GILBERT HELENA:
Positioning for the Future

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INTRODUCTION

With the Helena 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 farm? It seemed that just 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 they were charging. Yet, it continued to happen and it sure seemed to be getting worse. While it never seemed these low price games could last, Tom still had to deal with the situation: especially when that 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 options – mixing different proprietary products to fit a specific farmer’s weed situation. And, margins on these proprietary 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, is 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 was considering 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. That 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 a RUR issue: lower prices and lower margins were a problem in other areas as well. That aside, it was a very challenging issue.

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, why go to Helena?” 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

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

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 very prevalent. Many of the small pork producers were forced out during recent price pressures, and subsequently only very large pork producers survived.

Land is relatively productive within the 25-mile radius of Gilbert Helena. 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 precision ag services and technologies hasn’t moved as quickly, perhaps because of lower grain prices, tighter cash flow, and a closer watch on expenses among producers in the area.

Roughly 10 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 10 percent of producers are heavily relationship buyers that will remain in business over the long term, but farm relatively small acreage and aren’t likely to expand to any large degree.

GILBERT HELENA

Tom Yearly joined the Gilbert Helena 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 Gilbert business.

Corresponding with Tom’s start, Gilbert initiated a significant expansion effort in facilities and equipment in order 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 Gilbert and Helena asked Tom to assume that role.

Presently, the Gilbert retail business consists of two sites – the primary location and main office in the town of Gilbert and a second location, the Blue Ridge depot site, situated approximately seventeen miles away. Gilbert generated $4 million in sales last year (35% ag chemicals, 6% proprietary, 10% seed, 47% fertilizer, and 2% service), with modest, but improving profits. There is strong potential for additional growth in fertilizer, as indicated in 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, Novartis (Syngenta), and DowAgro, as well as proprietary chemicals from Helena, are important to Gilbert.

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

Seed sales are becoming increasingly important, particularly as last year marked the first year for the Helena Round-Up Ready soybean. As Tom looks to the future, he believes seed will become a much more important product line for the operation.

The previous year’s expansion approximately doubled the business capacity. And the growth in customer base that Gilbert experienced since then 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, Gilbert 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 Gilbert 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 Gilbert 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 Gilbert. 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 Gilbert location, however, when appropriate, some of the equipment is housed at Blue Ridge.
**Personnel**

The Gilbert 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 Gilbert. They work as a group, keeping up with current industry information and maintaining consistency in making customer recommendations. Three of the four 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. Likely, the varied skill set and personalities of the staff drive customer segmentation.

Each of the four Gilbert salespeople brings his own unique skill set. Tom feels very fortunate to have in total such a well-rounded sales staff. 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 brings much data and new technical information 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 Helena, Tom works closely with the salespeople to set annual sales goals. Throughout the year they frequently attend Helena 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 Gilbert staff to get the plant work, loading, blending, delivery, and application done. So, there’s very little selling during this period – Gilbert doesn’t have the sales to justify exclusive salespeople.

In addition to the sales staff, Gilbert maintains two warehouse managers -- one at each of the Gilbert and Blue Ridge locations, as well as a custom applicator at Gilbert. 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 Gilbert 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 Gilbert Helena can do.
Relative to the competition, the technical knowledge and skill base of the Gilbert staff is far superior. Competitors’ facilities and equipment are not on par with those at Gilbert. And, Gilbert 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, Gilbert 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 exists as a part of the cooperative system in the area. The only national in the region is Royster-Clark, which while similar in size to Helena, has really struggled in northcentral Indiana, given some management turnover. Competition for seed is primarily with farmer dealers, which in many instances are Helena 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 Helena $110.” And, while price negotiation is largely not an issue for Helena proprietary products (as they are only offered through Gilbert and prices are somewhat standard), negotiation on price of branded chemicals and seed is fair game. Some customers annually arrive at Gilbert, with the competitor’s price sheet in hand. Others never even mention it, remaining loyal to Gilbert. Tom has often wondered if longevity has something to do with customer retention. It seems as though the longer the grower has been with Gilbert, 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 Gilbert can’t spray that field today, the inability to respond immediately may mean that the competition gets the business. The Gilbert 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 Gilbert 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 Gilbert Helena fall in four main categories – fertilizer, branded chemicals, Helena proprietary products, and seed. The branded chemicals – herbicides, insecticides, and fungicides – are acquired from major manufacturers such as Monsanto, Syngenta, and DowAgro, brought in through the Helena system, and purchased from Helena Wholesale. Proprietary products such as adjuvants and surfactants, that enhance
the activity of the commodity chemical they are mixed with, are a very important part of Gilbert’s business, given the associated profit margins.

Over the past year, Tom has worked to fuel growth in seed sales at Gilbert. And, with the recent release of Helena’s Round-Up Ready soybeans and the sale of 3,000 units in the introductory year, Tom feels that there is significant opportunity for seed. Gilbert 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 Gilbert 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 Gilbert’s competitors and would not be charged, they would only be offered upon customer requirement, whereas they are a part of the program and initiated with the grower at Gilbert.

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 acre grids; and an average of $2.50 per acre for variable rate ($4.00 per acre for application of phosphate and $1.00 per acre for potash). Competition on precision ag services is thin. While the competition can do it, they do not promote it and Gilbert has the lion’s share of the market.

Custom application of both dry fertilizer and chemicals is offered at Gilbert. A fee of $5.50 per acre for liquid application work and $2.00 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 here just as they do on fertilizer to attract customers. Gilbert’s success in retaining business while charging slightly more is largely due to their flexibility and ability to get there when needed.

**PRICING**

Pricing for proprietary products is set by the Helena Proprietary Products Manager and is generally a fixed price, from which retailers do not deviate. Commodity and branded products such as potash, Round Up, anhydrous, etc. -- products offered by most dealerships in the area -- tend to be the products where pricing can be set by the Helena retailer within a given range. Tom sets these annually, based on financial projections and where he believes Gilbert needs to be at the end of the year.
Certainly Gilbert is competitive on price. Tom feels strongly that this is ‘table stakes’ for remaining in business. In fertilizer for example, Gilbert will fall within $5-10 per ton of the competition. Service is largely the way that Gilbert 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 are a little bit higher.

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 Helena, 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 the price adjustment will likely have to be applied to all other similar sized growers. Finally, the crop consultants would come to Tom for approval before deviating from a set price.

MARKET COMMUNICATIONS

Communication with growers regarding Gilbert Helena’s product and service offerings is conducted largely by word of mouth directly 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 Gilbert is providing.

A number of informational meetings are held throughout the winter and summer months. And, promotional materials are mailed and handed out to communicate on proprietary products. Plot work is also done to show the benefits of the proprieties.

The positive relationship with the major manufacturers is a win-win in Tom’s view. The manufacturers understand that if the proprietary enhances the activity of the chemical, the grower will be more satisfied. And, in many instances, the manufacturers reps in the area help Helena sell the programs.

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 Gilbert 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 Helena, as well as 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 with your group 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 Gilbert. Consider some of the following questions as you develop your plan.

Discussion Questions

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

- What opportunities are there in providing products/services/information beyond those Gilbert 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 Gilbert Helena do to better communicate the value of their product, service, and information offerings? Be as specific as you can.

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