| **FARMERS** |
| Individuals, enterprises or informal groups for which the primary occupation is the production of agriculture and/or livestock commodities within this segment. It includes small-, medium- and large-scale farmers. |

The advantage of the strategic segmentation is that banks can assess the market potential for each segment—whether it can reach all segments or confine its targeting to one or two segments. For instance, a bank utilizing high technology and with a limited distribution network in rural areas might target the corporate agriculture market to the exclusion of other segments. It could provide unique product offerings and deploy senior relationship managers to reach out to the market, source new clients, and build strong customer relationships. It might also attempt cost-effective domestic market penetration through value chain tie-ins with corporates. If it is an international bank targeting multinational companies, it might be able to leverage its relationship with the global parent. On the other hand, a large bank with a strong distribution network, as is often the case in India, will penetrate deeply into all segments of agribusiness. The second advantage of this model is that it is easier to capture the data around current exposure of the bank to these segments, based on the loan size and also validated by customer profile. The disadvantage in strategic segmentation, however, is that it confines the market to the three segments and there is a risk of a bank missing business opportunities not available in these fields. Even within these three segments, some banks may not have the capacity to access the corporate or the SME market.

## Value Chain Segmentation

Another model or approach to segmentation is value chain segmentation based on agriculture activities undertaken by the various actors in the market. Clients are grouped under three value chain categories:

- **Producers** are engaged in agriculture production and /or livestock farming activities such as dairy farming, poultry/fishery development, goat/sheep rearing, bee keeping, fishing, etc. For this client segment, credit needs include production credit for working capital finance (usually short-term) and investment credit for creation of fixed assets such as sheds, farm equipment, or any acquisition of productive assets including agriculture land.

- **Processors** are SMEs or corporate entities that add value to the agricultural commodity/livestock through processing. Some of the agriculture producer-farmers may also undertake processing activities. They double up as aggregators, source produce from the local markets, and process and sell the finished outputs to market. Their credit needs likely would be short-term working capital and medium-term investment credit for building the processing units, including acquisition of plant and machinery.

- **Traders** are aggregators, commission agents, wholesalers, retailers, exporters, and department stores, etc., which deal mainly in agricultural and agro-related products, procuring directly from producers or agriculture SMEs. These clients can be classified under corporate or SME, based on the annual turnover or revenue.

Banks in many developing countries commonly adopt value chain segmentation. The advantages of this model over the strategic model are that the value chain actors are easily discernible based on the activity pursued and that it provides a broader canvass of the market to tap, depending upon the capabilities of the bank. Further, value chain financing facilitates tracking the cash flow of the actors, which is particularly useful from the lender's perspective. Further, this segmentation reflects the underlying credit risk inherent in each segment, with agriculture production being the riskiest of the three segments. Banks enter into tripartite arrangements with farmers and aggregators, taking into consideration advantages such as loan book development, and the minimization of cost and risk. The challenges for the bank are to identify the key players and to penetrate the market. Value chain financing needs robust processes and adequate expertise at the field staff level. In addition to value chain segmentation, in countries where there are poor value chains, banks assess farmers focusing on household income sources and cash flow.

### Geographical Segmentation

Some banks group their distribution network according to geography and segment agriculture business accordingly. For a large bank with has a wide distribution network, such segmentation of contiguous branches into regions or zones is helpful for management oversight. They generate data for all segments of business including agriculture according to regions/zones. Agriculture performance monitoring, inter-regional comparison, budgeting, deployment of resources etc. becomes more convenient. The disadvantage, however, is that this segmentation does not necessarily provide any insight into the client profile, unless supported by marketing segmentation (sub-segmentation), which is discussed in the subsequent section.

### Marketing Segmentation

A limitation of strategic segmentation, as discussed earlier, is that it narrowly describes the agriculture market according to the three specific segments: corporate agribusiness, agro-SME, and farmers. There is a risk of a bank missing available business opportunities in the agriculture landscape that are not covered by these segments. Marketing segmentation represents an effort to overcome this constraint. The objective of marketing segmentation is to identify and create sub-segments under the main categories, which are better suited to the specific client target.[5] Within the strategic, value chain, and geographical approaches, clients can be further segmented by parameters such as size of loan, annual revenue, asset size, products/crop financed, etc. Farmers can be sub-segmented as micro—or marginal farmers, small farmers, emerging farmers, and commercial farmers.

Table 2 illustrates a possible approach to sub-segmenting within the main categories in agricultural finance.

As illustrated by Table 2, the "corporate" category under strategic segmentation can be sub-segmented into "large corporates" and "emerging corporates". Many banks adopt this marketing segmentation and design their products and services to suit these specific segments. Farmers can be sub-segmented under three categories—micro, small, or marginal; emerging and large; or commercial farmers—either based on farm surplus, gross revenue, or land under cultivation. Under the value chain approach, sub-segmentation can be based on credit products (e.g., working capital, investment credit), crops financed, or loan size. Under geographical segmentation, the bank can sub-segment the market based on loan size, or value chain activity financed (e.g. production, processing, and marketing), or crop financed. Value-based (revenue) segmentation and product segmentation are other possible approaches to sub-segmentation.

### Value-based Segmentation

Value-based segmentation looks at groups of customers in terms of the revenue they generate and the costs of establishing and maintaining relationships with them. The key is to help financial institutions identify their most profitable customers so as to be able to maintain these relationships and increase revenue through cross-selling or

5 Source: Retail Customer Segmentation in Worldwide Banking, 2011 /adkit---retail-customer-segmentation-in-worldwide-

**TABLE 2:** Agribusiness Segmentation

| Segmentation Approaches | Main Client Segments | Key Parameters for Segmentation & Sub-Segmentation | Remarks |
|---|---|---|---|
| **Strategic Segmentation** | Corporate<br>Agro-SME<br>Farmers | Loan exposure, total assets, or revenue of the client segment –<br>**Sub Segmentation:**<br>• Corporates are sub-segmented under "large" or "emerging/mid corporate"<br>• Farmers are sub-segmented under "micro", "emerging", and "commercial farmers" based on farm revenue or land under cultivation. | Commonly followed by banks. |
| **Value Chain Segmentation** | Producers<br>Processors<br>Traders | Classification based on the actors engaged in agriculture, specifically: farmers (agriculture production); agriculture processors; and aggregators such as wholesalers, exporters, and retailers engaged in procurement and processing of produce (where needed) and sale to consumers<br>**Sub-Segmentation** can be based on credit products (e.g., working capital, investment credit), crops financed, or loan size. | Followed by quite a few banks in developing countries. A useful approach to segmentation that helps banks minimize the risks entailed in agriculture production finance by linking the farmer with the aggregator for procurement of final produce at predetermined prices. Linkage performed through a tripartite agreement. This helps the bank cater to large number of micro-farmers and reduces its transaction costs (apart from those associated with credit risk). |
| **Geographical Segmentation** | Region/Zone 1<br>Region/Zone 2<br>Region/Zone 3<br>... and so on | A Bank may segment its agriculture business under regions or zones, followed by sub-segmentation around loan size and duration, loan type, crops or production, processing, and marketing. | Not very common. |

better products. Banks at continuous intervals evaluate the value of their agriculture customers in terms of revenue generation and identify their high-value customers, ensuring they take all necessary steps to fully leverage these relationships. Given that revenues are likely to be much higher in the corporate segment, comparatively, due to the larger loan exposure and the revenues from non-fund business, banks obviously target these clients.

## Product Segmentation

Banks can sub-segment clients based on the exposure to loan products of the bank. The usual loan products are (i) short-term production loan (pre-harvest finance), (ii) short-term, post-harvest finance, (iii) farm equipment loan, (iv) investment credit (medium–term loans for activities such as land development, installation of irrigation system, etc.), and (v) trade finance products.

## Loan Segmentation by Crop Exposure

Exposure, especially in agriculture production, can be further segmented according to the crop financed; this could provide an insight into the exposure or concentration in any particular crop. If the commodity price is trending lower, for example, the bank may take a decision to avoid any new exposure. If farmers' returns on a particular crop are low and/or delinquencies are pronounced, a policy decision may be taken by the bank to restrict lending for specific crop/s.

## Product Offerings and Segments:

This section discusses how banks can design products and services tailored to different client segments (see Table 3 for details).

**Corporate agribusiness:** Large companies may be active in agricultural business; some may be engaged in the entire agriculture value chain—encompassing production, aggregation, processing, and marketing—while some, without being producers, may be active in the rest of the value chain. Their activities will also include procurement and transportation of agricultural commodities from the farmyard, moving on to sorting, processing, grading, packing, storage, marketing and sales to retail markets and/or wholesale or export markets. They could require a host of banking products and services and have significant credit demands. Some products may have to be customized to suit the needs of a specific corporate client. Since many of these clients are likely to seek a sizable loan or non-fund based facilities, the revenue generated will be high at a single customer point, driving down the cost of servicing. However, the risks are that such a client would demand competitive pricing and there is always the threat of poaching by competitors.

**Agriculture SMEs:** These are small—or medium-scale enterprises, including companies and cooperatives. Their main business focus will be in the processing, storage, transport, and/or marketing of agriculture commodities and/or livestock or agro-inputs. Some may also be engaged in agricultural production. Agro-dealers and traders likely also fall under this segment. Activities of those within this category are similar to those of corporates, but of lower scale. As stated earlier, financial institutions may adopt parameters like annual turnover, revenue, asset size, or loan exposure to group these clients under the SME bracket.

Agriculture SMEs and corporates do not necessarily differ in their range of activities, though the scale of operations may be more limited than corporates. The asset size, turnover, revenue and number of employees will also be far lower and hence, financial institutions generally use one or more of these parameters to segment them, either under corporate or SMEs.

**Farmers:** Farmers' primary occupation is crop and or livestock farming. This segment includes small-, medium-, and large-scale farmers. They usually need short-term production credit by way of working capital and investment credit for enhancing production.

## Guidelines for Client Segmentation

This section discusses practical suggestions for financial institutions aiming to undertake effective client segmentation. This includes five distinctive internal steps.

- As a first step, banks should scan the existing and potential agriculture customer base and identify major actors in the sector; it may be farmers or entities engaged in input supplies, processing, aggregation, retail distribution or export sales. This exercise will yield better results if a brainstorming session is held with select agriculture field staff drawn from perhaps the top 10 branches (depending on the magnitude of the operation, this number will vary), along with agriculture specialists and analysts at the head office/regional offices. Based on these discussions, it would be appropriate to zero-in on possible strategic segmentation and sub-segmentation.

- The second step is data sourcing. Select the top 10 or 20 agriculture branches (depending on the magnitude of the operation, this number will vary) and source the agriculture business data of these branches for analysis. An easier option could be to analyze the data, based on the agriculture loan exposure; e.g. (i) loans up to US$500 (ii) loans >US$500 but <US$1,000 (iii) loans above US$1,000 but <US$10,000 (iv) loans above >US$10,000. Financial institutions can determine the loan size based on their

**TABLE 3:** Product Offerings for Client and Activity Segments

| Client Segment | Activity Segment | Product Offering | Remarks |
|---|---|---|---|
| **Corporate** | **Agriculture Marketing** | Working capital loan products –loans and overdrafts, warehouse finance, structured finance products, import loans, letters of credit/ guarantees | For those engaged in domestic marketing |
| | | Export finance, pre-shipment credit, post-shipment credit (export receivable finance), domestic bills finance, factoring, letters of credit and bank guarantee facility | For those engaged in international trade |
| | | Investment credit, term loans for fixed assets, deferred payment guarantees, leasing and hire purchase facilities | For acquisition of fixed assets repayment from profits over a term |
| | **Agriculture Processing** | Pre-sale working capital products including warehouse finance for procurement | |
| | | Post-sale finance, loans against receivables, factoring, bill finance | |
| | | Term credit for acquisition of fixed assets, leasing, hire purchase | |
| | **Agriculture Production** | Production finance, loans for crop production | |
| | | Post-harvest finance and post-harvest finance such as warehouse finance and finance against pledge of produce | |
| | | Investment finance, medium term credit such as farm equipment loan and long term credit for land development, land acquisition, acquisition of fixed assets and farm machinery etc. | |
| **Agro SME** | **Agriculture Marketing** | Same as for corporates: working capital (both pre-sale and post-sale facilities) and term credit; trade finance products are offered but not often used | Agro-SMEs are mainly into processing agricultural commodities |
| | **Agriculture Processing** | Pre-sale and post-sale working capital products and term credit for acquisition of fixed assets | |
| **Farmers** | **Agriculture Production** | Production credit, crop loan, post-harvest loan, warehouse finance; loan against receivables if sold under purchase contracts from SMEs or corporate entities under value chain financing | |
| | | Investment credit, term loan, leasing, hire purchase finance | |

minimum, maximum, and average loan exposures. After grouping the loans based on the size, pick samples of customer profiles in each of the groups (samples must be drawn from all branches) and closely study the profile of the customers to then map their homogeneity and heterogeneity. With this analysis, examine the tentative segmentation and sub-segmentation explored earlier and revisit the definitions.

- On the basis of the redefined segmentation, the third step is to analyze the entire agriculture data base of the top 10/20 branches and segment the clientele base of each branch. Consolidate the data to get an overview of the agriculture portfolio and, based on this consolidation, examine whether the proposed segmentation requires any further refinement.

- The fourth step is to hold a final brainstorming session with the team—in the field and at head office—and present the segmentation findings, homogeneous characteristics of each segment, and specific product and service needs of each segment before broadly estimating the market potential, and identified and perceived needs of customers in each segment.

- Finally, having segmented the clients, financial institutions must design products and services suited to the clients and decide upon a marketing plan. Before any new product launch, it is desirable to do a pilot launch, get the feedback of customers and fine-tune the product.

Banks that have developed a robust customer database are well-positioned to effectively segment and profile their customers, design appropriate products and services, and improve customer centricity, efficiency, and loan portfolio management. Collecting data from various sources and integrating them and developing methods of data analysis for segmentation are, however, all major challenges. Banks need a comprehensive view of existing and potential customers. Many large banks have the support of technology platform and they use data warehousing and technology tools like customer relationship management (CRM).

Mid-size and smaller banks, in the absence of advanced technology tools like data warehouse or CRM packages, can achieve effective customer segmentation, with the data sourced from a core banking solution. Through the use of attribute fields for each customer account, data can be segregated or sorted using tools such as Microsoft's Excel spreadsheet program. The balances and other details can be updated periodically using Excel or any other relational database management system. Segmentation of the borrowers can be performed according to bank requirements, such as loan size, loan exposure, product, crop, geographies, production, processing, or marketing.

## Organization Structure to Serve Client Segments

Organization structure follows the bank's strategy. In designing the structure, banks consider various factors like their size, geographies in which they operate, local operating conditions, the regulatory framework, management structure, availability of domain expertise, etc.

Banks adopt different types of organizational structures to manage their agriculture finance operations. Some institutions create a standalone agriculture finance department that handles all the three broad segments of agriculture finance (corporate, agriculture SME, and farmers) while at others, the corporate and SME divisions handle all agriculture businesses alongside other industries. Most mid-sized financial institutions with limited exposure to corporate or SME agribusinesses prefer to focus on the farmer segment only and structure their agriculture finance department under three broad sub-segments of micro/small farmers, emerging farmers, and commercial farmers. In the latter case, senior agriculture loan officers with experience are assigned the responsibility to handle commercial farmers.

Banks that have a reasonable exposure to agriculture and have a strategic intent to grow the portfolio have adopted the strategic business unit model. Agriculture and rural banking is one of their four main business areas and in many cases they segment clients as corporate, SME, retail, and agriculture/rural banking. The agriculture finance division is responsible for building and growing the agriculture loan portfolio, providing portfolio oversight, leading product development, and building the capacity of agriculture staff. In some banks, the agriculture finance division is further segmented into farmers, SMEs, and corporates.

Banks that have a broad distribution network support their agriculture business through adequate field level structures. Branches are grouped into regions/clusters based on geographic proximity. The managers of regions/clusters are assigned the responsibility to monitor the overall performance of the branches in agriculture. They oversee the growth and quality of the agriculture portfolio, the efficacy of loan monitoring and supervision, meet high value clients, and provide guidance to relationship managers.

In some large international banks, agriculture finance falls either under retail or wholesale banking[6]. A retail banking division typically comprises retail, SME, and agriculture lending segments. Wholesale banking usually covers corporate

6 Retail banking deals with smaller clients, mostly individuals while wholesale banking deals with larger clients that are mostly large corporations and businesses.

**TABLE 4:** Sample Relationship Manager Job Description

| Role Objective: |
|---|
| This position is responsible primarily for marketing the bank's agriculture loan products, sourcing of new customers, maintaining and strengthening relationships with existing clients and building agriculture business, as well as cross-selling liability products, and other banking services |
| **Key Responsibilities** |
| • Lead generation<br>• New client acquisition<br>• Credit investigation of new and existing clients<br>• On-boarding and servicing<br>• Cross selling savings and fee-based service products<br>• Customer bonding—Building good rapport and relationships with existing customers and leveraging additional business<br>• Client interface for obtaining customer feedback<br>• Building healthy and profitable agriculture loan portfolios<br>• Overseeing repayment of loan interest and installments and client compliance with loan documentation and other procedures<br>• Act as single point contact between bank and customer |

banking, SME, agriculture finance and trade finance. In banks where agriculture finance is not the dominant business, this usually falls under wholesale.

In summary, organizational structure becomes critical from the point of view of implementing policies and strategies and it should suit the needs of each individual bank. Structure should be designed bearing in mind the size of the bank, current agriculture portfolio and growth plans, distribution network (present and planned in potential agriculture zones), field staff, and current capabilities, etc. To ensure due business focus and effective strategic implementation, a separate agriculture finance department or division is necessary, irrespective of the reporting line. It is desirable to avoid too many layers of management, as it would adversely impact strategy implementation. The department should be adequately staffed with experienced and skilled personnel with accountability for client and portfolio results.

### Relationship Managers

While agriculture finance market segmentation helps define particular marketing strategies, an insufficient focus on specific segments of clients or customer service could thwart strategy implantation. Hence, when staffing the agriculture division, banks should ensure they employ field staff who would be in constant touch with customers and could provide market intelligence. Relationship managers scout new customers, source market intelligence and, through their advocacy skills, bring them on board and service them. They effectively become the face of the bank and should meet the needs of the clients promptly. They build productive and durable relationships with the clients and deepen the business. Through constant interaction with various clients, they develop the skill of identifying client needs. Since relationship managers are constantly in the field, they become the eyes and ears of the bank to provide market intelligence and communicate changing customer preferences for products and services. A sample job description of relationship managers is shown in Table 4. In deploying relationship managers, banks evaluate the business and revenue generated from clients. They might attach one senior relationship manager to service 100-150 "high profitability" clients, but only one relationship manager may be attached to service say 300—500 clients with middling or low profitability.

## Conclusion

Appropriate segmentation of bank clients and activities is imperative to sustainably finance agriculture. We have seen that the agriculture sector—the actors, activities, and value chains—are quite heterogeneous and that targeting each client with the most appropriate product requires careful analysis and understanding of the client base. Banks worldwide have adopted different segmentation approaches depending on their contexts. Banks undertake segmentation based on size, value chain, client value, portfolio exposure, market opportunities, geographic locations, etc. Each approach has its own advantages and disadvantages. The key, however, is to understand the client base, economic conditions, market opportunities, and the organizational ability to serve the opportunities identified. This way banks can segment their client base and develop products and services suitable to the needs and demands of the respective client segments. Client segmentation also informs the organizational design of financial institutions to manage their agriculture finance business lines. Relationship managers play a vital role in management of the agriculture finance business line. They are at the frontline of financial institutions' interaction with their customers from origination to closing the deal and monitoring loans. We hope that this knowledge note will enhance understanding of the importance of client segmentation, the different approaches to segmenting clients, and how organizational designs can be configured to respond to client demands and to serve various clients segments.