Chapter 8: Tools for Marketing Decisions in Agribusiness

Objectives

- Procedure for a marketing audit
- How sales forecasts are made and how they are used
- Methods for analyzing competitors
- Techniques for studying customer attitudes and opinions

The Marketing Audit

An objective examination of a company's marketing program

- Marketing objectives
- Plan for accomplishing objectives given the resources, market conditions, and firm's strengths and weaknesses

Figure 8.1
Marketing Audit Procedures

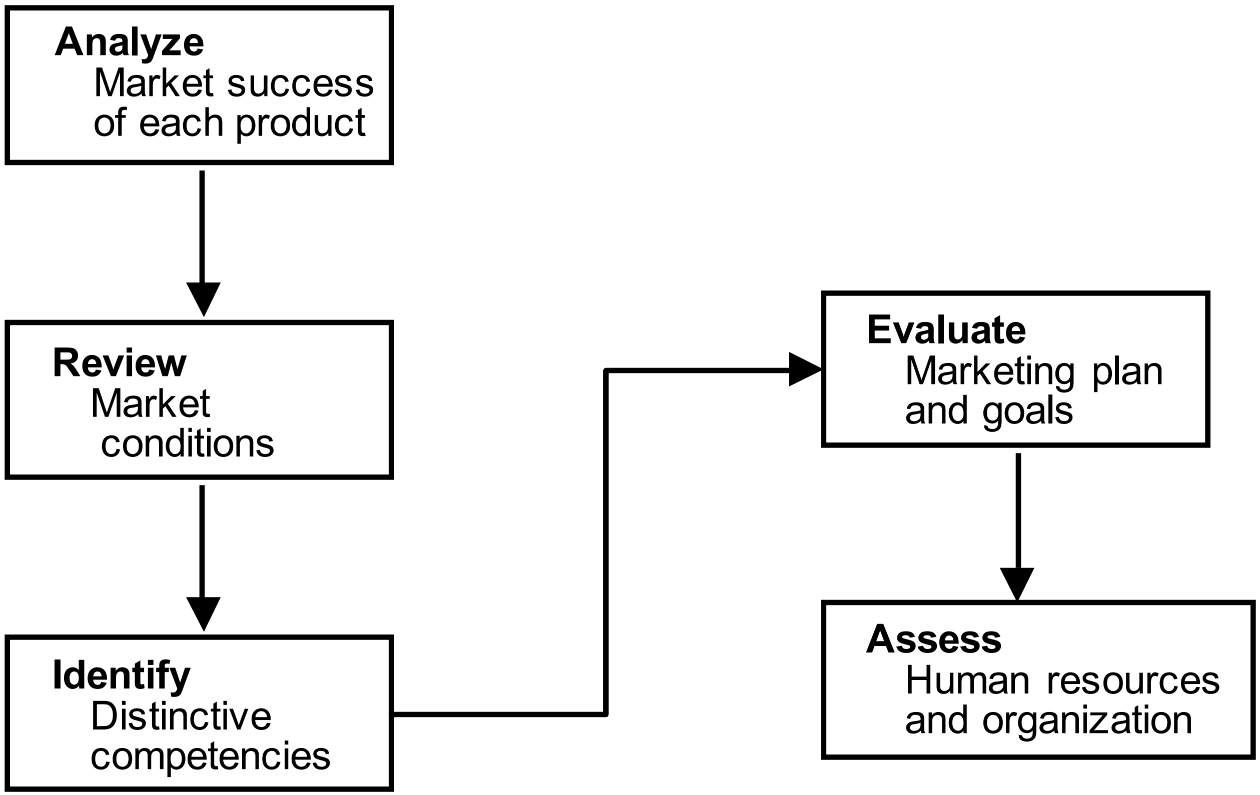
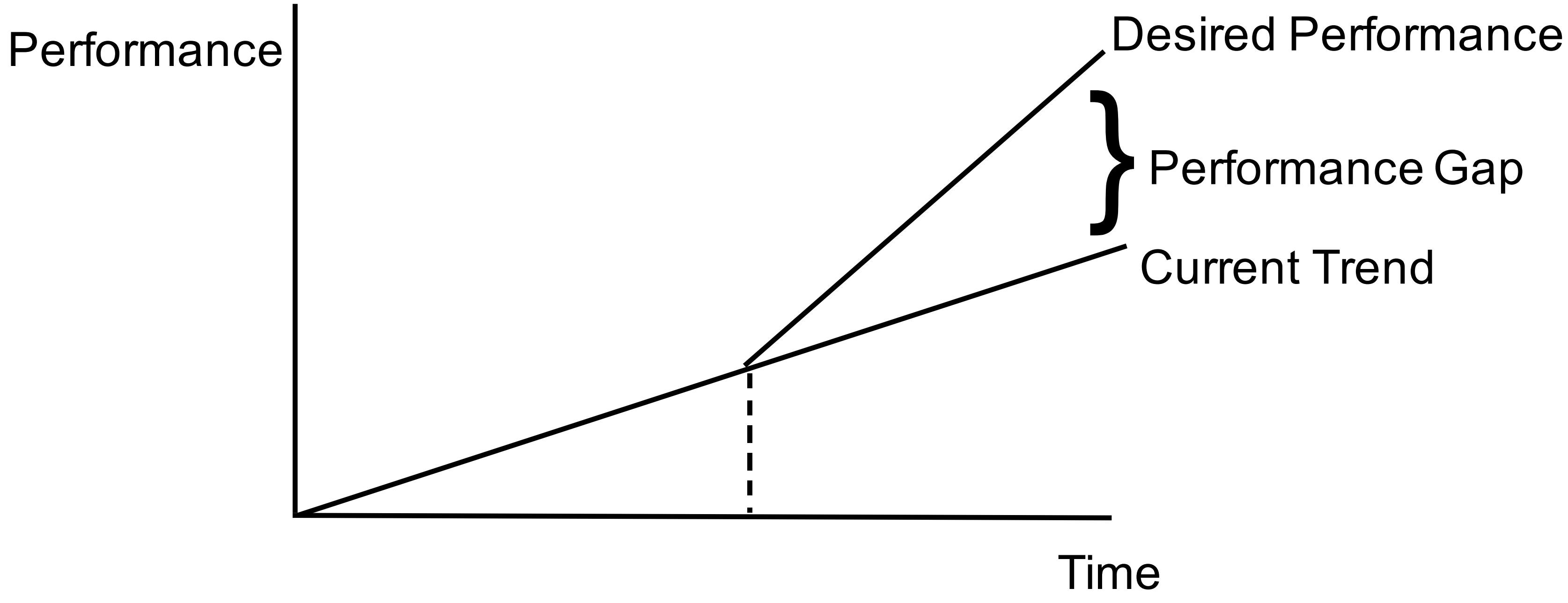


Figure 8.2 Gap Analysis

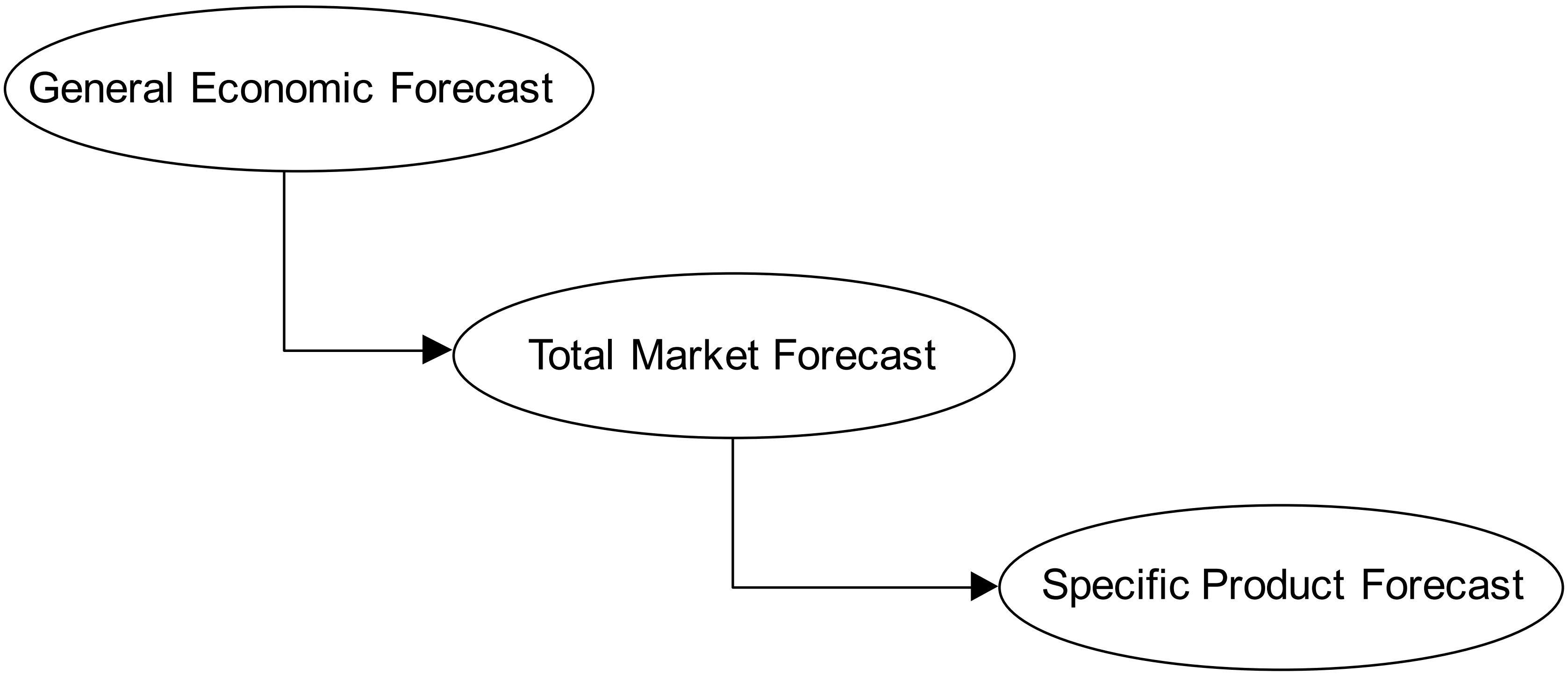


Sales Forecasting

Estimating sales in dollars and physical units for a specific period of time

- Short-term forecasts
- Long-term forecasts

Figure 8.3 Sales Forecasting Model



Types of Sales Forecasts

- General economic forecasts
  - Broad factors affecting the total economy
- Market forecasts
  - Forecasts for specific industries or types of products based on general economic forecasts and industry-specific information

Types of Sales Forecasts

- Specific product forecasts
  - Actual sales forecast for a specific product within the firm
  - Driven by both the general economic forecast and the market forecast

Methods of Sales Forecasting

- Trend forecast
  - Based on past trends and expected future trends
- Build-up forecast
  - Based on detailed sales forecasts from salespeople for their accounts
  - Estimates are then accumulated

Methods of Sales Forecasting

- Dephi approach
  - Based on the opinions of a panel of experts
  - Estimates are pooled, reviewed, and revised until a consensus is achieved
- Test market
  - New products sold in test market

Competitor Analysis

Key strengths and weaknesses of each key competitor

- Market strategy based on capitalizing on competitors' weaknesses and firm's strengths

Table 8.1a Competitor Strength and Weakness Analysis

COMPETITOR: Red River Tractor and Implement Company

DATE: January 15, 2016

COMPILED BY: Prairie View Equipment Company

Strengths

1. New facility, large shop, impressive space for new and used equipment
2. Good location, conveniently located for area farmers
3. Large parts inventory
4. Quality "short lines," good relationships with short-line manufacturers
5. Favorable credit program
6. Manufacturer-owned facility has sound financial backing

Table 8.1b Competitor Strength and Weakness Analysis

Weaknesses

1. High overhead cost relative to Prairie View
2. Limited outside sales presence at this time (relatively new salesperson), heavily dependent on manufacturer reps for outside sales support
3. Weak on-farm repair service, not as responsive as growers demand
4. Major equipment line less popular locally than Prairie View offering
5. Manufacturer-owned store less flexible to meet local needs
6. New manager not well known in the area

Table 8.1c Competitor Strength and Weakness Analysis

Strategy for Competing against Red River

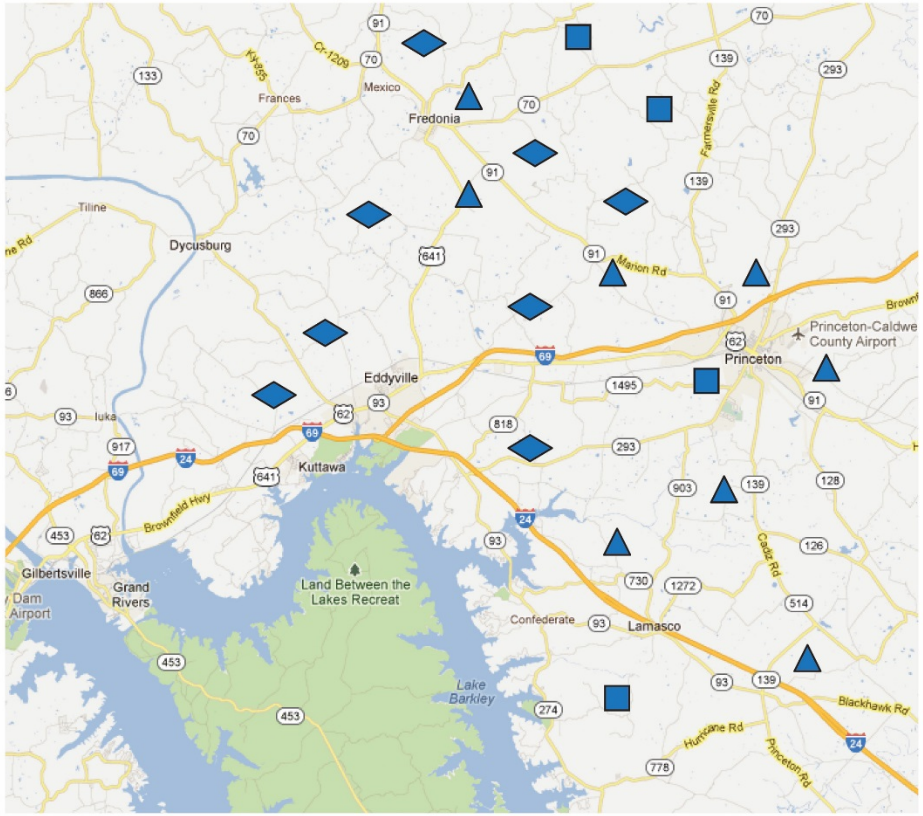
1. Upgrade emergency farm repair vehicle and promote this service
2. Engage veteran sales staff in making on-farm calls focused on communicating upcoming new product introductions, and new service capabilities
3. Lever all relevant national support programs available to Prairie View
4. Promote local owner's long-term interest in community and understanding of local needs
5. Hold open house to familiarize customers with our location

Analyzing Customer Needs

Customer surveys

- Personal interviews
- Telephone interviews
- Written surveys

Figure 8.4 Market Map



Key

Small Customer < $10,000

Mid-size Customer $10,001–$100,000

Large Customer $100,001 Plus

Chapter 12:
Tools for Evaluating Operating Decisions

Objectives

- The decision-making process and how it may be used to solve management problems
- Variable and fixed costs and their relationship with business volume and profit
- Calculating the breakeven point

Objectives

- Volume-cost analysis techniques
- Strategies to reduce a firm’s breakeven point
- Pricing decisions and estimating the impact of a price reduction on the breakeven point

Decision-Making

The *process* of *choosing* between different alternatives for the purpose of achieving desired *goals*

Involves

Decision-making:

1. Process
2. Choosing
3. Goals

Necessary Elements of the Decision-Making Process

Decision-making:

1. Is built around facts
2. Involves analysis of the factual information
3. Requires an element of judgment

Steps Involved in the Decision-Making Process

1. Problem identification
2. Summary of facts
3. Identifying alternatives
4. Analysis
5. Action
6. Evaluation

Volume–Cost (Breakeven) Analysis

Shows the level of business necessary to break even and/or to earn a specific amount of profit

Types of Costs

- Fixed costs
  - Costs in which the total amount does not fluctuate with the volume of business
- Variable costs
  - Costs that change directly with the volume of sales
- Semi-variable costs
  - Costs that are partly fixed and partly variable

Figure 12.1
Total Fixed Costs
LCM Nursery, Inc.

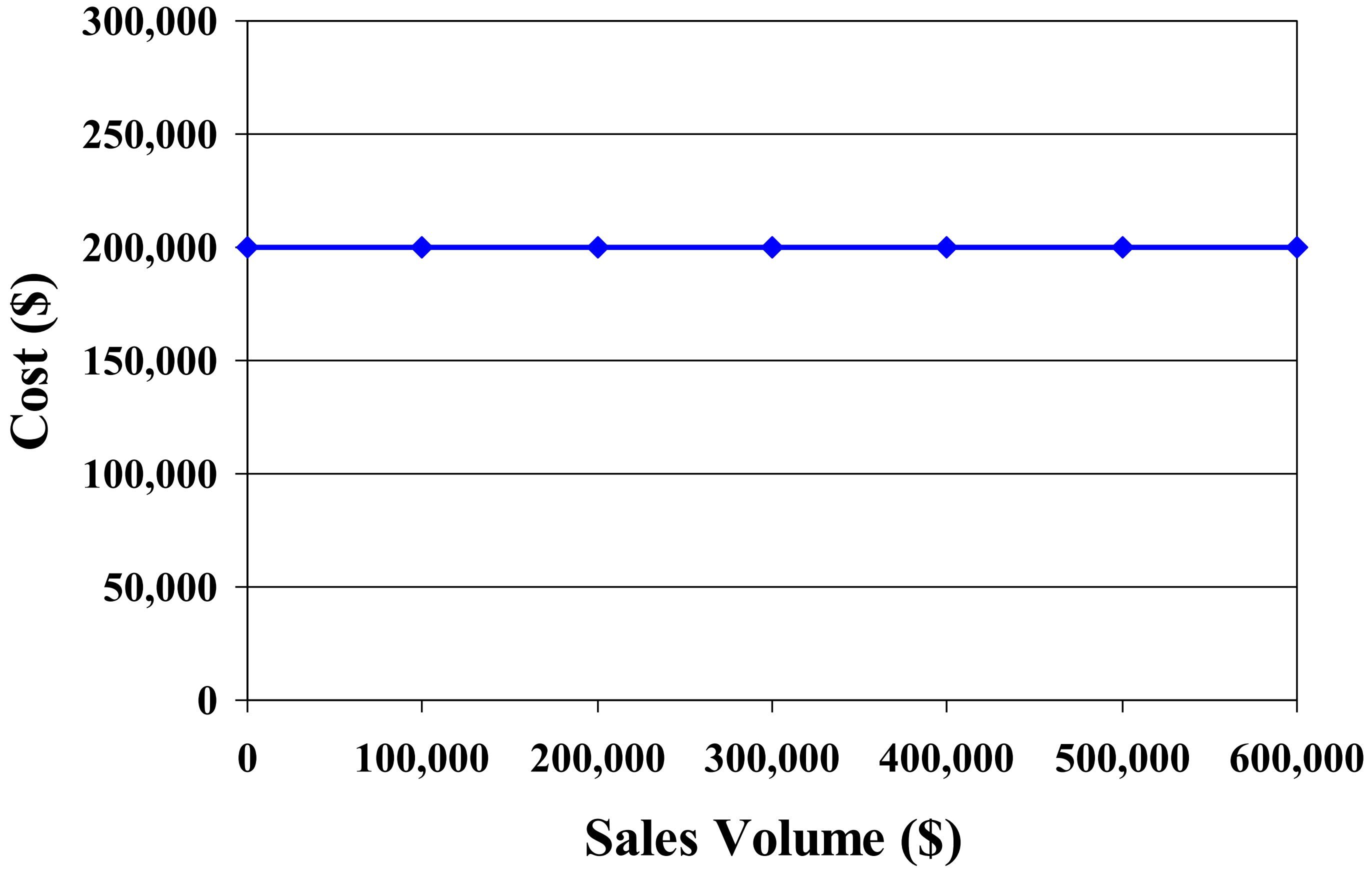


Figure 12.2
Average Fixed Costs

LCM Nursery, Inc.

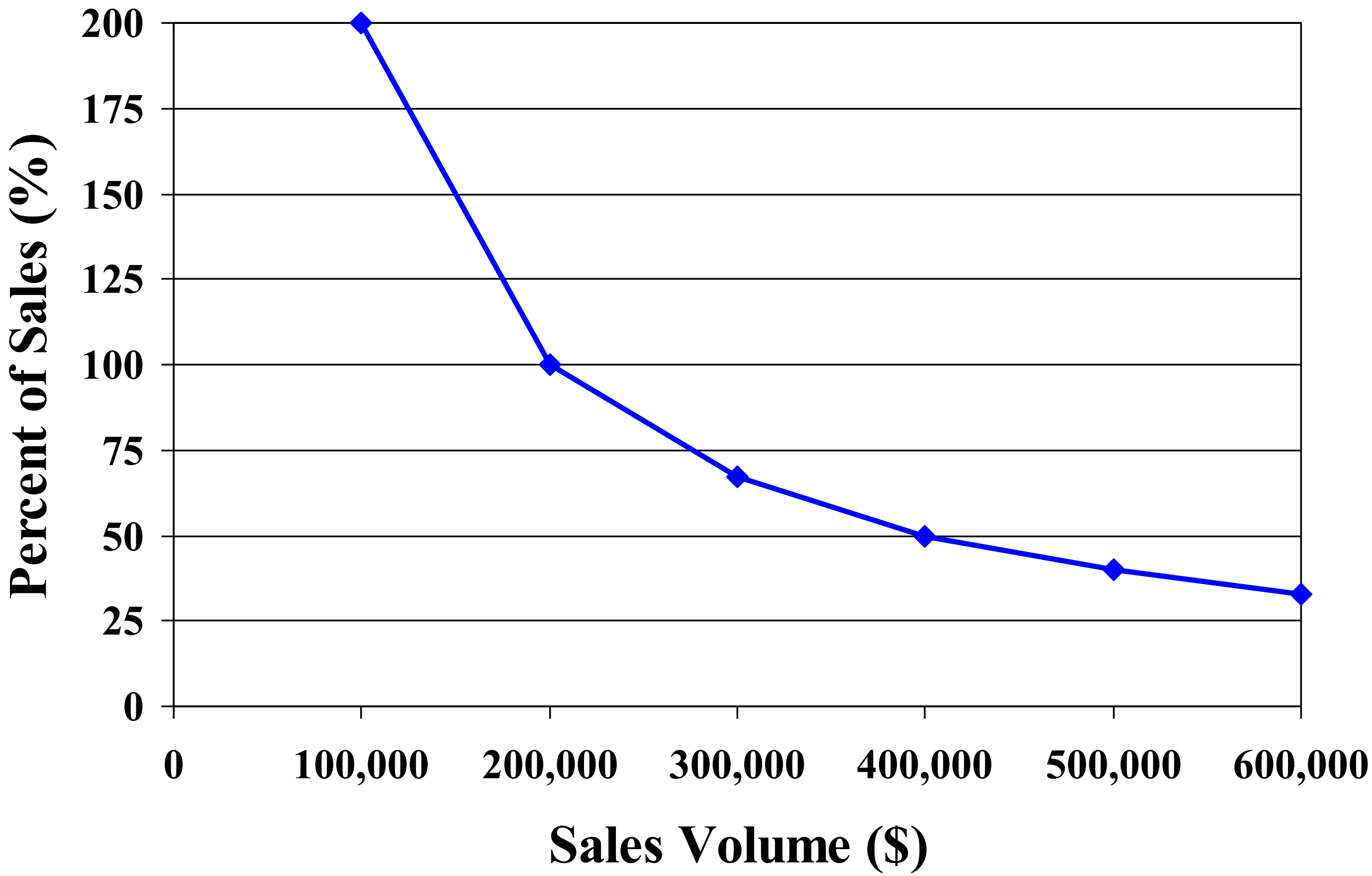


Figure 12.3
Total Variable Costs
LCM Nursery, Inc.

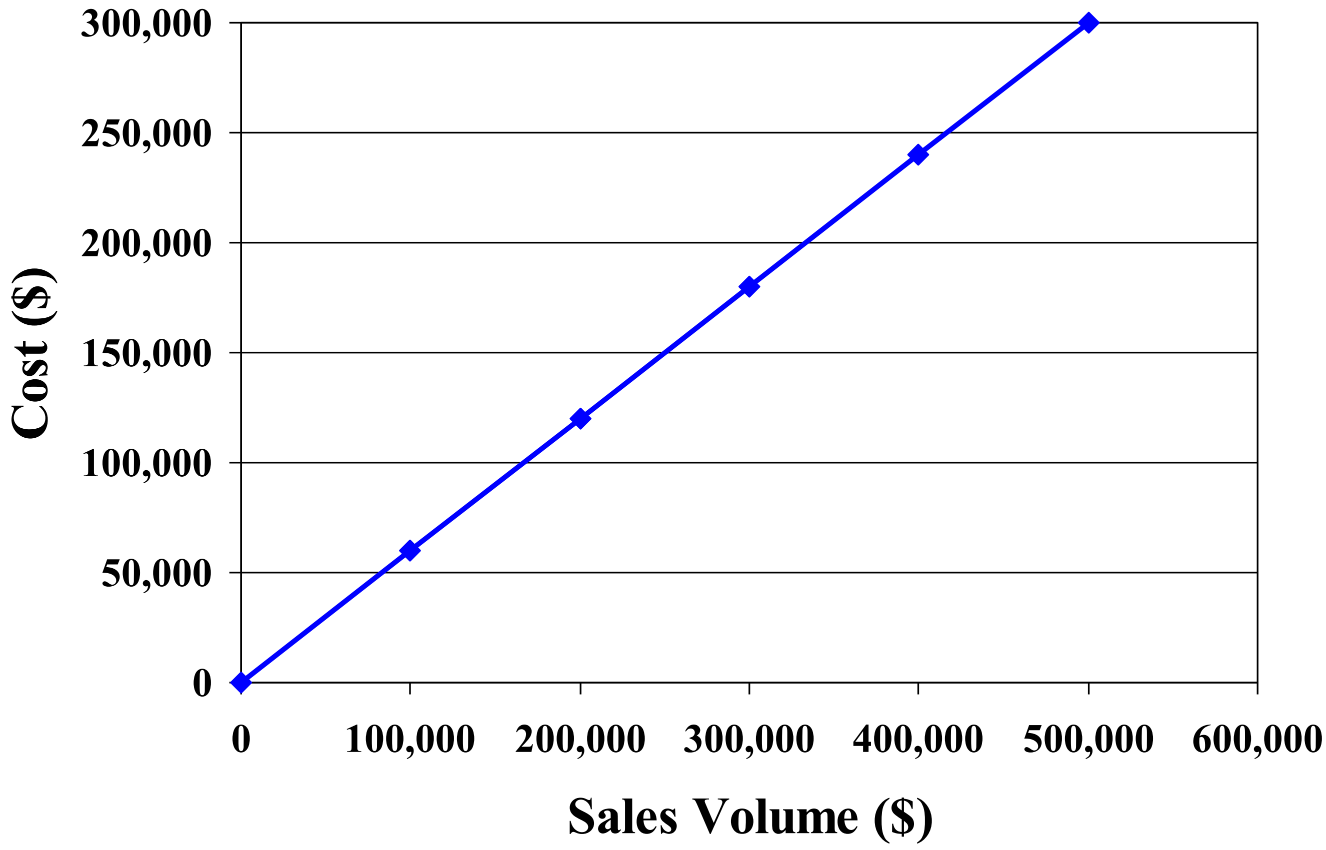
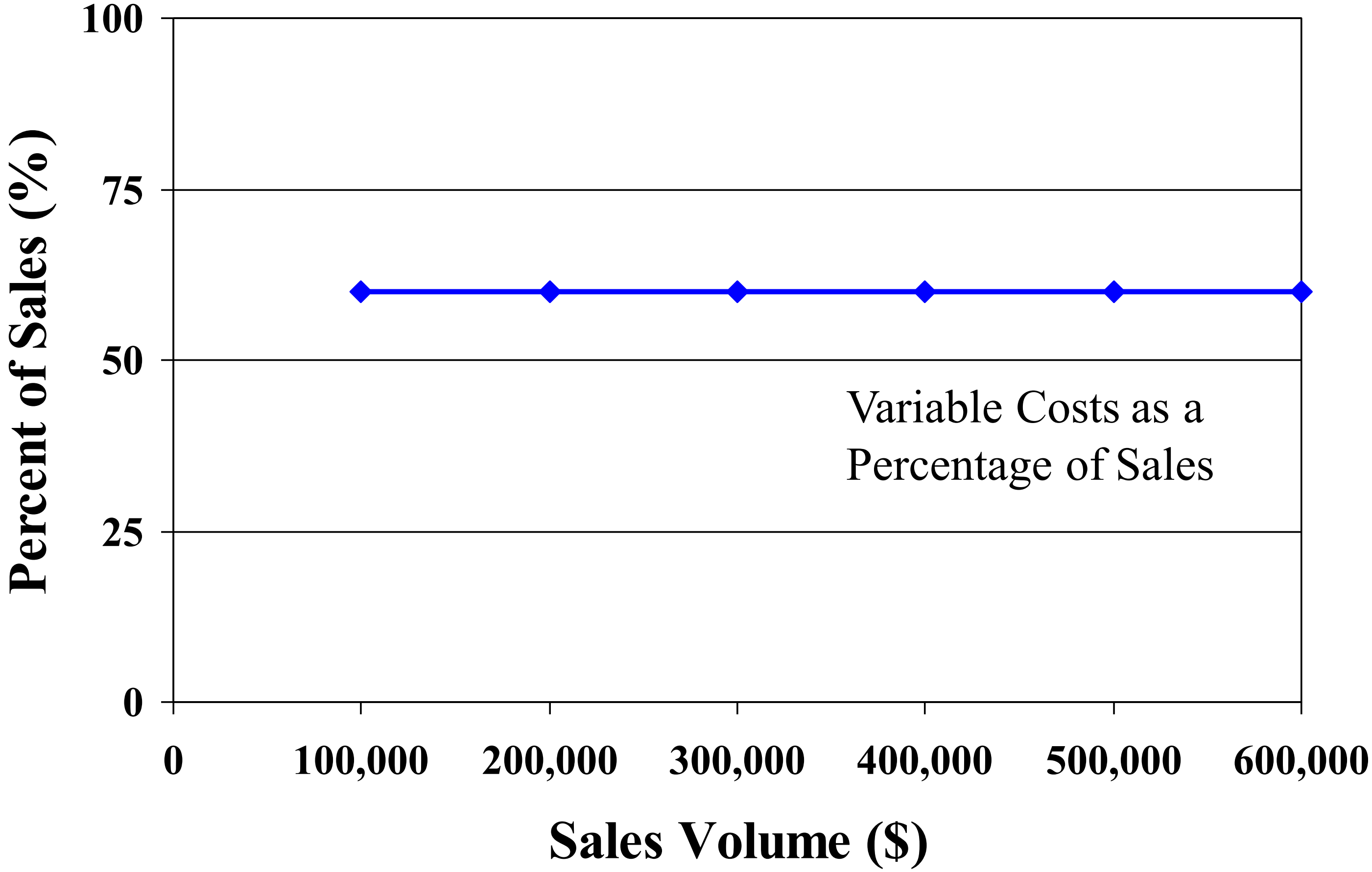


Figure 12.4
Average Variable Costs
LCM Nursery, Inc.



Special Problems in Cost Classification

- Incremental costs not constant (Figure 12.5)
- Lumpiness (Figure 12.6)
- Allocating costs
- Length of time period

Figure 12.5
Total Variable Cost with Supplier Discounts
LCM Nursery, Inc.

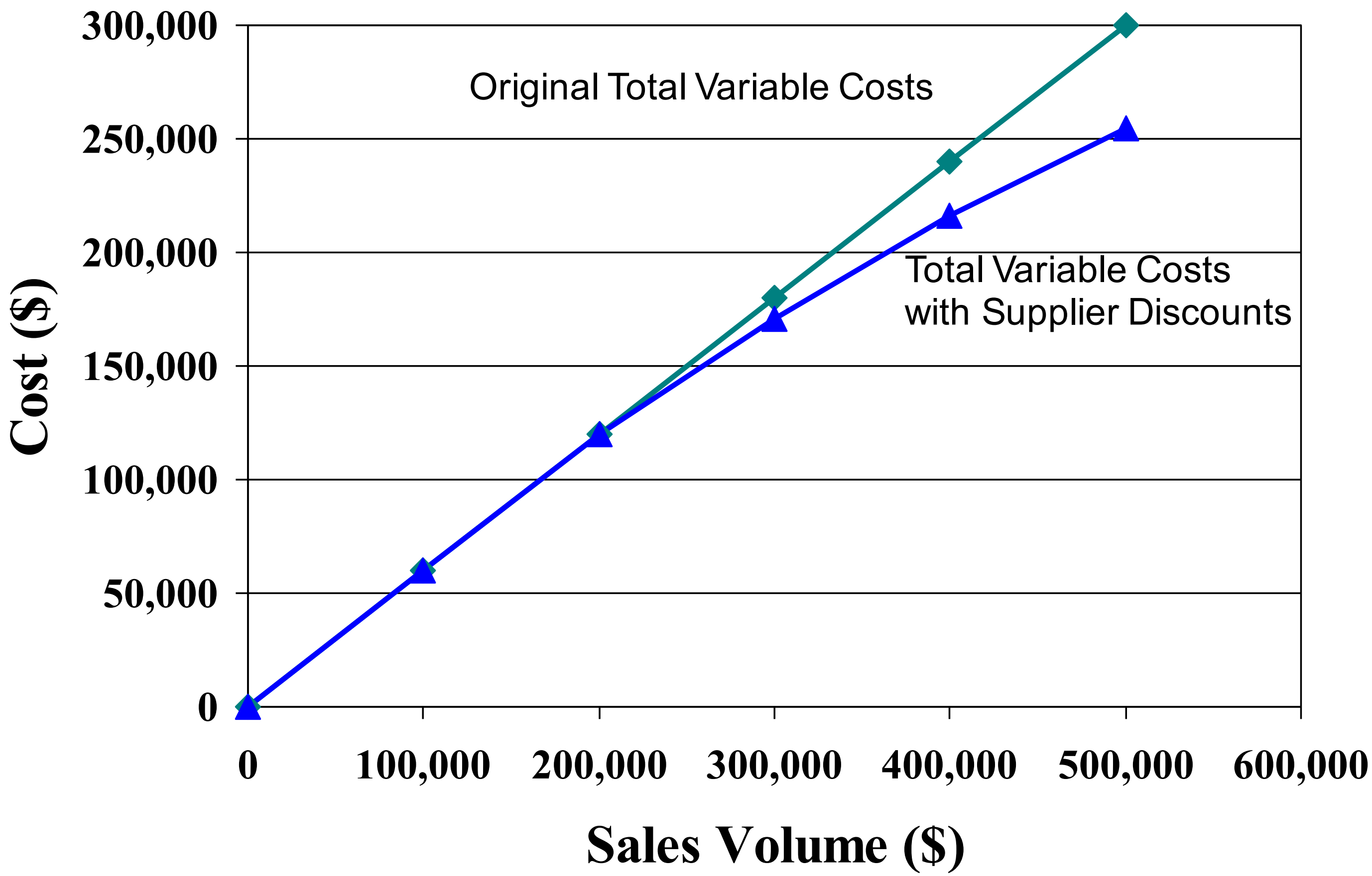
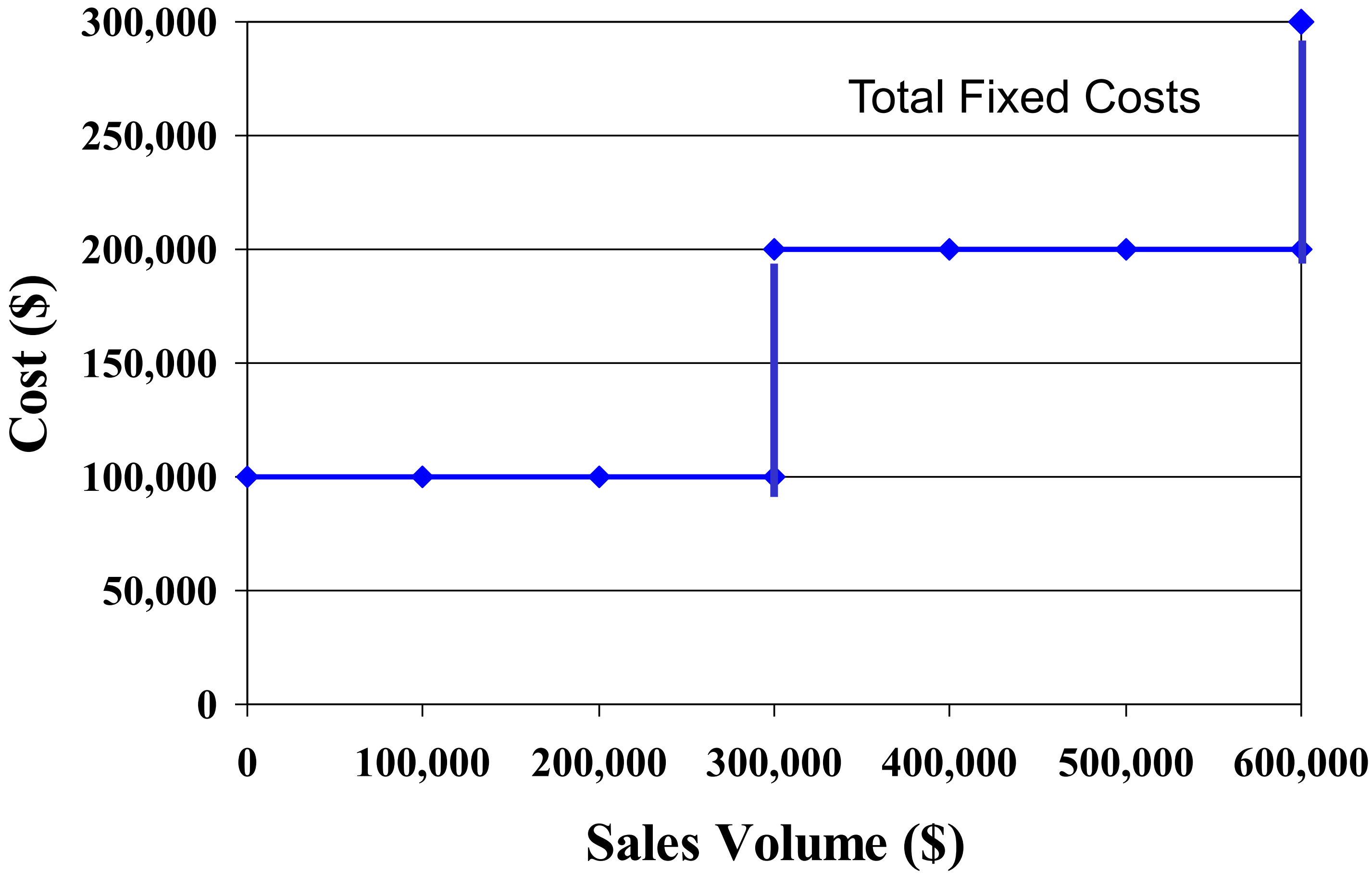


Figure 12.6
Changes in Total Fixed Costs Lumpiness
LCM Nursery, Inc.



Volume–Cost Analysis Procedure

1. Classify fixed and variable costs
   - For example:
     - Variable: Cost of goods sold
     - Fixed: Salaries and benefits
     - Semi-variable: Part-time wages

Volume–Cost Analysis Procedure

2. Summarize fixed and variable costs
   - Total dollar costs
   - % of sales costs

Volume–Cost Analysis Procedure

3. Calculate contribution to overhead (CTO)
   - Portion of each unit sales remaining after variable costs are covered
   - Applied toward covering fixed or overhead costs

Volume–Cost Analysis Procedure

3. Calculate breakeven point
   - How many units (dollars) of sales are needed to completely cover all costs?

$$\text{Breakeven (sales dollars)} = \frac{\text{Fixed Costs}}{1.0 - \text{Variable Costs as a Proportion of Net Sales}}$$

$$\text{Breakeven (units)} = \frac{\text{Fixed Costs}}{\text{Selling Price Per Unit} - \text{Variable Costs Per Unit}}$$

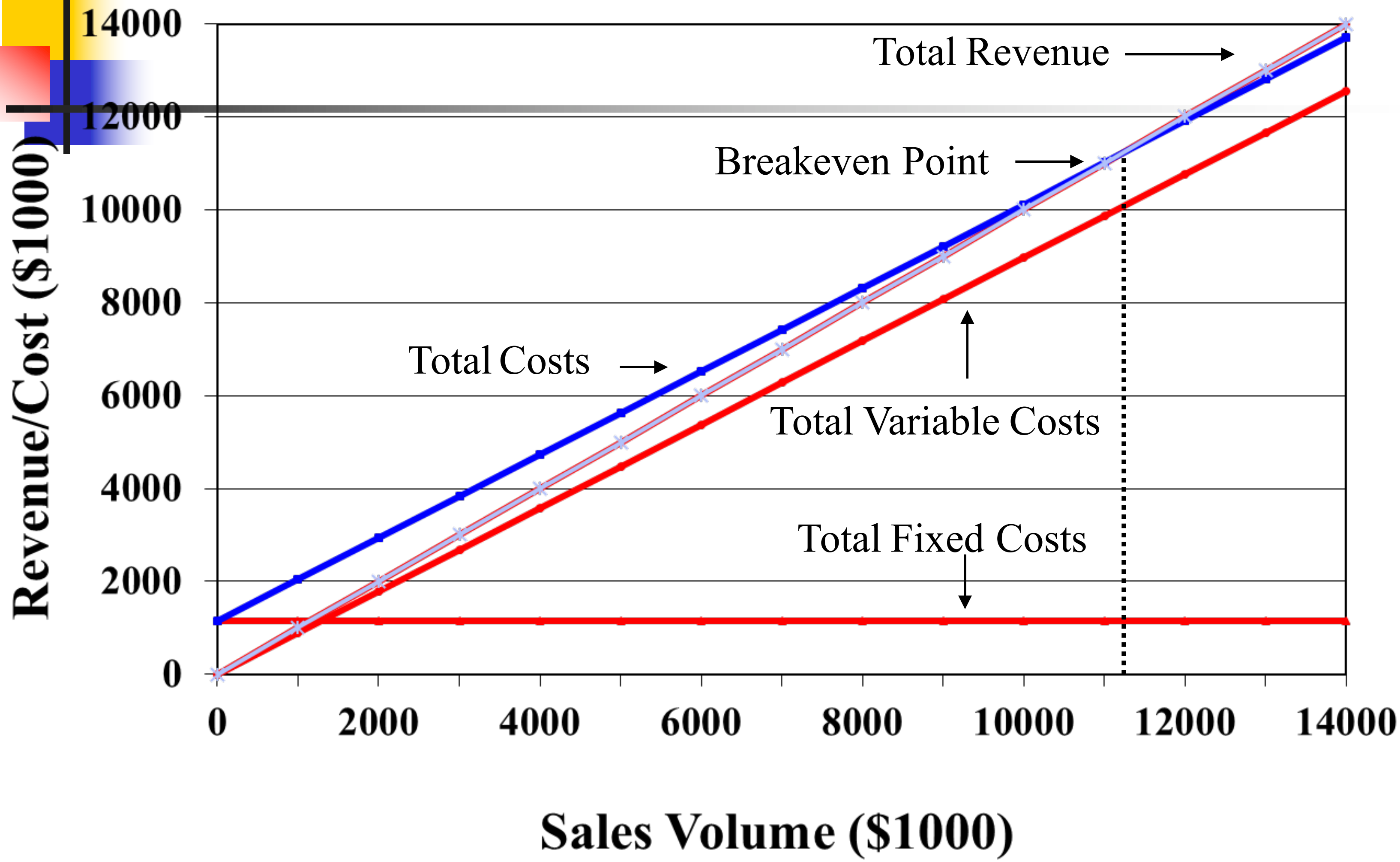
Assumptions of Volume–Cost Analysis

1. Fixed costs are constant
2. Efficiency is unchanged
3. Input prices are fixed
4. Product mix is constant
5. Selling price is unchanged

Uses of Volume–Cost Analysis

- Profit planning
- Impact of changes in costs
- Impact of changes in price

Figure 12.7 Volume–Cost Relationships, Brookstone Feed and Grain Company



Summary

- Decision-making
  - Identifying the problem
  - Summarizing facts
  - Identifying and analyzing alternatives
  - Taking action
  - Evaluating results

Summary

- Decision-making
- Volume–cost analysis or Breakeven
  - Data
    - Fixed costs
    - Variable costs
    - Price per unit
  - Calculation
    - Units
    - Dollars

Summary

- Volume–cost analysis: Uses
  - Breakeven point
  - Changes in costs
    - Fixed
    - Variable
  - Profit planning
  - Changes in price