Report on Allied Chemical Canada Ltd.

by Nicolas Demos
869184505

Table of Contents

Nicholas:

A credible analysis that comments on most of the issues. Your report could be improved with greater clarity of thought; better more focussed dialogue and in some cases more explanations (re financial statements). I would have expected to see an explanation of cost/level of return on demand of the movements and some strategies. Overall though, this report presents an action plan worth considering.

B/

Where did these numbers come from?

I) EXECUTIVE SUMMARY

The 1990 Allied Marketing Plan seeks to successfully launch its new line of micronutrient fertilizers on the Ontario and Quebec markets.

The profit target is set at 100,000. The sales revenue target is set at 1,000,000.

This can be attained by selling two products, the Supergrow-Magnesium (SM) and the Supergrow-Zinc (SZ), at an average price of $8 per gallon.

We anticipate a constant growth over the 5-year period and we choose the fertilizer dealers as a way to broadly distribute and reach the farmers.

Further, we prepare to adjust prices, and improve packaging, promotion and advertising techniques in order to increase our sales and to enlarge our market share.

II) CURRENT MARKET SITUATION

a) Market Situation

Only ~~a~~ 10% of all farmers in Ontario and Quebec use or have used micronutrients during the last five years.

Nevertheless, the industry sales have been growing rapidly. And the prospects are very optimistic. In the short run the expectations raise the growth pattern to a super-growth use of micronutrient products.

Specifically, the growth stars are the magnesium-based fertilizer, along with the zinc- and iron-based micronutrients.

Farmers and fertilizer dealers share the same positive conceptions and attitudes toward these compositions.

The conceptions are shaped by the policies of the different provincial and federal ministries of agriculture, by the findings of the University of Guelph and by the research done by private American institutions. The current messages are not only conflicting but also somewhat unsupportive.

As a result, the majority of the farmers have had a very low awareness level of micronutrient deficiencies, attributions and products.

Farmers' decision to use or not to use micronutrient fertilizers depends upon the effectiveness and the benefit to cost criterion for chemical products which is set at 5:1.

b) Product Situation

From the large range of products, three excel to be the most profitable, to enter the market. The S-M, the S-Z and the Supergrow-Iron (S-I).

Every product is in liquid form and designed for ~~follor~~ FOLIAR application.

Therefore, it is highly important the timing of the application, which requires a well-written instructions pamphlet and continuous professional advice.

Finally, results can be seen visually and lastly quantitatively and qualitatively.

c) Competitive Situation

The major competitors are four companies from which the first two are more important.

	Market Share
Stoller Chemical Co.	60%
Frit Industries	30%
Eastman Kodak	5%
Dural Sales Corporation	5%

Stoller, the main competitor, is targeting specific clusters of farmers with attractive and convenient packaged products. These products cover a large range, and are well-supported with technical backup, product literature, sales people and effective advertising. The price is $9 per gallon, and the distribution is a flow from their headquarters in Indiana to Niagara Chemical Co. (10% margin), to local fertilizer dealers and to farmers.

Frit Industries is creating a competitive line of products through mainly price competition around $6 per gallon. It sells semi-finished products and leaves to the dealer or to the farmer the final mix.

d) Distribution Situation

All micronutrients are sold to farmers through local retail dealers. Numerically, there are 500 such outlets, and 250 of them are branch operations at 10 major chain organizations.

There exists a strong willingness to distribute new products. The criteria are margins, performance, testing, information and technical backup.

e) Macroenvironment Situation

The total long-run market potential is 471000 gallons for magnesium based fertilizers, 54000 gallons for S-Z and an insignificant number for S-I.

III) OPPORTUNITY AND ISSUE ANALYSIS

a) Opportunities/Threats Analysis (Outside factors)

Main Opportunities

- Consumers-farmers show an increased interest in using micronutrients.
- Potential MKT is estimated to 2.5 million gallons.
- In the SR, expectations for more rapid increase in demand for S-M than for S-Z.
- Focus on main areas and on specific products, to create a good image.
- Dealers' willingness to market our products.

Main Threats

- Stoller's retaliation by decreasing its price, by offering discount coupons, etc.
- Federal and Provincial governments may create more barriers.
- Negative campaign about the use and the form of micronutrients from the university of Guelph.
- Sabotage by some fertilizer-dealers.

b) Strengths/Weaknesses Analysis (Inside factors)

Main Strengths of Allied

- The excellent brand image and awareness of high quality products of the parent company.
- The offering only of four products to special interest farmers.
- The focus only on six crop segments. That of apples, tomatoes, potatoes, soybeans, tobacco, and vegetables.

How do you know this

- Dealers like our salesmen.
- The location of our warehouse.

How is Frit creative?

Main Weaknesses of Allied

- Allied is not positioning for the whole range of Stoller products.
- We are not so initiative and creative, as Frit Industries.
- Our brand name is better known more to the western provinces than to Ontario and Quebec.
- Our sales force is too small.

c) Issues Analysis

- Focus on S-M and S-Z only. We should drop S-I, since there is no growth potential.
- Discover creative ways to effectively compete with the leader - Stoller.
- The capital requirements are too large.
- To stimulate the farmers to try our products, by proper advertising and promotion policies.
- Eliminate the switching costs.

IV) OBJECTIVES

Financial Objectives

- Earn an average rate of return on investment over the next 5 years of 20% after taxes.
- Attain net profits of 60,000 in 1990.
- Produce a cash flow of 150,000 in 1990.

Marketing Objectives

- Achieve total sales of 1,000,000 in 1990 (20% target profit margin).
- Achieve a sales volume in gallons of 100,000 S-M and 10,000 S-Z.
- Sell for $8 per gallon.

- Expand farmers' awareness of the effectiveness of S-M and S-Z.

- Enlarge their awareness about the lower-cheaper price than Stoller's one.

- Expand and create more efficient distribution channels by giving incentives to dealers.
- Use only the dealership distribution.

- Use creativity in the packaging of the liquid fertilizers.

- Use green colour on the packages to associate good products and healthy crops.

V) MARKETING STRATEGY

Strategy Statement

Target Market: Farmers in concentrated areas, in Ontario and Quebec, who cultivate apples, potatoes, tomatoes, tobacco, soybeans and vegetables.

Position: Two highly effective micronutrient products, S-M and S-Z in liquid form.

Price: Price below the price of the Stoller company, which is the main competitor and holds 60% of the market share.

Distribution Outlets: Sell only through fertilizer dealers, in key market areas.

Increase effort to promote to other areas by discounts, free demonstrations, seminars, etc.

The option of the chemical distributor is not sound because requires more money, and we lose control of the marketing process.

To sell directly to farmers is also too expensive, requires a lot of time and it is uncertain.

Sales Force: We start with one sales representative but we have four sales people at the end of the 5th year so to increase our sales to more farmers in the two and other provinces and to get better signals and information back.

Services: Widely available and fast service, from our base, the warehouse located at Kingston area-port.

Advertising: Develop an advertising campaign. Starting March, and direct it towards the two provinces in English and French.

Emphasize the lower price with superior results, backed with the experience and brand name of U.S. Allied.

Sales Promotion: Increase the sales promotion by spending 50,000 more each year.

Be more diplomatic and improve the relations with the dealers by concerning about their problems, bringing changes to our products (packaging, transporting, in order to help retailers utilize their space, etc.).

Research & Development: Increase expenditures in terms of packaging (creative styling, use of colours, etc.).

Marketing Research: Increase expenditures so along with other information, to improve knowledge of farmers' tastes, conceptions, and to monitor competitors' moves.

VI) ACTION PROGRAMS

Position: We eliminate S-I, due to the small projected market potential. We focus only on two forms of S-M and S-Z. The overall cost will be 210,000 for the first year.

Price: Price should be at $8 per gallon for both micronutrients.

Dealer Promotion Program:

March: Allied will participate in the fertilizer exhibition show, with our salesperson. Cost 2,000.

April: Free demonstrations. Cost 3,000.

June-August: Discount wholesale selling.

Sales Promotion:

March:	Newspaper ads at three papers. Two in Ontario, one in Quebec. Cost 8,000.
June:	Multiplied T.V. commercials. Appeal to emotions, health, effectiveness, and ecological factors. Cost 20,000.
July:	Use coupon promotion. Create and stress the connection between S-M and S-Z with meteorological conditions.
Buying:	Buy from manufacturer as soon as he offers discounts.

VII) PROJECTED PROFIT-LOSS

Statements

	S-M				S-Z			
Year & Gallons	Year 1 100,000	10%	→ 471,000	← 40%	Year 1 10,000	10%	Year 5 54,000	40%
Price								
6	600,000	282600	2,826,000	1130400	60,000	32400	324,000	129 600
7	700,000	329 700	3,297,000	1 318800	70,000	37,800	378,000	151,200
8	800,000	376,800	3,768,000	1507200	80,000	43 200	432,000	172 800
9	900,000	423900	4,239,000	1695600	90,000	48 600	486,000	194400
12	1,200,000	565200	5,652,000	2,260,800	120,000	64800	648,000	259200

How did you arrive at these numbers?

A further 10% of that

Selling Price = $7

	1 Year	5 Years
Sales Revenue	700,000	3,297,000
	70,000	378,000
	770,000	3,675,000
COGS	210,000	1,002,900
CM	560,000	2,672,100
Expenses		
Market Research	20,000	20,000
Salaries	40,000	200,000
Promotion Advert.	50,000	250,000
Warehouse	300,000	--
Depreciation Exp.	30,000	150,000
Other Expenses	10,000	50,000
	450,000	670,000
Dealers' Margin	154,000	735,000
Total Expenses	604,000	1,405,000
π (Loss)	(440,000)	1,267,100
- Taxes	--	680,208
Income after Taxes	--	658,892

Selling Price = $8

	1 Year	5 Years
Sales Revenue	800,000	3,768,000
	80,000	432,000
	880,000	4,200,000
COGS	210,000	1,002,900
CM	670,000	3,197,100
Expenses		
Market Research	20,000	40,000
Salaries	40,000	200,000
Promotion Advert.	50,000	250,000
Warehouse	300,000	--
Depreciation Exp.	30,000	150,000
Other (R&D)	10,000	30,000
	450,000	670,000
Dealers' Margin	176,000	840,000
Total Expenses	626,000	1,510,000
π	44,000	1,687,100
Taxes	21,120	809,808
π after Taxes	22,880	877,292

Selling Price = $9

	1 Year	5 Years
Sales Revenue	900,000	4,239,000
	90,000	486,000
	990,000	4,725,000
COGS	210,000	1,002,900
CM	780,000	3,722,100

Expenses

	1 Year	5 Years
Market Research	20,000	20,000
Salaries	40,000	200,000
Promotion Advert.	50,000	250,000
Warehouse	300,000	--
Depreciation Exp.	30,000	150,000
Other Expenses	10,000	50,000
	450,000	670,000
Dealers' Margin	198,000	945,000
Total Expenses	648,000	1,615,000
π	132,000	2,107,100
Taxes	63,360	1,011,408
	68,640	1,095,692

Required Capital for Investment

COGS	210,000
Market Research	20,000
Salaries	40,000
Promotion	50,000
Warehouse	300,000
	620,000

20% margin → target

$124,000

VIII) CONTROLS

Option 1: If Stoller retaliates by cutting its price below $8 per gallon then we can cut ours as low as $7. We continually stress the effectiveness and quality of S-M and S-Z.

Option 2: If Stoller increases its price to $10, to indicate a higher quality, then we do the same, increase our price to $9 or to $10. By doing so, we signal that something structural has taken place.