ANDOVER AGRONOMY:
Positioning for the Future

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INTRODUCTION

With the Phoenix Crop Chemical (Andover Agronomy’s parent company) budgeting cycle rapidly coming to a close, Tom Yearly was in his office working to wrap up plans for the coming season. As he reflected on the past year, there were several issues weighing heavily on his mind.

People – a never-ending struggle in Tom’s opinion for any retailer. Tom felt strongly about the abilities of his staff. He’d stack his people up against any out there. But, he wondered if he was doing enough to make sure his customers understood just how good this group was. And, what steps could he take to make sure the sales staff was spending more time actually selling on the farm? It seemed that as soon as he would ask one of the guys to spend a couple of days calling on customers, the sun would come out and he’d have to call him back to the plant to focus on something else. Most of the difficulty was timing – his people would be busy focusing on something that seemed important and out in the field they’d miss a sale because they were just too late getting there. Tom knew he had to address this issue. At the same time, he really questioned how he could get any more out of his staff – they already were so committed, especially during the busy season.

Competition – the constant battle on price. Tom was adamant about his location’s ability to deliver quality information and advice. The technical skills and recommendations of his staff, along with the extra services they provided, bundled with the product – this total package – he felt, was easily superior to any of the competitors out there. But each year, they were forced to play this pricing game – if it wasn’t one of the local co-ops, it was the new program that the national in the area rolled out, or something that an independent came up with. Every year, it was the same question: what was the competition thinking with the prices they were serving up? It was impossible to make any kind of money with some of the prices Tom’s competitors were going to market with. Yet, these low prices continued to happen and it sure appeared to be getting worse. While it never seemed these price games could last, Tom still had to deal with the situation: especially when a customer walks through the door and hands him the competition’s price sheet.

Finally, the whole Round-Up Ready (RUR) issue. Tom thought to himself, “It’s certainly hurt us. Prior to Round-Up Ready products there were more crop protection options – mixing different products to fit a specific farmer’s weed situation. Margins on these products had been pretty decent. And now that Round-Up is coming off patent, this issue will only get worse.”

The introduction of generic chemistry in general to the market had really devalued products. Tom was thinking: “We used to be able to live with 7% on some $50/gallon products. But now, we’re trying to get by with 7% on a $25/gallon product. And, what’s
more, it’s not only the devaluation of products, but also the reduction of inputs on the acre. We’ve taken some herbicide programs from $40-50 per acre to a $20 per acre.”

Tom had really been thinking about the RUR situation. “We’re already struggling to make a profit. We’re struggling to come up with marketing plans that even look profitable. But the real scare is that this whole situation lessens the need for our expertise: our recommendations and the extra services we provide to assist that producer in making the right decision. The farmer seems to know Round-Up is what he needs. And, the result is that there’s less of a need for us to walk the field and determine what to apply.” Tom knew this wasn’t all due to RUR: lower prices and lower margins were a problem in other areas as well. That aside, RUR sure represented a very challenging set of issues.

Tom now often wondered about the future of the service and recommendation-oriented strategy that he had put in place. With the reduced margins they were already experiencing, in addition to the other options that would be available when the generics hit the market, it was fairly easy to envision his customers thinking, “If it’s $3.00 per acre cheaper at XYZ supplier, why go to Andover?” This thinking was even more likely to happen with $1.50/bu corn and soybeans less than $5.00/bu – the general farm economy was no help at this point. Clearly something had to be done. He had to come up with some options.

THE MARKET AREA

Andover Agronomy serves the retail marketplace within a 25-mile radius of Andover, Indiana, in the north central part of the state. Growers raise primarily corn and soybeans. A typical producer in the area raises about 1,000 acres of each crop on average, though there is some variance in farm size – the market territory is a mix of very small farmers, as well as some very large growers.

Corn production tends to be conventional till, given the nature of the ground, which is relatively heavy clay soil and forces producers to work it for the corn to do well. Soybeans are almost exclusively no-till. Other crops including wheat and hay are minimal, though a two-farm partnership specializing in tomato production is unique to the county and has been very successful. Livestock production is limited in the area, although traditionally it was prevalent. Many of the small pork producers were forced out during recent price pressures, and subsequently only a few very large pork producers survived.

Land is relatively productive within the 25-mile radius of Andover Agronomy. Yields tend to be a bit higher than the state average, with corn averaging 140-160 bushels/acre and soybeans 45-50 bushels/acre. Consolidation is unfolding modestly, relative to other sectors and locations -- roughly 40 percent of the ground is controlled by 2,000+ acre growers. Adoption of Internet technology has moved quickly with three-quarters of producers having access to the World Wide Web and email. However, adoption of
Andover Agronomy: Positioning for the Future

precision agricultural services and technologies hasn’t moved as fast, perhaps because of low grain prices, tighter cash flow, and a closer watch on expenses among producers in the area.

Roughly 15 percent of the market is comprised of large, aggressive producers who are rapidly expanding their operations, adopt technology quickly, and make frequent use of crop consultants. These producers push hard on value. 70 percent of the market is much more traditional, tending toward mid-sized producers who, while interested in new technology, are slower to adopt. The remaining 15 percent of the producers are heavily relationship buyers that will remain in business over the long term, but farm relatively small acreages and aren’t likely to expand to any significant degree.

ANDOVER AGRONOMY

Tom Yearly joined the Andover Agronomy business just over two years ago, brought on as a salesperson. Anxious to leave his position with a small and struggling independent dealer in the area, Tom was able to bring much of his customer base along with him to the Andover business.

Corresponding with Tom’s start, Andover initiated a significant expansion effort in facilities and equipment to effectively meet the needs of the now enlarged total customer base. Then, just over one year ago, at the completion of the expansion and approximate doubling of the business, the Branch Manager left Andover and Andover’s parent, Phoenix Crop Chemical, asked Tom to assume that role.

Presently, the Andover retail business consists of two sites – the primary location and main office in the town of Andover and a second location, the Blue Ridge depot site, situated approximately seventeen miles away. Andover generated $4 million in sales last year (41% crop protection chemicals, 10% seed, 47% fertilizer, and 2% service), with modest, but improving profits. Tom believes there is strong potential for additional growth in fertilizer sales, as indicated by substantial growth over the past few years.

Last year, the combined locations provided fertilizer and/or chemicals for about 25,000 acres of corn and at least that many soybean acres, in addition to 200 acres of tomatoes. Both branded chemicals – from major manufacturers such as Monsanto, Syngenta, and DowAgro, as well as generic products from other suppliers, are important to Andover.

Custom application, which is based entirely at the main Andover location, is a large part of the business. Last season Andover sprayed 30,000 acres with herbicides/pesticides, and custom applied 15,000 acres with dry fertilizer.

Seed sales are becoming increasingly important to Andover, and their growth in seed sales was fueled in part by the popularity of the Round-Up Ready soybean. Last year was the first year a RUR soybean had been available from their primary seed supplier, a
regional company. As Tom looks to the future, he believes seed will become a much more important product line for the operation.

Despite the previous year’s expansion, the growth in customer base that Andover has been experiencing has really pushed their capacity to the limit in Tom’s opinion. They are at the level where they can still keep up and do a good job, but likely can’t manage much additional business at this time. In order to grow further, Andover would have to make another very significant change in facilities, equipment, and personnel.

**Facilities & Equipment**

The depot at Blue Ridge, though somewhat smaller than the Andover location, effectively provides service, storage, and pick-up convenience to a portion of the customer base. The site also offers additional rail access and storage capacity.

At the Andover full-service location, dry fertilizer storage is maintained in two buildings – one holding 2,500 tons and another holding 4,000 tons. A liquid fertilizer storage tank holds one-half million gallons of starter fertilizer. Anhydrous ammonia is located off-site at a small satellite location outside of Andover. This location consists only of an ammonia plant with two storage tanks and 60 ammonia wagons on the lot. No office facilities are located here.

A Big-A and a Terra Gator are used for dry fertilizer application in the fall. In the spring, the Terra Gator is converted by removing the fertilizer box and adding a spray unit and used to apply liquid fertilizer, along with a Row-Gator (80 ft. boom), and a Patriot (90 ft. boom). All custom application is scheduled through the main Andover location, however, when appropriate, some of the equipment is housed at Blue Ridge.

**Personnel**

The Andover staff consists of 9 full-time and 8 part-time or seasonal employees, in addition to Tom as Branch Manager.

Tom and three crop consultants, as well as one salesperson manage the sales activities for Andover. They work as a group, keeping up with current industry information and maintaining consistency in making customer recommendations. Three of the four sales/technical staff, plus Tom, maintain their CCA status.

While each of the sales staff will talk with and assist any customer that comes through the door, the sales team tries to be consistent and match the salesperson to specific customers. Each salesperson makes frequent calls on his set of growers, though this customer assignment tends to occur in a more informal, rather than structured fashion.

Each of the four Andover salespeople has their own unique skill set. Tom feels very fortunate to have in total such a well-rounded group. One is strong in seed sales; another an expert in precision agriculture; one offers relationship strength in that he's been in the
business for many years and knows everyone in the area; and the fourth is a very sharp recent Purdue grad who has brought much new technical expertise to the staff. Tom maintains that his salespeople balance each other very well – where one is weak, another is strong; and where there’s a problem in a particular area, one of the sales staff is likely an excellent resource in providing a solution.

Every season and with input from the parent company, Tom works closely with the salespeople to set annual sales goals. Throughout the year they frequently attend national and regional meetings where sales issues are discussed, and they work daily with Tom, assessing the effectiveness of individual sales calls made. Frequency of sales calls is an area where Tom would like to help his staff improve. However, during the middle of the fall as well as the spring, it requires the entire Andover staff to get the plant work, loading, blending, delivery, and application done. So, there’s very little selling during this period – Andover doesn’t have the sales to justify dedicated, exclusive salespeople.

In addition to the sales staff, Andover maintains two warehouse managers -- one at each of the Andover and Blue Ridge locations, as well as a custom applicator at Andover. Finally, two full-time secretaries – one at each location – are on staff to manage all customer billing, accounts payable, and office management functions.

COMPETITION

The market environment in which Andover competes certainly presents its challenges for Tom Yearly. Competition exists in any direction you look – east, west, north, or south, though Tom contends that there is no one that can do what Andover Agronomy can do.

Relative to the competition, Tom believes the technical knowledge and skill base of the Andover staff is far superior. Competitors’ facilities and equipment are not on par with those at Andover. And, Andover bundles a variety of services – nematode testing, field scouting, and soil testing – and includes these in the price of the product, whereas the competition does not. In general, Andover has not charged for specific services, choosing instead to bundle them with the product. The exceptions to this general practice are precision ag services and custom application.

Much of the competition for chemical sales is by cooperative outlets in the area. The only national in the region is Royster-Clark, which, while similar in size to Andover, has really struggled in north central Indiana, given some management turnover. Competition for seed is primarily with farmer dealers, which in many instances are Andover fertilizer/chemical customers.

Common to retailers in many geographies, the primary competitive issue seems to be price. Almost every customer receives calls – “You can buy it from me for $100 and you’ll probably pay Andover $110.” Some customers annually arrive at Andover, with the competitor’s price sheet in hand. Others never even mention it, remaining loyal to Andover. Tom has often wondered if longevity has something to do with customer
retention. It seems as though the longer the grower has been with Andover, the less likely he is to try and negotiate a price reduction or switch to the competition. This whole issue of price is a tough one for Tom – if he is so much better than the competition, why does every penny seem to be a big deal to customers?

Particularly with newer customers, but clearly an issue for all growers, service issues seem to ‘take the cake.’ If the farmer calls and Andover can’t spray that field today, the inability to respond immediately may mean that the competition gets the business. The Andover sales staff works hard to continue to build and reinforce the relationships with growers in order to be able to help them determine priorities – what fields need to be sprayed when -- and Tom works hard to manage a business that offers the flexibility which allows them to spray when they need to at a customer’s request. Yet, while Andover has better, more capable, more experienced salespeople and applicators, this issue seems to remain a constant battle and a struggle every day.

PRODUCT SERVICE OFFERING

Products offered through Andover Agronomy fall in three main categories – fertilizer, chemicals, and seed. The branded chemicals – herbicides, insecticides, and fungicides – are acquired from major manufacturers such as Monsanto, Syngenta, and DowAgro. Complementary products such as adjuvants and surfactants, that enhance the activity of the branded chemical they are mixed with, are a very important part of Andover’s business, given the associated profit margins. The firm also sells generic chemical products where appropriate.

Over the past year, Tom has worked to fuel growth in seed sales at Andover. And, with the recent release of Round-Up Ready soybeans by his seed supplier (and the sale of 3,000 units in the introductory year), Tom feels that there is significant opportunity for seed. Andover also handles Asgrow, DeKalb, AgriPro, and Golden Harvest soybeans, and sold an additional 5,000 units of soybeans last year. Finally, 2,000 units of seed corn, (same brands), were sold last season.

Some services associated with the product are provided at Andover and are believed to be a point of differentiation from the competition. Soil testing is conducted for many loyal customers and is not typically billed separately. Nematode testing (with analysis from Purdue) is done on much of the soybean ground. Ten tests per customer are performed each year without charge. And, complementary field scouting for weeds and insects is common. While these services are also available from Andover’s competitors and would not be charged, they would only be offered upon customer request, whereas they are a part of the total agronomy program and initiated with the grower by Andover.

Precision agriculture services are also offered, largely through one of the crop consultants on Tom’s staff who has significant expertise and has been working in the area for the last five years. Grid sampling as well as variable rate application of lime, phosphate, and potash are offered. These services are charged -- $6.50/acre for grid sampling on 2 ½
Custom application of both dry fertilizer and chemicals is offered at Andover. A fee of $5.50 per acre for liquid application work and $2.50 per acre for dry fertilizer is charged - approximately $1.00 per acre higher than other retailers in the area. Competition on custom application is heavy, with cooperatives and nationals battling on price just as they do on fertilizer to attract customers. Andover’s success in retaining business while charging slightly more is largely due to their flexibility and ability to get there when needed.

PRICING

For most products such as potash, Round Up, anhydrous, etc. -- products offered by most dealerships in the area – the local manager for a Phoenix Crop Chemical outlet has considerable discretion in setting prices. Tom sets these annually, based on financial projections and where he believes Andover needs to be at the end of the year.

Certainly Andover is competitive on price. Tom feels strongly that this is ‘table stakes’ for remaining in business. In fertilizer for example, Andover will fall within $5-10 per ton of the competition. Service is largely the way that Andover justifies selling at a higher price. Their ability to take care of customers; the speed in which they service them; and the quality of the job that they do all are reasons why they tend to be bit higher than most of their competitors.

Early order/early pay discounts are offered and are graduated monthly to give increasingly lower discounts as the season approaches. In addition, while financing packages are available through Phoenix, Tom hasn’t utilized them to a significant degree. However, he believes that the current cash flow situation among growers could present an opportunity to employ these with a segment of customers.

In all cases, Tom resists lowering the price, citing, “You don’t do it unless you absolutely have to!” In some cases, the price is adjusted based on size of grower and the quantity purchased, but still this is difficult, given that any price adjustment will likely have to be applied to all other similar sized growers. Finally, the crop consultants are required to come to Tom for approval before deviating from posted pricing programs.

MARKET COMMUNICATIONS

Communication with growers regarding Andover Agronomy’s product and service offerings is conducted largely through the sales staff. Much one-on-one selling is done
with the specific group of growers that each salesperson calls upon, as well as frequent communication that serves as a ‘reminder’ of the services that Andover is providing.

A number of informational meetings are held throughout the winter and summer months. And, promotional materials are mailed and handed out regularly. Plot work is also done to show the benefits of the Andover agronomic programs and packages.

Tom estimates that approximately 75% of the customer base has access to the Internet and is using it largely for locating marketing information, as well as communication with other farmers. He believes that by next year at this time, this figure will likely increase to 90%. While Andover is set up to utilize the Internet and email with customers, they are holding off at this point. Tom hesitates, given the lack of personal interaction that the Internet presents. They do use it for communication with Phoenix, as well as the major manufacturers. However, they don’t communicate via email internally among staff, given their small 20-mile radius and frequent, in-person communication with each other.

Tom actively thinks about how the Internet will affect his business, particularly with regard to product/service offerings that will become available with Round-Up coming off patent.

**THE DILEMMA**

Tom looked down at his watch and realized how much time had passed. He needed to make some final decisions in order to meet the budgeting cycle deadline. Yet he was facing some real dilemmas with regard to these decisions.

If the staff was already doing what they could in the fall and winter to lessen the load for the spring; and if additional volume was going to be tough to come by in the next season – then where were the opportunities for additional margin? How was he going to plan to address this issue?
ASSIGNMENT

Help Tom out by developing a plan for addressing the issues raised in the case. Think about the issue of margin pressure, with particular focus placed on alternative or additional product or service offerings that might provide opportunity for Tom as he manages Andover. Consider some of the following questions as you develop your plan.

Discussion Questions

- What specific grower needs can Andover Agronomy serve? Are these different for different growers? How will that impact your plan?

- What opportunities are there in providing products/services/information beyond those Andover is already providing? Where does seed fit here?

- What opportunities are there here for bundling or unbundling products, services, and information? Be specific.

- What can Andover Agronomy do to better communicate the value of their product, service, and information offerings? Be as specific as you can.

- What other things can Andover do to survive and thrive in this tight margin environment?