

**FEASIBILITY STUDY ON A BRAND
EXTENSION WITHIN AGRIGOLD**

by

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ABSTRACT

Companies must continue to find ways to not only access new customers, but also better serve and increase loyalty with the current customers they already serve. In an effort to increase customer retention and satisfaction, while improving the company's bottom line, this study looks at a possible brand extension with AgriGold, a seed company based in Southern Illinois. This study will analyze the feasibility of AgriGold extending its corn-only focus into the soybean market in order to capitalize on the current strength of the U.S. soybean market. The soybean market has drastically evolved over the past several years due to the introduction of several new technologies to increase and preserve yield; in some areas of the U.S., soybeans are now the preferred crop over corn.

Through the theory of brand extension and based upon the projected logistics and financial benefits, a recommendation is made for the AgriGold brand. Both internal survey results and financial analysis are used to analyze such an extension. In an expanding soybean acre market and a contracting corn acre market in the US, this study may prove to suggest one of the most important strategic moves in AgriGold's history.

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CHAPTER I: INTRODUCTION

Since 1979, AgriGold has held a unique position in the marketplace by focusing only on hybrid seed corn and establishing itself as the "Corn Specialist". The company has grown from a 50,000 unit (bag) seed company to roughly 1,000,000 units (bags) of corn and solidified a strong position in the marketplace. Detailed in this thesis, a plan will be defined to research the market feasibility of the AgriGold brand adding a soybean seed offering to its current hybrid corn seed-only offering.

As the largest seed corn brand under the AgReliant Genetics LLC umbrella, see Figure 1.1, the feasibility of expanding AgriGold's current product offerings to the marketplace is considered.

Figure 1.1: AgReliant Genetics, LLC Corporate Structure



Source: AgReliant Genetics, LLC 2014

The decision to expand has grown from the analysis that AgriGold may be able to achieve the following objectives by making such a strategic move: 1) Take advantage of the roughly 13,000 corn customers across the U.S., 2) Protect AgriGold's competitive position on growers by eliminating customers' need to look to other brands for soybeans, 3) Capitalize on a shrinking corn acre market, with an increasing soybean acre market, 4)

Provide an additional service to a growing customer base, and 5) Increase company revenues and profitability.

At the same time these objectives are being considered, the brand must not to deviate or lose focus on a very profitable corn offering. The difficulties associated with adding a soybean line can be immense and could possibly derail a successful model in the industry that AgriGold has spent more than 35 years developing. Included in this thesis will be an analysis of the financial metrics needed to overcome the economic hurdles of adding a soybean line. In addition to the financials of such a strategic move, customer need and whether or not the market can absorb an additional national soybean brand will be analyzed. The research associated with this study was derived from industry experts, internal customer surveys, corporate financials, conversations with AgriGold's sister brands that currently offer corn and soybeans and company employees and staff. In conclusion, this thesis research will generate a recommendation for AgriGold further investigating a soybean offering.

CHAPTER II: LITERATURE REVIEW

The row crop seed industry, specifically the soybean seed market, has been an ever-evolving marketplace since the mid-1950s. Within this literature review, a brief history and marketplace analysis of the soybean seed industry, from the beginning of the modern soybean seed era, will be presented in detail. It will be organized by drawing attention to the history of the industry, the industry today, future product/technology introductions, and finally ending with market opportunities.

2.1 U.S. Soybean Seed Industry - PAST

The first plantings/origins of the soybean plant have been traced back to Northern China in roughly the 11th century B.C. Since then, the soybean has slowly spread across most growing regions around the globe. Most of this spread can be related to global unrest as armies of the world battled for control. As lands and people were defeated or overtaken, the many uses of the soybean plant were discovered- much of it by western civilization.

The first written use of the word “soybean” in the U.S. can be traced back to 1804. It is believed that the soybean was first introduced to the American colonies in 1765 as "Chinese vetches" or herbal plant medicines. It wasn't until 1879 that the first U.S. University began to study the soybean plant. Records show that Rutgers Agricultural College in New Jersey was the first. Originally, the soybean plant was used and studied primarily as a forage crop in the U.S., rather than harvesting it for its seed.

The adoption and spread of the soybean plant from its early planting in the eastern U.S. was very slow. In 1924, there were only 1.8 million acres of soybeans planted in the U.S. -primarily in the east -and most of those acres were devoted to forage uses. It was not until World War II and the disruption of the global edible fats and oils market that the U.S.

began to look for domestic alternatives. That alternative turned out to be oil products produced from the soybean. The soybean was quickly adopted by U.S. growers, as it offered an immediate market with demand and it also worked as a rotated crop with corn. Post WWII and into the 1970s, production exploded, and at one point, the U.S. planted 75% of the world soybean crop (Lance Gibson and Garren Benson 2005).

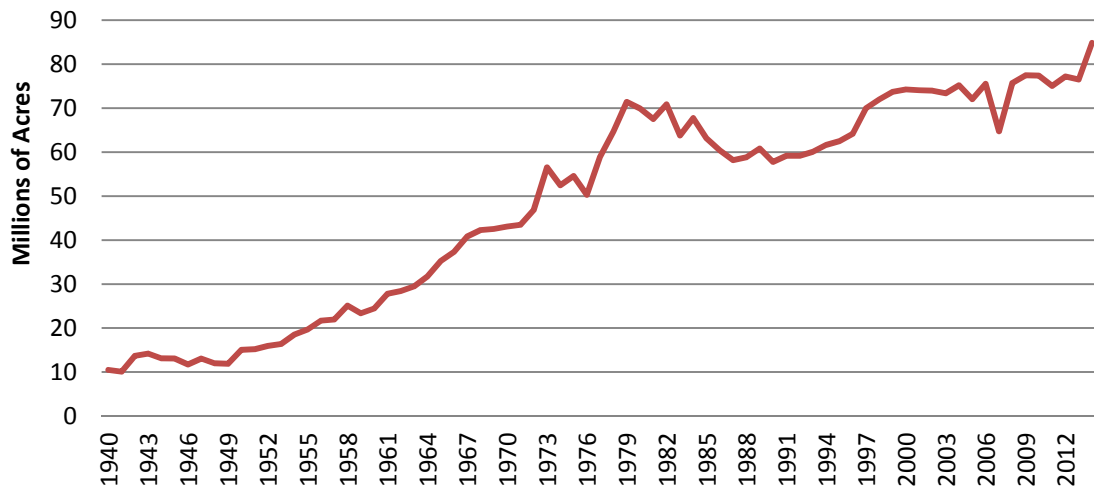
As acres increased, so did the demand for seed to plant soybeans acres. Most farm families saw this as a huge opportunity and began building companies by the hundreds across the South and Midwest to clean on-farm raised soybean seed. Since the late 1940s, many of the early seed companies transitioned from seed cleaning service-oriented businesses to eventually offering their own private labeled brands. Through growth, consolidation and the globalization of the seed industry, these initial family companies have evolved into the soybean seed industry we know today.

The biggest change to affect the soybean industry and farming practices in the last 50 years was the commercial introduction of Roundup Ready soybeans by Monsanto in 1996. This herbicide resistant product, once sprayed with Roundup Ready herbicide, controlled weeds in growers' fields unlike anything before. It also created a new revenue stream for seed corn companies by adding an additional technology fee on top of the traditional base genetic fees. This significant development in seed technology for the industry increased yields and profits, not just for the growers, but also for seed companies.

2.2 U.S. Soybean Seed Industry – TODAY

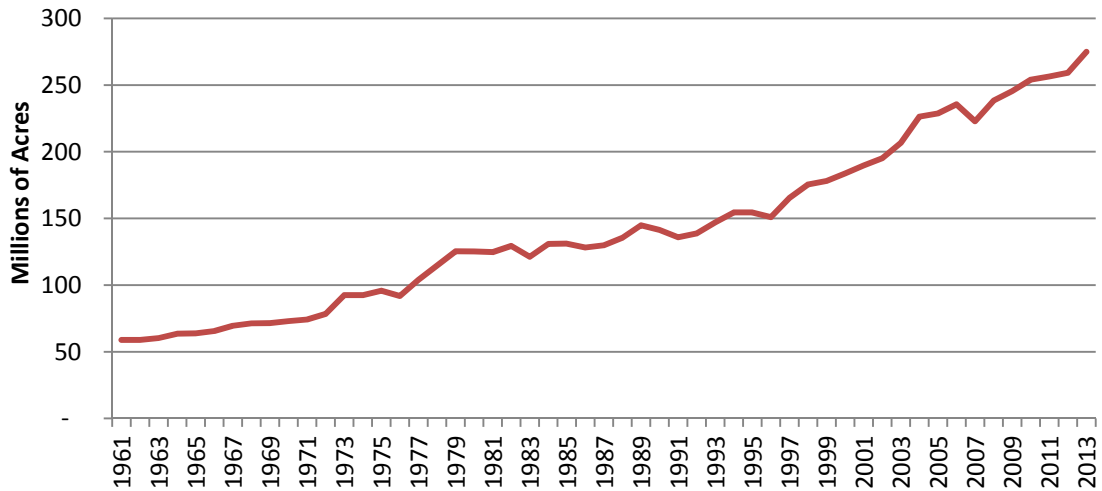
Since the 1970s, the soybean industry has continued to evolve at a very rapid pace, both in the U.S. and worldwide. More than 70 million acres of soybeans have been added to U.S. total production since 1940 (Figure 2.1). Figure 2.2 details the global growth in global harvested soybean acres since 1961. This growth has afforded domestic and global seed companies with profit and expansion opportunities.

Figure 2.1: U.S. Planted Soybean Acres from 1940 to 2014



Source: USDA 2014

Figure 2.2: Global Harvested Soybean Acres from 1961 to 2013



Source: Food and Agriculture Organization of the United Nations 2014

Today, the U.S. seed market, including corn and soybean seed, accounts for annual sales of \$13 billion. Those sales are primarily controlled by the following 5 companies: Monsanto, DuPont Pioneer, Dow AgroSciences, Syngenta and AgReliant Genetics (Sara Schafer 2013). The industry is as complex as ever and is a delicate combination of genetics, sales/innovation, trait sales/innovation and marketing, with Monsanto being the leader in trait innovation with its industry leading Roundup Ready resistant products. It is estimated today that 93% of the soybean seed planted in the U.S. contains one or more of Monsanto's genetically modified traits (Organic Consumer Association 2013).

Even though five companies control a large portion of the U.S. market, most of them, specifically Monsanto, have all been willing to license their genetics and traits to other companies for a royalty fee. The business of issuing licensee rights to other companies has spurred and cultivated a robust seed market made up of many companies of all types and sizes aggressively positioning for the U.S. farmer's attention. In 2009, there were roughly 183 soybean seed brands in the U.S. market offering 2,126 different varieties

(Monsanto 2009). For example, a soybean grower in central Illinois could have as many as 20+ seed companies calling on him/her during the selling season. This magnitude of choices has created many unique markets that has made the seed industry viable, competitive and strong for the last 75+ years.

2.3 U.S. Soybean Supply/Demand

For 2014/15, U.S. soybean production is projected at 3,800 million bushels, up 165 million, due to the addition of harvested acres. The harvested area is roughly 84 million acres with an estimated yield of 47.8 bushels per acre, as of January 12, 2015 (USDA 2015). With record acres and yields and strong global export competition, it is expected that projected ending stocks could be at the highest levels seen since 2006/07. With increased acres and supply, soybean commodity prices saw a reduction this year. The 2014 harvest price is estimated between \$9.50 to \$11.50 per bushel (USDA 2015). As in the U.S., global production of soybeans is projected to be a record 304.8 million tons, up 4.8 million from last year, primarily because of additional U.S. production (USDA 2015).

In 2013/14, the soybean crush market increased 25 million bushels from previous estimates to 1,725 million due to both increased feed use and an increase in exports (USDA 2015). Total exports for the 2013/14 year are expected to be 1,620 million bushels, up 20 million from previous estimates. Seed use is also up as well, leading to an estimated ending 2013/14 Est. stock figure of 140 million bushels, up 15 million (USDA 2015). In Table 2.1, the detailed current U.S. soybean supply and use calculations as of July 2014 are illustrated.

Table 2.1: Current U.S. Soybean Supply and Use

SOYBEANS	2012/13	2013/14 Est.	2014/15 Proj. June	2014/15 Proj. July
			<i>Million Acres</i>	
Area Planted	77.2	76.5	81.5	84.8
Area Harvested	76.2	75.9	80.5	84.1
			<i>Bushels</i>	
Yield per Harvested Acre	39.8	43.3	45.2	45.2
			<i>Million Bushels</i>	
Beginning Stocks	169	141	125	140
Production	3034	3289	3635	3800
Imports	36	85	15	15
Supply, Total	3239	3515	3775	3955
Crushings	1689	1725	1715	1755
Exports	1320	1620	1625	1675
Seed	89	99	92	92
Residual	1	-69	18	19
Use, Total	3099	3375	3450	3541
Ending Stocks	140	140	325	414
Avg. Farm Price (\$/bu)	\$14.40	\$13.00	\$9.75 - \$11.75	\$9.50 - \$11.50

Source: Service/USDA 2014

In addition to the domestic supply and use, Table 2.2 details the global supply and demand picture for soybeans across the globe. As in the U.S., the global soybean supply is also increasing, with a 2014/15 projected ending stocks of 82.88 million metric tons. As seen in the past, global supplies may be pushed up and prices down if use cannot keep up with supply and production.

Table 2.2: World Soybean Supply and Use

2012/13	Beginning Stocks	Production	Imports	Domestic Crush	Domestic Total	Exports	Ending Stocks
Global*	53.4	267.98	95.71	229.56	259.74	100.65	56.84
U.S.*	5.69	82.57	0.98	45.97	88.15	35.92	3.81
2013/14 Est.							
Global*	56.84	283.87	108.2	240.55	270.05	111.64	67.24
U.S.*	3.84	89.51	2.31	49.95	95.66	44.09	3.81
2014/15 Proj.							
Global*	67.17	299.99	108.68	248.45	280.63	112.33	82.88
U.S.*	3.81	103.42	0.41	47.76	107.63	45.59	11.27

**Million Metric Tons*

Source: Service/USDA 2014

2.4 Future Product/Technology Introductions

The future of product and technology introductions in the soybean market is immense. With Monsanto's Roundup Ready 2 Yield trait products becoming the industry standard, Monsanto's recent licensing agreements with DuPont Pioneer, Dow AgroSciences and Bayer gives all the major companies access to this technology. In addition to the rapid market acceptance of Roundup Ready 2 Yield products, Monsanto is also expected to launch their newest trait platform, to be known as Roundup Ready 2 Xtend traited soybean seed products. The market is awaiting the 2016 commercial launch of Monsanto's Roundup Ready 2 Xtend products, which combine the glyphosate resistance with that of Dicamba resistance. This combination will greatly improve weed kill and that too of glyphosate resistance weeds, such as waterhemp, marestail and palmer amaranth.

Weed resistance has become the buzz term around the industry and will probably drive much of the soybean seed innovation in the future. In addition to trait innovations, the soybean market today has seen massive acceptance and success from seed applied insecticide and fungicide treatments. These products help improve emergence, seed vigor

and protect the seed from early yield robbing pests. With the advent of newer systemic fungicides and insecticides, the global sales for these treatments has more than tripled from \$700 million in 1997 to \$2.25 billion in 2010, and they are estimated to reach \$3.4 billion in 2016 (Betts 2014). These products have become a strong source of revenue for seed companies.

2.5 Market Opportunities

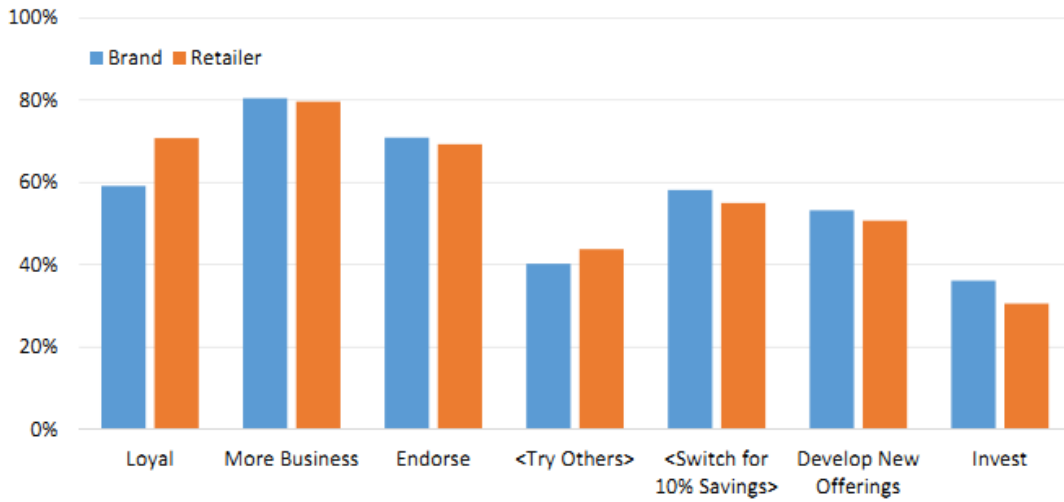
In the U.S., the row crop industry is primarily driven by corn acres. With continued pressure on corn acres due to over production and lower global demand and the increasing costs associated with planting corn, the move to soybeans may be the best option for many domestic growers. At the same time, the move to more advanced soybean seed products has pushed soybean acres to a point where the acre planted to soybeans can compete with corn acres on potential profit. In addition, extreme growing conditions have proven to be very challenging for many types of row crops, especially corn. In these challenging environments, soybeans have proven to be a more stable option, especially when considering the current commodities markets and the decreasing value of products, such as corn, cotton and wheat.

With a seemingly insatiable worldwide demand for soybeans to feed a growing middle class, there appears to be no end to domestic soybean acre growth. In addition, the advent of new soybean seed technologies, such as Roundup Ready 2 Xtend, has created an opportunity for prospective companies to enter the market. These additional technologies have also created new or improved revenue streams for companies to capitalize on outside of the traditional base genetic revenue streams. Like the corn and cotton industry that have

for years profited from new advanced technologies, today soybeans offer similar revenue streams.

The opportunities today rely on several key offerings that must be considered before entering a new market: service, product offering choices, delivery options, package type and value messaging. The companies that plan to grow their market share and customer numbers will master many, if not all, of these crucial customer buying drivers to gain their confidence and ultimately their business. The keys to success for companies are differentiation and the ability to separate a brand or company offering from the sea of other soybean seed brands. In a recent grower study conducted by Purdue University, researchers found that growers purchase items for many different reasons, including their age, operation size and personality type (Center for Food and Agricultural Business 2013). This study detailed that there is still much opportunity out there for companies, as long as they understand their customer base and deliver on what the customer is demanding. Even though the seed industry is known for its loyal customer base, Purdue's study showed that many growers, though loyal, are willing to try other or new seed brands if a differentiated offer is made. Figure 2.3 shows that of the more than 1,600 growers surveyed, 40% are willing to try a new seed brand and almost 60% are willing to switch for a 10% savings in seed costs.

Figure 2.3: Seed Loyalty by Brand & Retailer



Source: Center for Food and Agricultural Business 2013

The bottom line is that companies must develop strategies that match their offerings to a focused end-customer segment with clear and direct differentiated marketing.

According to Purdue’s numbers, roughly 50% of the market is consistently looking to make a switch. The question remains: Can a clearly differentiated soybean seed option be developed to compete in an already cluttered market?

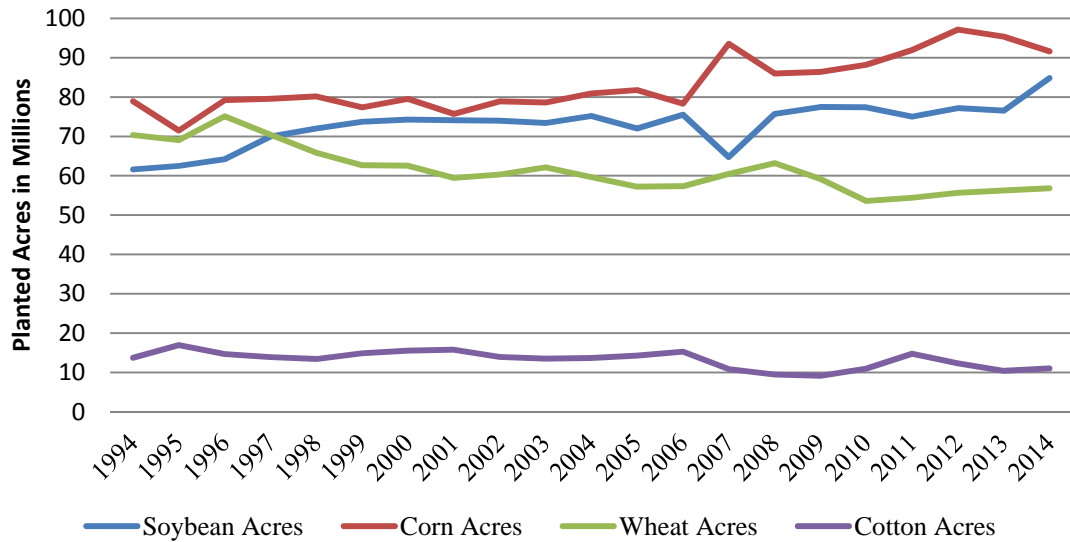
CHAPTER III: BRAND GOALS

In the following chapter, the feasibility of AgriGold adding a soybean seed product line to its current corn seed-only line up will be examined. This soybean feasibility study is being completed with the ultimate goal to only add a possible brand extension, such as soybeans, as long as it increases customer loyalty without significantly increasing AgriGold's cost of operations or loss of focus on corn sales. Meeting the following brand goals should not only assist in reaching the strategic objectives, but also generate increased customer loyalty and satisfaction:

- Increase the value provided to each and every customer,
- Limit or reduce customer turnover year over year,
- Reduce, or even eliminate, the competition presence on current growers,
- Elevate current service levels in the minds of growers and provide them with the ultimate corn purchasing experience in the industry today, and
- Increase year over year corn sales volume by 9%.

In an agricultural row crop farming market that is experiencing low commodity prices and rising input costs, the ability of today's growers to generate farm profits is being tested. Concurrently, many of today's growers are looking at their commodity rotations and are reducing their corn planting intentions in favor of soybean, cotton and wheat acres (Figure 3.1). There is a downward trend in corn acres with an upward trend in soybeans and a slightly upward trend in wheat in recent years. Much of this rotation from corn to alternative row crops is in reaction to lower commodity prices and rising input costs for corn, as compared to crops such as soybeans.

Figure 3.1: Row Crop Planted Acres from 1994 to 2014



Source: USDA 2014

When considering that AgriGold has built a reputation on offering the ultimate corn buying experience since 1979, the decision to consider the addition of other products or services must not be taken lightly. This change must supplement, even improve, its customers' purchasing intentions and position the brand more aggressively in a very competitive marketplace. An analysis of the five future goals of the AgriGold brand is made in regards to how the possibility of adding soybeans to the brand's current corn-only offering might ultimately better position the brand in the future and improve customer loyalty in a drastically changing marketplace.

Increase the value provided to each and every customer

Today, growers want simplicity and value in every purchase they make. They also want supplier relationships that are built on trust for success in every interaction they have. Ultimately, it is this trust that creates value by offering growers the advice,

services, knowledge, options and input products needed to increase their profits and revenue.

In a recent farmdocDAILY article (<http://www.farmdocdaily.illinois.edu/>), Gary Schnitkey ran the numbers on farm inputs verses current commodity prices and applied it to growers' current crop rotations (Schnitkey 2014). The chart below shows that at \$3.80 corn and \$9.75 soybeans, current farm economics are favoring soybeans over corn.

Table 3.1: 2015 Crop Budgets

2015 Crop Budgets, Central Illinois - High Productivity Farmland				
	Corn-after-Soybeans	Corn-after-Corn	Soybeans-after-Corn	Soybeans-after-2 Years of Corn
Yield per acre	199	189	57	59
Price per bu	\$ 3.80	\$ 3.80	\$ 9.75	\$ 9.75
Crop revenue	\$ 756	\$ 718	\$ 556	\$ 575
ARC/PLC	\$ 20	\$ 20	\$ 20	\$ 20
Crop insurance proceeds	\$ -	\$ -	\$ -	\$ -
Gross revenue	\$ 776	\$ 738	\$ 576	\$ 595
Fertilizers	\$ 148	\$ 158	\$ 49	\$ 49
Pesticides	\$ 60	\$ 66	\$ 40	\$ 40
Seed	\$ 124	\$ 124	\$ 78	\$ 78
Drying	\$ 23	\$ 22	\$ 1	\$ 1
Storage	\$ 5	\$ 5	\$ 4	\$ 4
Crop insurance proceeds	\$ 27	\$ 27	\$ 18	\$ 18
Total direct costs	\$ 387	\$ 402	\$ 190	\$ 190
Machine hire/lease	\$ 11	\$ 11	\$ 9	\$ 9
Utilities	\$ 5	\$ 5	\$ 4	\$ 4
Machine repair	\$ 25	\$ 25	\$ 22	\$ 22
Fuel and oil	\$ 24	\$ 24	\$ 21	\$ 21
Light vehicle	\$ 2	\$ 2	\$ 1	\$ 1
Machine depreciation	\$ 69	\$ 69	\$ 63	\$ 63
Total power costs	\$ 136	\$ 136	\$ 120	\$ 120
Hired labor	\$ 18	\$ 18	\$ 16	\$ 16
Building repair and rent	\$ 8	\$ 8	\$ 5	\$ 5
Building depreciation	\$ 7	\$ 7	\$ 11	\$ 11
Insurance	\$ 10	\$ 10	\$ 10	\$ 10
Misc	\$ 8	\$ 8	\$ 8	\$ 8
Interest (non-land)	\$ 11	\$ 11	\$ 10	\$ 10
total overhead costs	\$ 62	\$ 62	\$ 60	\$ 60
Total non-land costs	\$ 585	\$ 600	\$ 370	\$ 370
Operator and land return	\$ 191	\$ 138	\$ 206	\$ 225

Source: Schnitkey 2014

The return on corn of \$191 per acre on corn-after-soybeans and \$138 per acre for corn-after-corn is \$300 per acre on average less than it was in 2009-2013. This change in the

return on corn is due to the drop in commodity prices since 2013. This is causing a trend towards more soybean acres, even across the higher producing areas of the Corn Belt, such as central Illinois, where growers estimate \$15 to \$87 more profit per acre when rotating into soybeans. In the past, the combination of high yield corn genetics, advanced traits, and improved seed treatments gave corn a consistent advantage over beans. Now soybeans are catching up or even surpassing corn (Table 3.1).

One could argue that customers may be making the soybean choice because of simple farm economics. As a corn seed-only company, AgriGold is limiting its service and product options to growers making this choice. However, potentially, a current customer of AgriGold who is rotating to soybean acres and away from corn will look to another supplier other than AgriGold to meet those seed needs. In a changing farm economy, AgriGold must find a way to limit customers who rotate away from AgriGold looking for other products or services.

Limit or reduce customer turnover year over year

A key goal for every seed company is to increase customer numbers year over year. To do so, a company such as AgriGold must be able to limit the number of customers leaving the brand. According to the U.S. Small Business Administration and the U.S. Chamber of Commerce, the following are most common reasons for customers ending a relationship with a company or brand (Focused Marketing 2006):

- 68% perception of non-caring,
- 14% dissatisfied with product or service.
- 9% begin doing business with the competition,

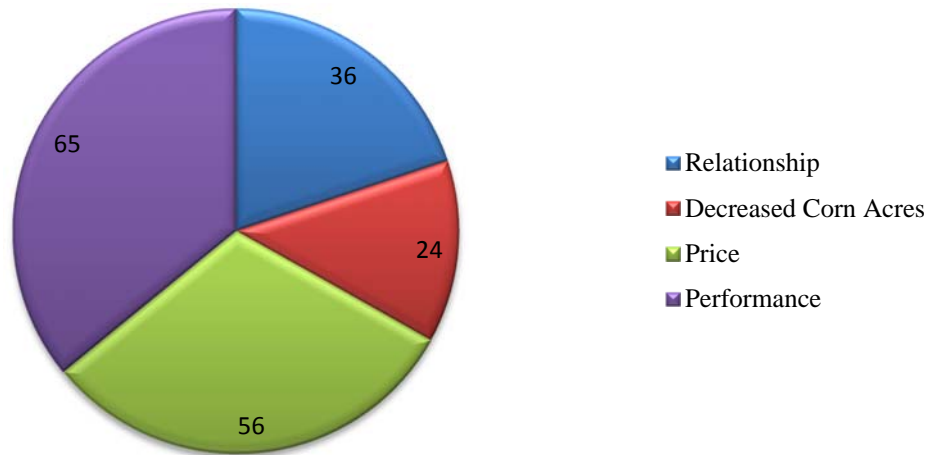
- 5% seek alternatives or develop other business relationships,
- 3% move away, and
- 1% die.

These figures may apply to agricultural input suppliers. In an effort to decrease the percentage of customers who leave because they have “perception of non-caring,” companies can train their employees with communications, sales training meetings and employee engagement. Handling those who were “dissatisfied with product or service” can be done by setting clearer product expectations, communications and thorough employee training. It may be possible to eliminate the loss of customers due to competition or alternative-seeking by adding a product extension to the brand, such as soybeans. In the current business environment, the AgriGold brand could see roughly 14% of its customers move away in order to seek a relationship with another brand to seek out other products, such as soybeans. With roughly 13,000 total current customers, 7,000 of those being direct accounts accounting for 70% of AgriGold’s corn volume and the brand’s primary avenue to the market place. In addition the brand has 6,000 customers of legacy dealers accounting for the remaining 30% of the brand’s corn volume. With an average turnover of 1,250 customers per year, 175 of those may be leaving because they are looking for products not offered by AgriGold.

In an internal survey conducted in the fall of 2013, AgriGold interviewed 181 previous customers, asking for specific reasons that they chose to leave the brand. Figure 3.2 represents the four main reasons customers left the brand: “Performance”, “Price”, “Relationship”, and “Decreased Corn Acres”. Figure 3.3 shows the breakdown of volume lost from those customers. Of particular note is that 24 customers left because of

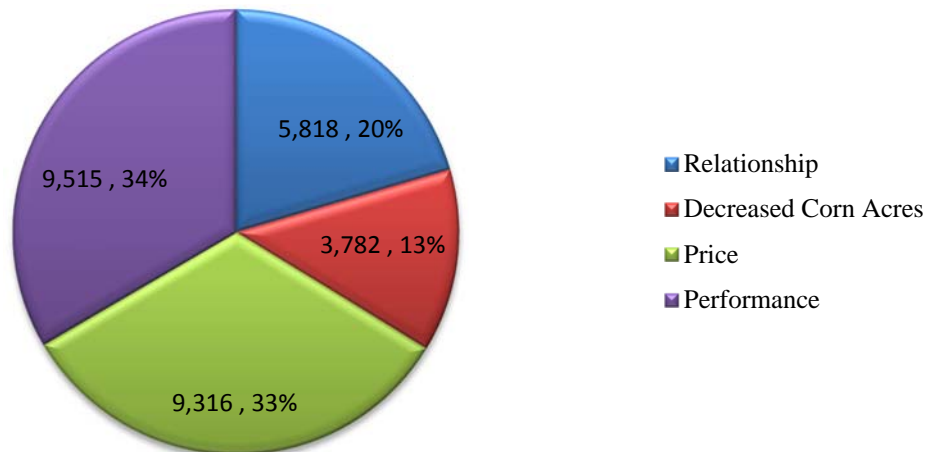
“Decreased Corn Acres,” which accounted for 3,782 units, or roughly 13%, of the total lost units of the customers surveyed. This loss of customers due to decreasing corn acres is something that the brand had not seen before, at such an alarming rate.

Figure 3.2: AgriGold 2013 “Number of Lost Customers by Reason” Survey



Source: AgriGold 2013

Figure 3.3: AgriGold 2013 “Volume Lost by Reason” Survey



Source: AgriGold 2013

AgriGold's internal survey results were similar to the results presented by the U.S. Small Business Administration and the U.S. Chamber of Commerce. Compared to the 14% leaving for other brands or looking for alternative products, AgriGold saw 13% of its customers leave the brand due to the decline in corn acres. It is no surprise that performance and relationships rank high on the list, but those are both items that can be controlled and reduced internally without the effects of the crop rotations.

Reduce, or even eliminate, the competition presence on our current growers

Limiting competitive pressures on each and every account is extremely important to the AgriGold brand. AgriGold shares most of its 13,000 customers with other brands, because of its limited product offerings. Through the direct approach to corn-only sales, AgriGold has been brand differentiating its strategy for the last 35+ years, as it is now one of the last seed companies to offer only one product direct-to-the-farm. With roughly a 2.6% share of the corn market, AgriGold must protect its on-farm presence- even if it includes looking at adding products such as soybeans.

Elevate our current service levels in the minds of growers and provide them with the ultimate corn purchasing experience in the industry today

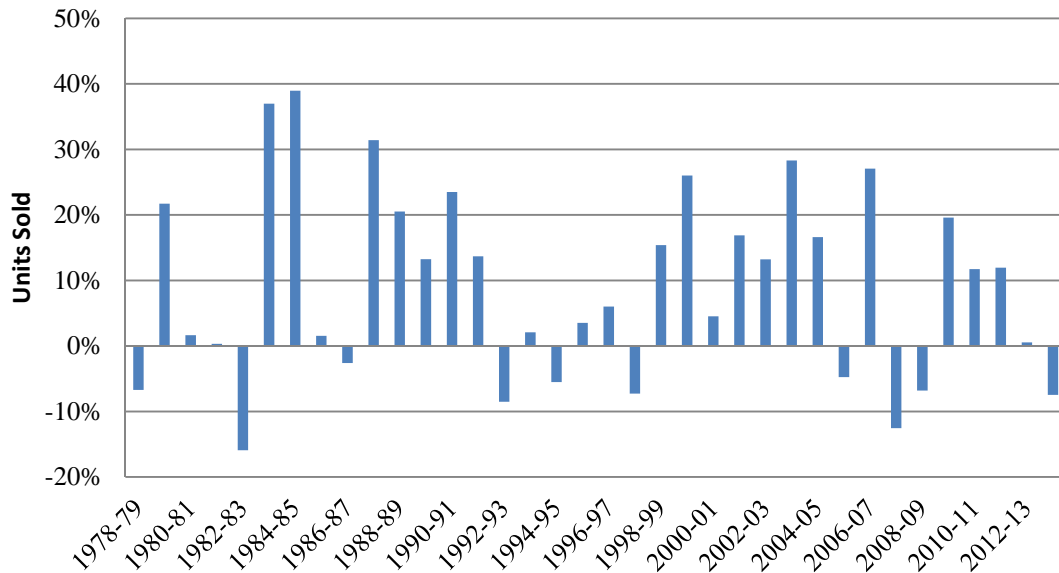
In an industry full of excellent competitors and top notch seed companies, the service that AgriGold offers its customers is one of the brand's key differentiators. With growers looking for a reason to leave a brand or to look for other options, it is of the highest priority that AgriGold offers its customers and prospects unmatched service. Today AgriGold's primary farm gate goal is to offer growers the ultimate corn purchasing experience. Simple, reliable and unmatched service with every touch point is

critical in maintaining a competitive edge in the seed industry. It is the desire for service that may lead AgriGold to offer different product lines other than corn- in order to better position the brand against competitors who offer multiple seed species, such as soybeans.

Grow year after year corn sales volume by 9%

To reach AgriGold’s ten year or long-term goal of achieving total sales of more than two million units, a year-over-year increase of 9% must be maintained for the next ten years, even in a decreasing corn acre market. Considering that the brand only holds an estimated 2.6% of the market, this is achievable as long as it can continue to attract new customers, keep its current customers and increase its volume and loyalty with current customers. Figure 3.4 is an illustration of AgriGold’s Annual Percentage Sales Growth History between the years of 1979 to 2014 in units or bags sold.

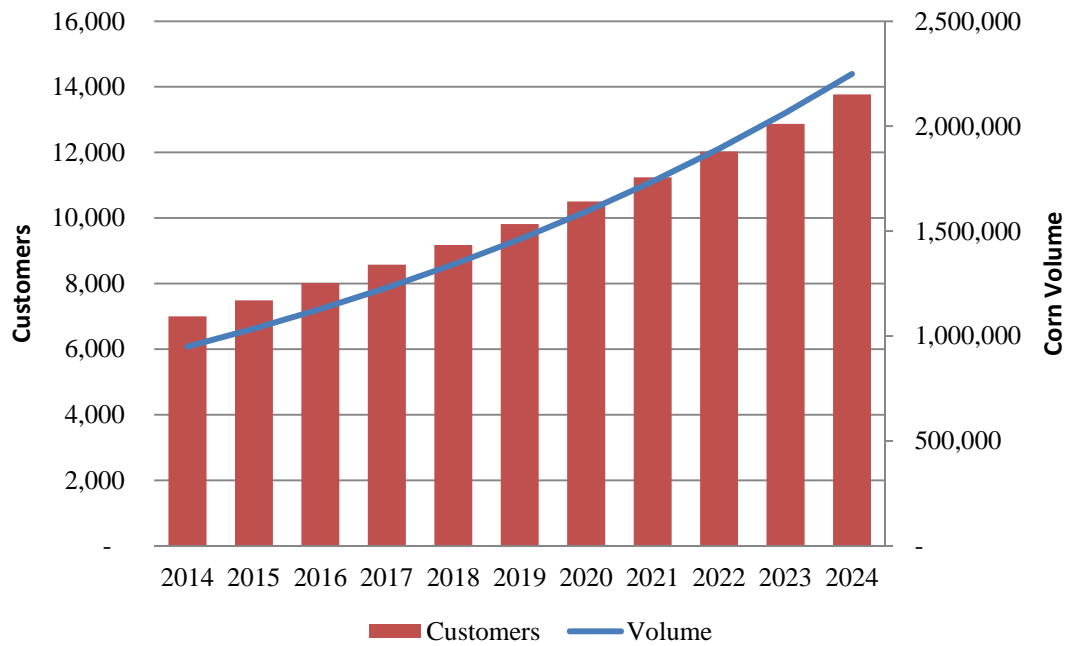
Figure 3.4: AgriGold’s Annual Percentage Sales Growth History from 1979 to 2014



Source: AgriGold 2014

Figure 3.5 depicts the brand’s ten year volume plan to achieve sales of two million units by the year 2024. It is an aggressive vision, but the brand has been able to achieve some high years of growth since its inception in 1979 (Figure 3.4).

Figure 3.5: AgriGold 10 Year Volume & Customer Projection



Source: AgriGold 2014

The question the brand is faced with now is whether the yearly growth rate that the brand has experienced in the past is feasible going forward without making modifications to both its offerings and strategy.

CHAPTER IV: THEORY

This research examines the feasibility of adding a soybean seed brand to AgriGold's current corn-only lineup. In considering such a move, this study evaluates "Brand Extensions" and how it relates to a possible move by AgriGold. AgriGold's current brand was first established in 1979 by the Akin Seed Company in Lawrenceville, IL. There are now over 35 years of brand equity that has been established, built upon and communicated to customers and prospects in more than 16 states. Can this brand equity be leveraged to establish and develop a possible soybean seed brand within the confines of AgriGold's current corn seed-only offer?

Brand equity is defined as the value premium that a company realizes from a product with a recognizable name, as compared to its generic equivalent (Investopedia 2014). It is this premium in the marketplace that AgriGold has been establishing and building upon, with its unique corn-only direct-to-the-farm approach. Today, the equity in which a brand builds is one of its most valuable assets and one that establishes its value in the marketplace. This brand equity is extremely important when any brand is considering whether or not to extend or expand its current product line.

The current brand equity of the AgriGold brand has been focused around offering customers and prospective customers a superior corn purchasing experience surrounding the branding theme of "We Know Corn". This theme has been established through a history of being the industry's "Corn Specialist." These unique branding approaches have solidified the brand's equity around the following attributes:

- 35 years of success,
- Leading supplier of high performing corn hybrids,
- A unique direct-to-the-farm sales approach,
- A history of stable ownership and management,
- A focus on value, yield and risk reduction,
- A leading alternative to the large agrochemical owned seed companies, i.e., DuPont Pioneer, Monsanto & Syngenta,
- Strong legacy of superior quality, and
- New product line extensions through new developments within the brand's corn seed offerings.

These qualities are rooted within the brand's culture, but could they be extended beyond the brand's singular focus of corn seed to soybean seed?

Market boundaries are fundamental to any successful company. Much research has been conducted, showing the importance of directing a brand to establish its marketing boundaries to differentiate itself from the competition and clearly define the market in which it plans to play (Eisenhardt 2009). Up until now, AgriGold's market has been defined as a national seed corn brand with a direct-to-the-farm approach focused purely on corn. That approach to the marketplace has led the brand to a Top 10 corn market share place in sales, according to the latest GfK Market Research Data (GfK 2014). Of those ten brands, AgriGold is the only brand that does not offer corn and soybeans combined (Figure 4.1).

Figure 4.1: 2014 U.S. Top 10 Seed Corn Market Share Companies

	Brand	2009	2010	2011	2012	2013	2014
1	PIONEER	30.1%	31.1%	30.8%	31.3%	32.4%	30.1%
2	DEKALB GENETICS CORP.	23.7%	23.1%	25.2%	25.1%	25.9%	26.5%
3	CHANNEL		3.9%	4.0%	4.3%	4.0%	4.1%
4	GOLDEN HARVEST SEED CO.	2.7%	2.3%	2.4%	1.9%	2.0%	3.7%
5	MYCOGEN	2.7%	2.6%	2.9%	2.8%	2.8%	3.6%
6	AGRIGOLD	2.3%	2.6%	3.4%	2.9%	2.6%	2.6%
7	CROPLAN GENETICS	1.9%	1.9%	1.9%	1.9%	2.0%	2.3%
8	BECK'S HYBRIDS	1.5%	1.7%	1.5%	1.9%	1.8%	2.0%
9	LG SEEDS	1.1%	1.5%	1.5%	1.5%	1.6%	1.7%
10	NK SEEDS	2.2%	2.1%	2.1%	2.1%	2.0%	1.5%

Source: GfK 2014

With such an established marketplace and footprint, the possible need to extend the brand's presence beyond corn seed must be considered. Thought must be given to leveraging both the brand's current equity and its current customer base and distribution channels to access a new market by extending the brand beyond its current established market boundaries.

The term "Brand Extension" was coined in 1979 by Edward M. Tauber to describe using the leverage of a well-known brand name in one category to launch a new product in a different category (Brand Extension Research 2014). Brand Extension Research has also established a list of 10 Principles of Brand Extensions, as follows (Brand Extension Research 2014):

10 Principles of Brand Extensions

1. "Brands should not be extended unless they are well-known, have high awareness and a good reputation among the new target market."
2. "Brand extensions must be a logical fit with consumers' expectations."
3. "Brand extensions must have leverage in the new category – a transfer to the new product of a distinctive property associated with the parent brand that gives the brand extension an edge in the new category." The test: "Just knowing the brand

name, customers of the new category should be able to identify a reason why they might prefer the new brand extension to existing competition.”

4. “Brand extensions that could create confusion or a negative image for the parent should not be undertaken.”
5. “Brands that consumers use synonymously with a category (generic) should not be extended to other categories.”
6. “Brands should not be stretched to too many diverse categories risking dilution in the long run.”
7. “Brand extensions that will not create positive synergy for the parent brand should not be pursued.”
8. “Brand extensions must make business sense.”
9. “Every brand extension should open a category for the firm. The whole point of brand extension is to efficiently and successfully enter a new category.”
10. “A critical part of every brand extension research study is developing a brand plan. Short and long term possibilities should be identified up-front.” (Brand Extension Research 2014)

With the following brand extension examples, it should become evident that a brand such as AgriGold may have a similar opportunity in the current seed marketplace of the U.S. (Brand Extension Research 2014).

Brand Extension Examples

Dole has a long established brand, with products such as canned pineapple slices, pieces, juice, and some other commodities such as bananas, mushrooms, melons, etc. Yet today’s consumer, when asked about Dole, primarily equates the brand to pineapples. It

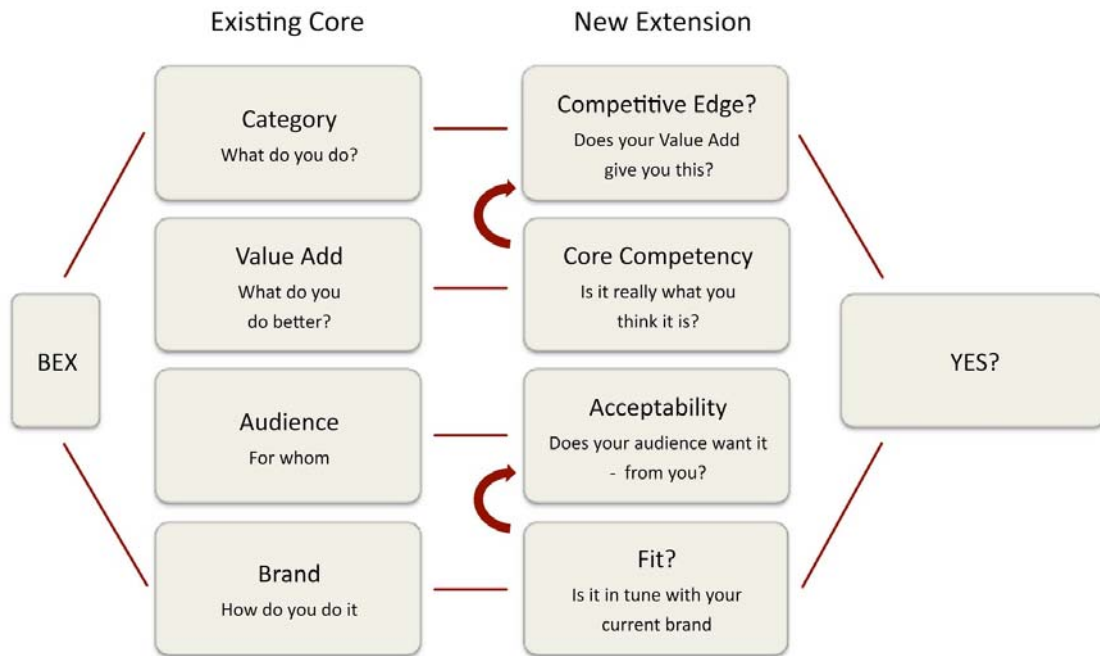
was that brand recognition that was tied to places and feelings reminiscent of sunshine, Hawaii, and an outdoor life style, that made its brand a candidate for possible extensions. Out of those ties came product extensions such as: Dole Frozen Fruit 'N Juice Bars, Dole Fruit Sorbet, Dole Fruit 'N Cream Bars, Dole 100% Refrigerated Pineapple Breakfast Juice (and other blends, such as pineapple orange) and Dole Whole Fruit Coolers (Brand Extension Research 2014).

Nestlé's Carnation, which is known for evaporated milk, has successfully expanded into product extensions such as baby formula and baby food. Clorox, known for its brand recognition in the liquid bleach market, has expanded into complete household cleaning supplies to capitalize on the loyal brand following that Clorox has established over the years. Orville Redenbacher has extended its presence from bagged popcorn into ready to eat snack foods. Starbucks has introduced products such as the Verismo coffee machine to capitalize on the equity of its branded coffee stores for the at-home coffee drinker. Martha Stewart, building on her well-established brand following, created the Martha Stewart Home Collection of products, which includes bathroom accessories and bedding. The Tide Pen is an example of an on-the-go stain cleaning product built on the long history and great reputation Tide has enjoyed in the laundry detergent market (Brand Extension Research 2014). Finally, according to Time Magazine, the all-time best brand extension came in 1982 when Coca Cola introduced Diet Coke. Diet Coke was the first new product since 1886 to use the Coca-Cola trademark. In 2012, Diet Coke passed Pepsi to become the second-most popular soda in the U.S., behind Coke (Belsky 2012). All of these extensions successfully accessed

additional market space by utilizing brand loyalty and the extendibility of a well-established brand.

AgriGold must consider the idea of a “category extension” or the movement into a totally new category market (Mass 2012). In Chapter 5, the opportunity to enter the soybean seed market through an extension of the AgriGold brand will be analyzed using the 10 Principles of Product Extension, as explained by Brand Extension Research, and by looking at it through the lens of the BEX Model designed by Joanna Allen, CD at Savvy & Victor. Allen created this model (Figure 4.2). In her words, "I developed this model to help evaluate and determine the direction clients should take if considering expansion into a new category, e.g. a new product or service. It mainly aims to establish the core capability of the existing brand to give our clients a competitive edge within their new area of development. It also incorporates the audience perspective, which often, can be quite different to the organizations." (Savvy & Victor 2010)

Figure 4.2: BEX (Brand Extension) Model



Source: Savvy & Victor 2010

Considering the brand that AgriGold has built over the last 35+ years, there is a lot riding on the introduction of a new branding and product introduction. The decision to extend a successful brand into a new product category must be made based on sound business theory and decisions to: ultimately improve customer loyalty, provide additional value for customers and prospects, increase sales and market share of its core business of corn seed and improve revenues for all stakeholders within the organization.

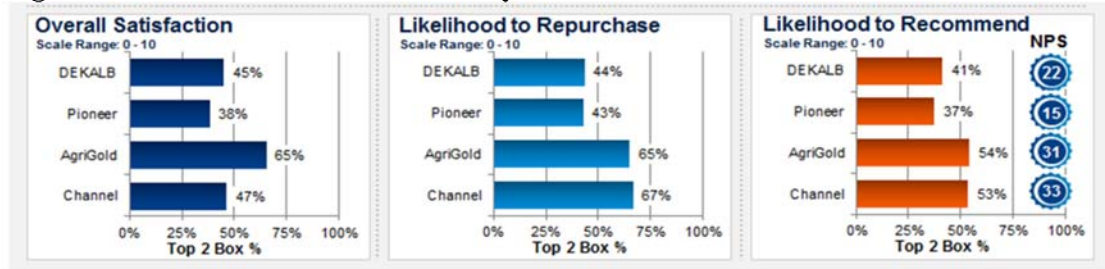
CHAPTER V: THEORY APPLICATION

As mentioned in the Theory section, the term “Brand Extension” was coined by Edward M. Tauber in 1979 to describe using the leverage of a well-known brand name, such as AgriGold, in one category, to launch a new product in a different category (Brand Extension Research 2014). Applying the 10 Principles of Brand Extensions, as designed by Brand Extension Research, should offer some indication of whether the AgriGold brand should extended its brand presence into the soybean seed market. The 10 Principles of Brand Extensions as applied to AgriGold:

1. Brands should not be extended unless they are well-known, have high awareness and a good reputation among the new target market.

Today the AgriGold brand is one of the most recognized seed brands in the industry. With more than 35+ years of brand development and expansion, the brand is one of the Top 10 seed corn brands in the U.S., according to a recent survey conducted by GfK Market Research Data. In addition, GfK’s data, has shown the AgriGold brand to have a very high overall satisfaction rating, a high likelihood to repurchase rating and a very high net promotor score (NPS), as compared to its key competitors (Figure 5.1). This brand satisfaction survey indicates that growers and customers have a brand perception and awareness level of AgriGold at or above its key industry competitors, such as Dekalb, Pioneer and Channel.

Figure 5.1: Brand Satisfaction Survey



Source: GfK 2014

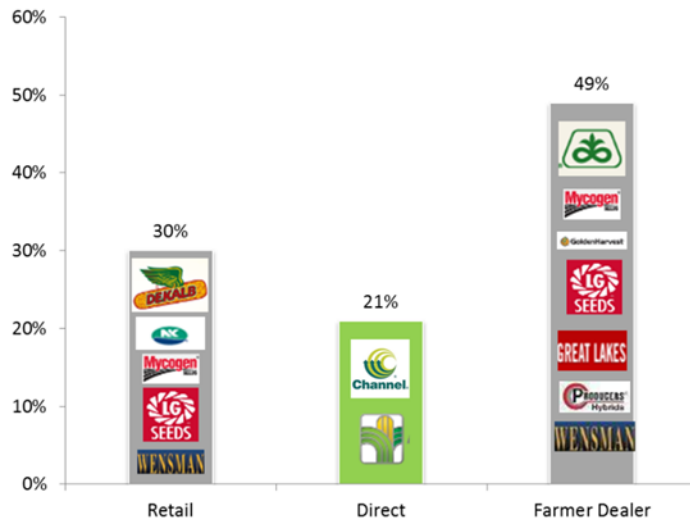
2. Brand extensions must be a logical fit with consumers' expectations.

In today's seed marketplace, most seed brands offer a diverse high yield lineup of multiple seed products. Actually, AgriGold is the only Top 10 corn company in the industry to not offer soybeans along with corn. According to an internal AgriGold customer intentions survey completed in October of 2014, soybean seed was the only other seed product mentioned by current customers when asked: If there was one thing (product or service) that is currently not being offered to you by AgriGold that would make your job easier as a farmer or improve your performance, what would it be? Out of 127 responses to the question, 9 current customers responded with the answer "soybeans". Even though this number might be considered low, this was an unaided question that led several customers to mention soybeans. If the question had been aided with select answers, the response rate for soybeans would likely have been higher.

3. Brand extensions must have leverage in the new category – a transfer to the new product of a distinctive property associated with the parent brand that gives the brand extension an edge in the new category.

Much like AgriGold's direct-to-the-farm focus on corn sales, a possible brand vision for soybean seed sales is simply based around a tactic of going direct-to-the-farm with complete corn and soybean seed offerings, which is unique when considering how others in the seed industry go to market. AgriGold's approach to the marketplace is seen to be distinct (Figure 5.2). This direct approach has increased its communication, loyalty and relationships with its customers by eliminating the dealer network that many companies rely on. It has been estimated by AgReliant Genetics, LLC that 79% of the market is interested in purchasing their seed through some sort of reseller network, where as much as 21% of the market would rather purchase direct from the manufacture. According to GfK data, AgriGold only has about 2.6% market share of the 21% of the market that prefer to purchase seed direct from seed companies (GfK 2014). From a national seed brand perspective, AgriGold is one of only two brands in this category, for corn seed sales. Channel is the other, and many would argue that they are actually going to the market primarily through a dealer network and not a true direct-to-the-farm approach. And as with its corn sales, AgriGold would be the only national brand to assume a true direct-to-the-farm approach with soybean sales. This approach is the edge that the "10 Principles of Brand Extensions" requires when entering a new market with a brand extension.

Figure 5.2: Estimated U.S. Seed Market by Distribution Channel



Source: AgReliant Genetics, LLC 2013

4. Brand extensions that could create confusion or a negative image for the parent should not be undertaken.

In today's current agricultural environment, many growers are making the economic decision to switch some acres to soybeans to control their input costs and ultimately limit their exposure to low commodity prices and high input costs. In the case of soybeans, it makes sense to extend soybeans to AgriGold's current corn seed customers as a means to simplify their seed decision by ultimately combining the two offerings. This may also possibly decrease their seed costs by increasing their overall business with AgriGold and extending bundled discounts as to encourage both increased corn and soybean seed purchases.

5. Brands that consumers use synonymously with a category (generic) should not be extended to other categories.

The AgriGold brand is not a generic brand and is not a brand that is used synonymously with the term "corn" within the seed industry. Within the industry, the

brand's vision is to supply its customers with the newest and highest quality seed products without cutting corners. In 2014, AgriGold was one of the first seed companies in the industry to establish its brand's value by setting the price on July 7th. This was 2+ months ahead of the brand's key competitors, such as Dekalb and DuPont Pioneer. This industry leadership has established the brand's equity in the seed business throughout the Midwest, as well as a very strong and unique message with its customers. When considering the implications of generics and brands that are used synonymously within the seed industry, AgriGold has tried to separate itself from the largest of brands in the industry with its ability to implement and deliver unique market strategies and communications to its customers and prospects.

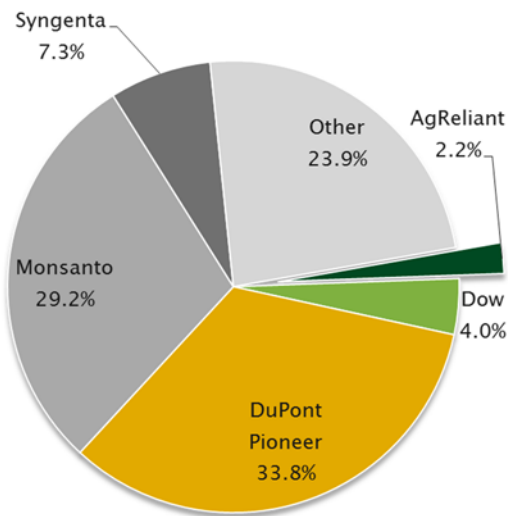
6. Brands should not be stretched to too many diverse categories risking dilution in the long run.

This would be the brand's first extension beyond seed corn in the company's history, 1936 to 2014. When considering the possible extension into soybeans and the current technology offered for soybeans today, the opportunities are much the same as the corn industry during the 2000s. AgriGold's customers have come to expect the highest quality products with the newest technologies. These new technologies, such as Roundup Ready 2 Xtend from Monsanto and Enlist from Dow AgroSciences, could be available for full launch in an AgriGold bag as early as 2016. The launch of new soybean technologies could be an opportunity for AgriGold to time a brand extension into the soybean seed market. It would be ideal to capitalize on the newest and highest yielding technologies, coupled with a brand that growers have come to know and trust, such as AgriGold.

7. Brand extensions that will not create positive synergy for the parent brand should not be pursued.

The ultimate goal in extending the brand into the soybean market are to increase AgriGold's corn sales, improve customer loyalty, increase customer service levels, grow customer value, drive shareholder profits and increase AgReliant Genetics', AgriGold's parent company, market share in the soybean seed industry.

Figure 5.3: 2013 U.S. Soybean Market Share



Source: AgReliant Genetics, LLC 2014

AgReliant has considerable room to grow in the current U.S. soybean seed market (Figure 5.3). These increases in both the corn and soybean markets will come by limiting competitive activity on our customers by offering a lineup of soybean seed in an environment that is trending to more soybeans and less corn. Table 5.1 portrays that the long term stability for the soybean market is projected to be stable for at least the next ten years. Even though this chart does not reflect the 7 million acre swing to soybeans in 2014 moving the total to 84 million acres, it does project a stable market

settling in at or around 75 million acres. It is this market stability in soybean acreage that will offer a source of consistent revenue growth for the brand, until corn acres rebound or stabilize.

Table 5.1: Long Term U.S. Soybean Acres and Price per Bushel Estimates

Soybeans	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
US (M Acres)	74	75	75.5	76	76	76	76	76	76	76
Price Per Bushel	\$10.35	\$10.65	\$10.75	\$10.85	\$10.90	\$10.95	\$11.05	\$11.20	\$11.35	\$11.35
Stocks to Use	6.0	6.1	6	6.2	6.2	6.3	6.3	6.2	6.2	6.2

Source: AgReliant Genetics, LLC 2014

8. Brand extensions must make business sense.

Considering that AgriGold has 2.6% of the seed corn market share, according to a recent GfK study, and direct access to more than 13,000 farm gate customers, there is an opportunity to leverage those relationships to increase corn seed sales and improve revenues by also offering soybean seed to the those customers (GfK 2014). Within the AgReliant Genetics, LLC umbrella, there are currently six seed brands in the U.S.: AgriGold, Great Lakes Hybrids, LG, Producers, Wensman, and Eureka Seeds. All of these brands, other than AgriGold, currently offer soybeans and make up the 2.2% market share (Figure 5.3). For example, AgriGold can be compared to its closest sister brand company, LG, which offers soybean seed in addition to their corn seed. LG currently has a 1:43 soybean to corn sales ratio. If those exact metrics were applied to AgriGold’s final sales in 2014, the brand would have the potential to sell 1,245,530 units of soybeans in a similar selling environment. Considering AgriGold would share similar genetics, administration and logistics it would seem logical that

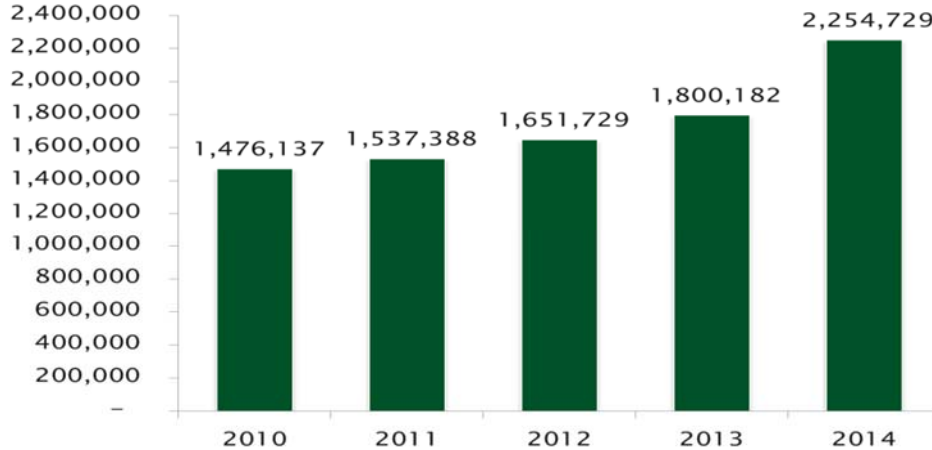
the estimated sales goal of 1,245,530 units could be achievable over time within the AgReliant Genetics, LLC system. When considering the margin involved, at roughly an \$8.00 per unit profit margin for fully treated soybean seed units, that would equate to potentially more than \$9,964,240 in additional bottom line profit. This is a 41% increase in the brand's current bottom line profit for corn-only sales, according to internal AgriGold data. These volume and financial estimates could be achieved without affecting the other brands of AgReliant Genetics, LLC, including LG, as the brands do not share current customers or prospects due to AgReliant's multiple brand strategy of limiting brand conflicts.

9. Every brand extension should open a category for the firm. The whole point of brand extension is to efficiently and successfully enter a new category.

When considering that AgReliant Genetics, LLC has six seed brands currently located across the Midwest and all of them offer soybean seed except for AgriGold, one must surmise that something is working for those other brands. The good news for AgriGold is that the systems, research, testing, licensing agreements, and logistical support for soybean sales and delivery is already in place and functioning. The cost of developing and implementing all of the above would, for many companies, involve enormous hurdles to overcome. But for AgriGold, the largest hurdle is simply making the decision of whether to benefit from the work already done by AgReliant Genetics, LLC. As shown in Figure 5.4, soybean seed sales have been on a five-year upward growth trend for AgReliant Genetics, LLC, and that is without its largest corn brand offering soybean seed sales! In addition, due to the current policies of AgReliant Genetics' multiple brand strategy, all of AgriGold's current 13,000 corn

customers must look outside of the AgReliant Genetics portfolio of brands to access soybeans. So, the addition of soybeans should have limited to no effect on the other brands of AgReliant Genetics, as they are not currently accessing AgriGold's customers for soybean sales.

Figure 5.4: AgReliant Genetics U.S. Soybean Volume



Source: AgReliant Genetics, LLC 2014

A critical part of every brand extension research study is developing a brand plan. Short and long term possibilities should be identified up-front.

If the decision was made to offer soybean seed to AgriGold's current customers, a complete and detailed business plan would need to be developed, in association with the current brand management team. In the short term, the launch goal should correspond so that the first year of limited sales would take place for the spring planting in 2017, in conjunction with the broad launches of both Enlist and Roundup Ready 2 Xtend traited soybeans. With a gradual supply/sales increase to take place over the next five years (Table 5.2), the ultimate goal would be to supply 100% of the customers' needs by 2021. This goal is based off of an assumed 1:38 soybean to corn sales ratio and a 9% year-over-year increase in corn sales. Though these calculations

are just estimates, they should equip the brand’s management team with the information needed in regards to possible soybean sales in order to develop an aggressive soybean business plan and communications strategy.

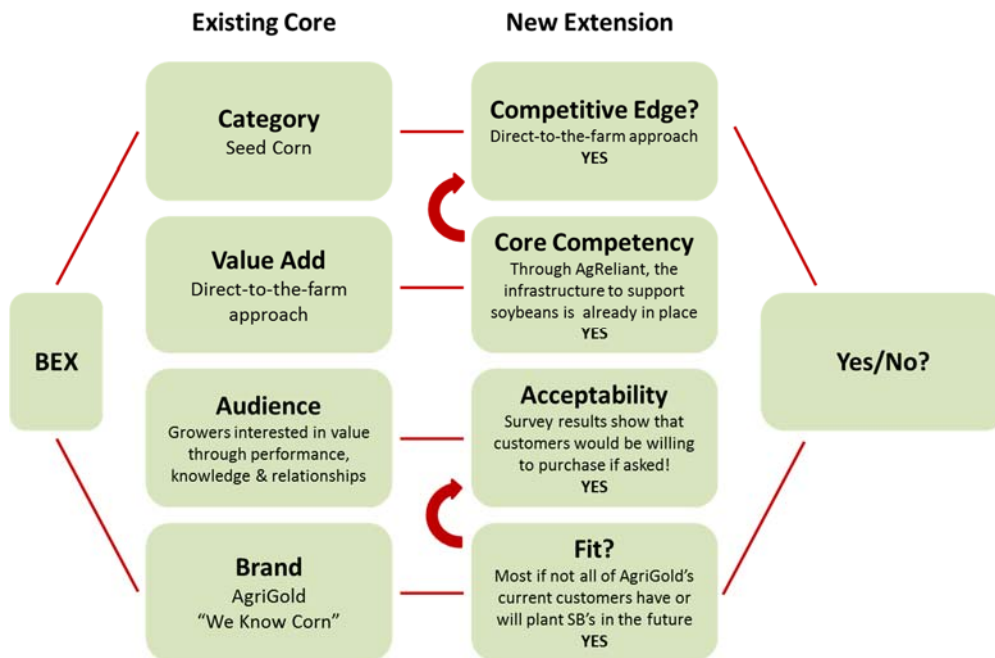
Table 5.2: AgriGold Estimated Soybean Seed Launch/Deployment Schedule

	Soybean Sales	Corn Sales
2017	312,504	1,132,259
2018	681,258	1,234,163
2019	1,113,856	1,345,237
2020	1,618,805	1,466,309
2021	2,205,621	1,598,276

Source: AgriGold/Andy Montgomery

In addition to the “10 Principles of Brand Extensions,” the BEX Model, designed by Joanna Allen, CD at Savvy & Victor is applied to the AgriGold brand in Figure 5.5 as an additional indicator as to whether or not the AgriGold brand should enter the soybean seed market.

Figure 5.5: AgriGold BEX Model



Source: Montgomery 2014

The model leads itself to suggest that AgriGold should consider a brand extension into the soybean seed market based on the competitive edge it currently has in the direct-to-the-farm segment of marketing its products. Even though the brand has not been in the soybean business before, its parent company, AgReliant Genetics, LLC, has been, as soybeans have been a core part of its competency since the company was formed in 2000. It is this economy of scale, already in place, that could lead the AgriGold brand to consider the diversification of its seed offerings without major infrastructure development. When considering the acceptability of the brand extension into the soybean market, both internal surveys and employee comments have shown that customers are willing and waiting for a soybean seed option. Finally there is the consideration of “fit”. In this case, considering the prevalence of soybeans across AgriGold’s current and future marketing areas, the impending future of high yielding and technologically advanced genetics and

trait options coming to the marketplace, adding soybeans to AgriGold's current offerings through a brand extension is an obvious pursuit.

CHAPTER VI: METHODS & ANALYSIS

Two studies were completed in support of this soybean feasibility study- an intentions survey conducted with current AgriGold customers and a financial model built to analyze the impact of possibly adding soybeans to AgriGold's product portfolio. Both of these studies were done in cooperation with AgriGold and AgReliant Genetics, LLC and were conducted, compiled and analyzed during the months of October through December 2014. The results of both studies are confidential and the sole property of AgriGold and AgReliant Genetics, LLC.

2015 INTENTIONS SURVEY

This survey was designed to address current customers' 2015 planting intentions and crop rotation plans for the 2015 planting season. In addition to planting intentions, the survey was also used to ask current customers if AgriGold could improve its customer service by adding a product/service that the customer is interested in. This survey was conducted October 17-23, 2014. The online survey delivery platform "Survey Monkey" was used to deploy the survey to 2,372 current AgriGold customers that the brand had active emails for. During the 7-day window in which the survey was available to customers, 274 customers completed the online survey, resulting in a 12% completion rate. Below are the six questions that were presented to customers in the survey.

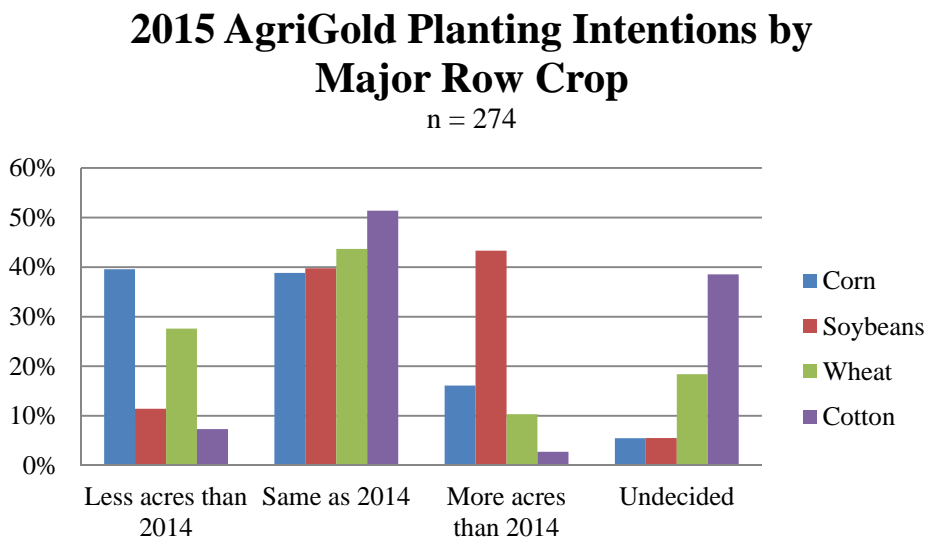
- Q1: For each of the following crops, please indicate your 2015 planting intentions? Corn, Soybeans, Wheat & Cotton
- Q2: If you are going to accept early seed corn delivery, by what date would you like to receive it?

- Q3: If there was ONE thing (product or service) that is currently not being offered to you by AgriGold that would make your job easier as a farmer or improve your performance, what would it be?
- Q4: How would AgriGold providing you with this product or service affect your corn purchases?
- Q5: Would you be willing to participate in a focus group about how AgriGold might better serve you?
- Q6: If you answered yes to question #5, please include your name

2015 INTENTIONS SURVEY RESULTS

The results of the survey were indicative of the current agriculture economy and, for the most part, matched the current estimates that the USDA and market analysts are predicting for the spring of 2015. Question #1 responses are listed below in Figure 6.1.

Figure 6.1: 2015 AgriGold Planting Intentions Question #1 Results

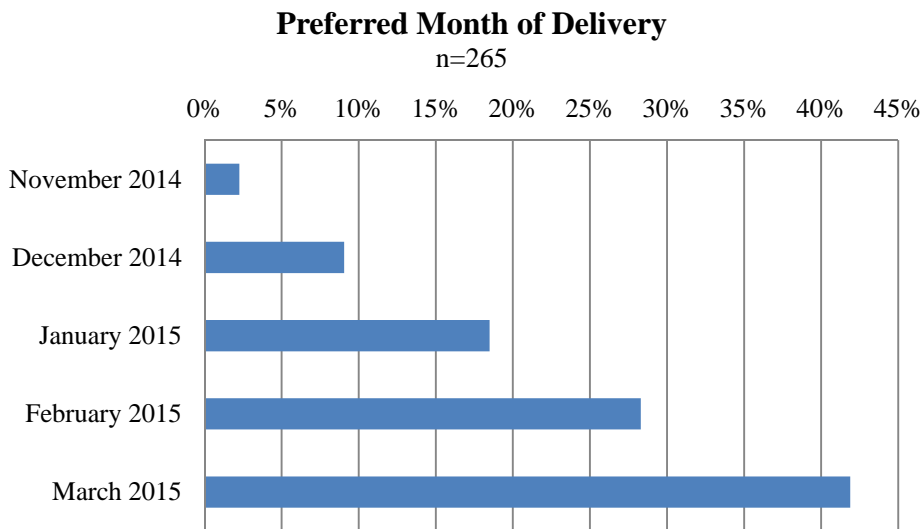


Source: AgriGold 2014

It was not surprising to see that 40% of customers are expecting their corn acres to be down, with nearly 40% expecting their corn acres to stay the same in 2015 (as compared to 2014). Unlike the corn acre intentions, roughly 45% of AgriGold's current customers are expecting their soybean acres to increase over 2014 acres in 2015.

The second question was relative to the customers' preferred month of delivery for seed corn. This question was asked not so much in support of this feasibility study, but to support the brand's logistics team in developing their winter shipping plan to efficiently deliver AgriGold product to the farm and meet the customers' desires on their preferred timing of seed delivery.

Figure 6.2: 2015 AgriGold Planting Intentions Question #2 Results

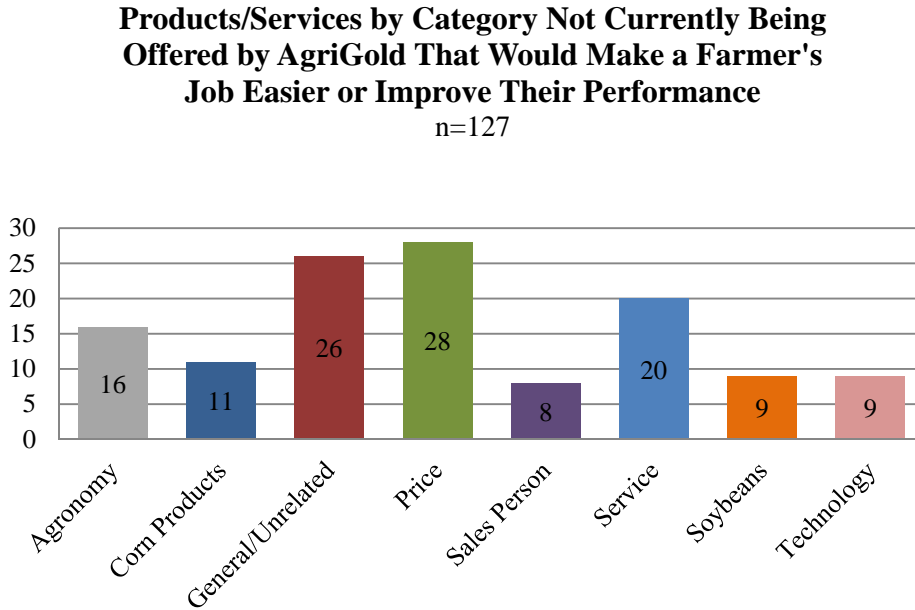


Source: AgriGold 2014

The third question was designed to uncover any possible product/service desires that growers might have in regard to those that AgriGold is not currently offering. This question was asked in an open-ended manner to avoid leading the customers to specific

items. Instead of listing possible choices for the customer to select from, the question was left open-ended.

Figure 6.3: 2015 AgriGold Planting Intentions Question #3 Results



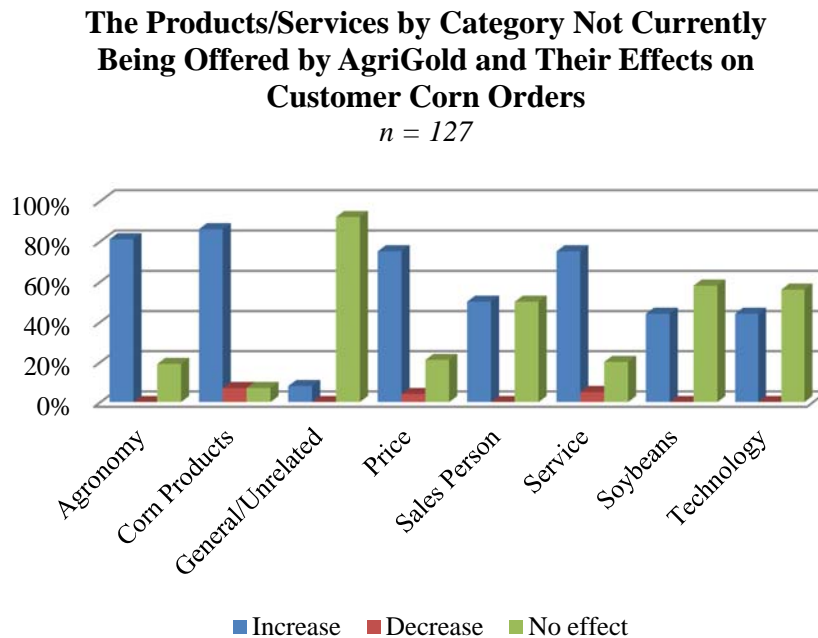
Source: AgriGold 2014

Of the 274 customers that completed the survey, only 127 (46%) of them listed a possible product or service (Figure 6.3). To better analyze the results, the answers were compiled into eight categories: “Agronomy”, “Corn Products”, “General/Unrelated”, “Price”, “Sales Person”, “Service”, “Soybeans” and finally “Technology”. It was very interesting that 28 of the responses indicated the addition of a product/service that would allow them to better control the “Price” of the product we offered. Essentially, these customers want a lower priced product. Many of the growers were interested in additional “Agronomy” products/services, such as scouting and additional agronomy information and education. “Services” was a big category, and many of these responses revolved around services such as delivery, marketing advice and packaging type. Of

course the category that is most tied to this feasibility study was that of “Soybeans”. Out of the 127 customers that listed a product/service, 9 of them (7%) listed that they would like for the brand to offer soybeans. Initially, the thought would have been that the responses for soybeans would have been larger, but this was an open ended question and the customers were not led to select a choice from an included list. In that regard, if soybeans had been included in such a list, it is suspected that the number of customers selecting soybeans would have been greater.

The fourth question was designed to ask customers what the impact of adding such an additional product/service would have on their current corn purchases with Agrigold.

Figure 6.4: 2015 AgriGold Planting Intentions Question #4 Results



Source: AgriGold 2014

Customers who recorded responses that fell within the products/services categories, such as “Agronomy”, “Corn Products”, “Price”, and “Services” reported the likelihood that the added product/service would increase their current corn orders with AgriGold (Figure 6.4). On the other hand, products/services that fell in the categories of “Sales Person”, “Technology”, “Soybeans” and “General/Unrelated” showed to have limited/ no effect on corn purchases. Even though these categories did not result in the same high responses to increase corn sales such as “Agronomy”, “Corn Products”, “Price”, and “Services” products/services, it was interesting to see that products/services such as “Soybeans” did not result in a decreasing effect on corn sales.

Questions number five and six were support questions that may be used in the future if further follow-up is needed. Of the 274 customer surveyed, 60 of them said they would be willing to serve on a focus group in the future if asked.

AGRIGOLD BRAND EXTENSION FINANCIAL MODEL ANALYSIS

The following financial model was developed in association with Steve Sterchi, AgriGold Business Manager, and John Kermicle, AgriGold General Manager. It has been reviewed and analyzed for errors by the following AgReliant Genetics, LLC personnel: Scott Brolsma - Corporate Marketing Manager, Ed Germain - CFO and Philip Nordeen - Director of Financial Analysis & Budgeting.

This financial model was designed to analyze different brand scenarios and their effects on corn growth and profitability of the Agrigold brand through the year 2021 with or without the addition of soybeans to the company’s product portfolio. Table 6.1 looks at the initial corn and soybean assumptions that are being made in this model. Again,

these are just initial assumptions and as the brand moves closer to possible making a move into soybeans further analysis could be made. By utilizing sister brand soybean sales metrics and how those metrics could be applied to this model in order to run additional scenarios.

Table 6.1: AgriGold Brand Extension Financial Model Assumptions

Corn/Brand Assumptions		Soybean Assumptions	
Corn Sales in 2015 (units)	953,000	Soybean units sold to 1 unit of corn (l	1.38
Annual Sales Growth (units)	9.00%	Average selling price on a unit of beans	
Budgeted Sales Expenses (2015)	\$ 33,292,000	o Treated	\$ 52.00
Budgeted Contribution Goal (2015)	\$ 24,947,000	o Untreated	\$ 48.00
Annual Sales Expenses Growth	4%	COGS	
Annual AgReliant Contribution Margin Growth	4%	o Treated	\$ 40.00
		o Untreated	\$ 37.00
		Soybean Sales Expenses	\$ 3.00
		Deployment Schedule	
		o Seed supply planting/contracting/pl	2016
		o First year sales	2017

Source: Montgomery, AgriGold Brand Extension Financial Model 2014

For this analysis, the assumption was made that the AgriGold brand would have final sales 953,000 units of corn in 2015, which is a 9% year over year increase and is the historical budgeted amount. The current sales expenses budget numbers for 2014/15, as well as an estimate for an annual sales expense growth calculation of 4% have both been included. In addition, the current/budgeted “AgReliant Contribution Goal” number has been included. This is essential to revenue or net profit (gross profit minus sales expenses) that AgriGold generates back to AgReliant Genetics, LLC each year.

In regards to soybeans, the assumption was made for a soybean unit to corn unit sales ratio of 1.38. This number was derived by making an assumption based off AgriGold’s current sister brands’ ratios. LG is at 1.43 and Great Lakes Hybrids is at 1.25. Both brands share very similar marketing areas as AgriGold, so for this model the initial simulation was developed using a ratio of 1.38 as suggested by AgReliant’s CFO,

Ed Germain. The final assumption made was that 100% of the soybeans that AgriGold would sell would be fully treated with a COGs of \$40 per unit, including the shipping and packaging (which would be 100% black boxed with no bags being offered). There is also a \$3 per unit “Soybean Sales Expense” that would include the following items: employee incentives (\$2), marketing (\$0.40), plot seed (\$.10) & soybean support personnel (\$0.50). Finally, as shown in Table 5.2, the model is designed around a deployment launch in 2017, with an initial supply to be limited to 20% in 2017 and increased by 20% until full deployment in 2021.

Table 6.2: AgriGold Brand Extension Financial Model

AgriGold Brand Extension Financial Model							
confidential							
Soybean Profit							
	2015	2016	2017	2018	2019	2020	2021
Deployment Plan by %	0%	0%	20%	40%	60%	80%	100%
Units Sold	0	0	312,504	681,258	1,113,856	1,618,805	2,205,621
Gross Profit Per Unit	\$ -	\$ -	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00
Total Gross Profit	\$ -	\$ -	\$ 2,187,525	\$ 4,768,804	\$ 7,796,995	\$ 11,331,633	\$ 15,439,350
Corn Profit							
	2015	2016	2017	2018	2019	2020	2021
Units Sold	953,000	1,038,770	1,132,259	1,234,163	1,345,237	1,466,309	1,598,276
Gross Profit Per Unit	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00	\$ 58.00
Total Gross Profit	\$ 55,274,000	\$ 60,248,660	\$ 65,671,039	\$ 71,581,433	\$ 78,023,762	\$ 85,045,900	\$ 92,700,032
Selling/Shipping Expenses							
	2015	2016	2017	2018	2019	2020	2021
Budgeted Selling Expenses (Corn Only)	\$ 33,292,000	\$ 34,623,680	\$ 36,008,627	\$ 37,448,972	\$ 38,946,931	\$ 40,504,808	\$ 42,125,001
Budgeted Selling Expenses (Corn & Soybeans)	\$ 33,292,000	\$ 34,623,680	\$ 36,946,138	\$ 39,492,746	\$ 42,288,501	\$ 45,361,223	\$ 48,741,865
Contribution Margin Examples							
	2015	2016	2017	2018	2019	2020	2021
Corn ONLY	\$ 21,982,000	\$ 25,624,980	\$ 29,662,412	\$ 34,132,461	\$ 39,076,831	\$ 44,541,092	\$ 50,575,031
Corn and Soybeans	\$ 21,982,000	\$ 25,624,980	\$ 30,912,426	\$ 36,857,492	\$ 43,532,257	\$ 51,016,311	\$ 59,397,517
Benefit of adding Soybeans	NA	NA	\$ 1,250,014	\$ 2,725,031	\$ 4,455,426	\$ 6,475,219	\$ 8,822,486
AgReliant Contribution Target for AgriGold	\$24,947,000	\$ 25,944,880	\$ 26,982,675	\$ 28,061,982	\$ 29,184,461	\$ 30,351,840	\$ 31,565,914
Change from Target with Corn Only	\$ (2,965,000)	\$ (319,900)	\$ 2,679,737	\$ 6,070,478	\$ 9,892,369	\$ 14,189,252	\$ 19,009,117
Change from Target with Corn and Soybeans	NA	NA	\$ 3,929,751	\$ 8,795,510	\$ 14,347,795	\$ 20,664,471	\$ 27,831,603

Source: Montgomery, AgriGold Brand Extension Financial Model 2014

As illustrated in Table 6.2 - long-term, in 2021, the brand is profitable when selling both corn (change from the AgReliant Contribution Target = +\$19,009,117) and corn/soybeans (change from the AgReliant Contribution Target = +\$27,831.603). The

model suggests that the brand would be \$8,822,486 ahead if it would add soybeans to its product portfolio.

The model also looks at different corn growth scenarios over this same period to determine the financial impact of soybeans might have on the brand. These changes to the corn growth percentage could come from several factors, such as: the impact of adding soybeans to the portfolio, declining corn acres, poor product performance and/or competitive pricing pressures. Table 6.3 examines 2021 with full soybean deployment simulated with different corn growth percentage calculations.

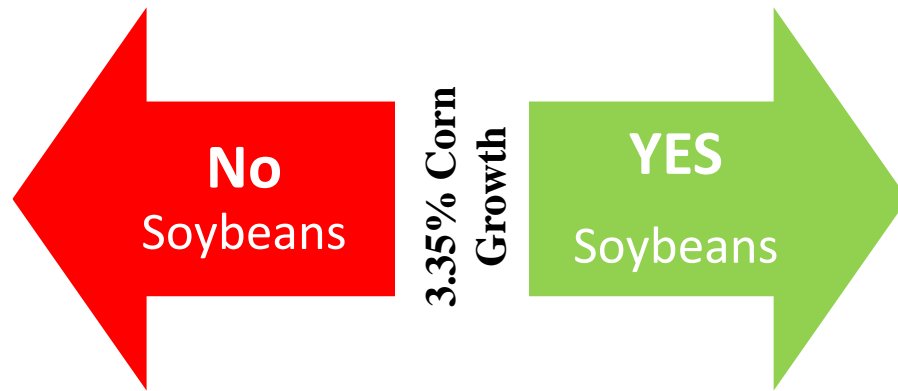
Table 6.3: Contribution Comparisons by Corn Growth Percentage in 2021

AgriGold Brand Extension Financial Model							
confidential							
Contribution Comparison Examples by Corn Growth % in Year 5 of Deployment (2021)							
Corn Growth	0%	1%	1.50%	2.00%	3.35%	6.00%	9.00%
Corn ONLY	\$ 13,148,999	\$ 16,549,464	\$ 18,313,982	\$ 20,122,501	\$ 25,232,161	\$ 36,282,225	\$ 50,575,031
Corn and Soybeans	\$ 18,409,559	\$ 22,133,654	\$ 24,066,106	\$ 26,046,746	\$ 31,642,705	\$ 43,744,430	\$ 59,397,517
Benefit of adding Soybeans	\$ 5,260,560	\$ 5,584,190	\$ 5,752,124	\$ 5,924,245	\$ 6,410,544	\$ 7,462,205	\$ 8,822,486
AgReliant Contribution Target for AgriGold	\$31,565,914	\$ 31,565,914	\$ 31,565,914	\$ 31,565,914	\$ 31,565,914	\$ 31,565,914	\$ 31,565,914
Change from Target with Corn Only	\$ (18,416,914)	\$ (15,016,450)	\$ (13,251,931)	\$ (11,443,413)	\$ (6,333,752)	\$ 4,716,311	\$ 19,009,117
Change from Target with Corn and Soybeans	\$ (13,156,354)	\$ (9,432,259)	\$ (7,499,807)	\$ (5,519,168)	\$ 76,791	\$ 12,178,516	\$ 27,831,603

Source: Montgomery, AgriGold Brand Extension Financial Model 2014

It takes a corn growth percentage of roughly 3.35% to make the addition of soybeans work long term (Table 6.3). Anything less than that and the brand would not be able to hit its long-term “AgReliant Contribution Target” without significantly impacting its financials by possibly increasing price and/or cutting expenses. With an assumed sales expense annual increase of 4%, it is also critical to keep the brand’s corn sales increasing at a rate close to or greater than that of its expenses. In this scenario it would be wise to control the increases in sales expenses below 3.35% as well.

Figure 6.5: The Minimum Corn Growth Needed to Meet Brand Profit Goals



Source: Montgomery, AgriGold Brand Extension Financial Model 2014

The decision to add soybeans hangs on the brand's ability to keep its annual growth above 3.35% (see Figure 6.5) and its expenses below the same percentage in order to beneficially feel the financial impact of extending the AgriGold brand into soybeans.

With these two studies in mind, specifically the deployment scheduled used in the financial model, the brand's possible 2017 launch in to soybeans may look something like Figure 6.6.

Figure 6.6: Possible AgriGold Brand Extension Timeline for a 2017 Launch



Source: Montgomery 2014

This launch, though aggressive, should give the brand and its management team time to fully implement and test a go-to market strategy that best capitalizes on the current market potential.

CHAPTER VII: CONCLUSION

The data obtained for this project has put into question how sensible it would be for the AgriGold brand to continue its business as a seed corn-only operation. Offering only one product- seed corn- has been the cornerstone of the brand for many years, but the company may be leaving a huge opportunity on the table if it does not seriously consider the addition of soybeans to its current offerings. This project examined the following five parameters as a base to consider the feasibility of the brand extending its reach and product portfolio into the soybean industry: 1) Take advantage of the roughly 13,000 corn customers across the US, 2) Protect AgriGold's competitive position on growers by eliminating their need to look to other brands for soybeans, 3) Capitalize on an increasing soybean acre market, with a decreasing corn acre market, 4) Provide an additional service to a growing customer base, and 5) Increase company revenues and profitability.

First, it is imperative to consider the current customer base. As part of the effort to justify an extension into a new market, many brands must consider customer acquisition as a critical part of the decision-making process. In AgriGold's case, the brand already has roughly 13,000 farm-gate customers that are currently available to possibly purchase soybeans. The critical question is: why not extend a soybean offer to these current customers and capitalize on the overwhelming positive brand equity that the AgriGold brand has built around its corn offerings since the 1970s? The brand equity built by AgriGold since then appears to be very transferable beyond its current product offerings based on the theoretical foundations discussed in Chapters four and five. The brand focuses more on culture, people, relationships and messaging than about being

corn-only. Brand extension opportunities should allow the brand to extend its offerings into additional products without losing its core look and feel.

When considering the second parameter, currently AgriGold's corn customers must turn to other suppliers for their soybean needs. By offering these growers a soybean option, the brand would hope to increase its customers' loyalty and eventually increase their corn purchase at the same time. The surveys conducted to research customer needs/desires uncovered that current customers would like a soybean option, even though many customers probably do not realize it could be an option.

Thirdly, when you consider the current agricultural economy and the long-term outlook for both corn and soybean acres, it is apparent that in the long term, soybeans are the more stable row crop choice across the entire country. The USDA is currently predicting for US soybean acres to continue to grow for the next ten years and eventually stabilize at or around 76 million acres by the year 2023. Unlike the decline in corn acres and the strong global competition from other countries with corn, the demand for soybeans is forecasted to remain stable. In addition, when looking at the on-farm economics of soybeans, the numbers are just as strong. Both soybeans-after-corn and soybeans-after-2 years of corn are showing an economic advantage of \$15 to \$87 per acre over both corn-after-soybeans and corn-after-corn, as presented in Table 3.1. These calculations are not for subprime growing areas; this is for central Illinois farm ground. But when considering the territory outside the interior growing areas of the country, the profitability spread between soybeans and corn acres can widen greatly.

The fourth feasibility parameter of providing an additional service to our customer base is a driving factor behind this study. In an extremely competitive market, where customer loyalty is being challenged each and every day, the ability for a brand to effectively deliver high quality service is of increasing importance. This study clearly shows that customers are looking to other brands for services and products, such as soybeans. It may be not that they are unhappy with what AgriGold has to offer, but there are competitors in the marketplace that can deliver a combined offer to service both corn and soybean products that can, in some cases, overpower AgriGold's corn-only message.

Finally, can this possible brand extension increase company revenues and profit? Clearly, soybeans can be profitable at a certain point, but one must consider and weigh the costs associated with the loss of focus on the corn product line. It is the ultimate question and one that only can be modeled. Time and experience will tell depending on the go-to market strategy and what, if any, costs the brand extension into soybeans will have on AgriGold's core corn business. According to the models in this study, in order to stay profitable, 3.35% corn growth is a critical number that must be both achieved and maintained for corn sales each year if soybeans are to be added. As long as the brand and its management team can maintain at least this level of corn growth while controlling sales expenses and maintaining an aggressive expansion plan, the brand's extension into soybeans appears to financially be a logical choice.

Although results from the research conducted for this project clearly depict a brand extension to be beneficial for AgriGold, it is important to recognize several key counter points as well. Most concerns surround the risk of the unknown.

- Is it really feasible to extend the AgriGold brand into a market that it currently focuses no time and energy on?
- Is it wise to take the brand's focus off of being the "Corn Specialist," as one of the few companies left in the industry focusing 100% of its efforts on a singular species of seed?
- Can the brand's current go-to direct-to-the-farm market strategy be maintained or even improved with the addition of soybeans to the portfolio?
- Can the brand's sales people overcome their biggest limiting factor of time with the addition of soybeans and the additional work load associated with them?
- Logistically, can current and future administration and shipping systems handle the addition of soybeans?
- And finally, can the brand adjust its core culture of "We Know Corn" around a corn and soybean lineup?

There must also be consideration in regards to what the competition's response would be for such strategic move by AgriGold. How will DuPont Pioneer or Monsanto and its brands respond? In a market where very few companies offer corn only, it would be difficult for these companies to respond without disrupting their own market place. Today's grower is driven by a strong value offering and if anything, by AgriGold possibly entering the soybean market may just elevate the entire industry in how they address and deliver customer value.

There is much consideration to be made, as there are no right answers. Choices will not come without their associated risks and opportunity costs. Today, the current seed industry environment is as competitive and volatile as it has ever been, with

consolidations and buy-outs occurring monthly. With costs rising, corn sales slowing, and more pressure on current brand profits, now may be just the time to take on the associated risks with this extension. With a long-term strategy to grow the brand and its footprint across the Midwest, obtaining those goals could be hindered with a corn-only approach if the brand continues as is.

This extension would be an enormous change for AgriGold- one that could possibly take the brand to the next level if executed timely and correctly. However, the brand must be willing to make a long term commitment to supply customers with quality soybeans. Determination must also be made as to whether the brand can bring along enough value with its soybean offering that customers would be willing to leave their current suppliers to try/use AgriGold's soybeans. According to IMD President Dominique Turpin, not all brand extensions by well established companies succeed. Take for example: Bic moving from disposable pens and shavers to disposable perfumes and underwear, Heinz trying to move from ketchup to mustards, and Xerox moving from photocopiers to computers (Turpin 2014). Even Apple has had its share of failures: Newton tablet, the Lisa computer, the iMac USB mouse, the iPod Photo and the iPod Hi Fi (Turpin 2014). Brand extension has its risks, and many of them will not be uncovered until the decision is made to make such a huge investment in the brand and its customers. Change such as this is not new for AgriGold; it has led change before. The brand was the first to go direct-to-the-farm in the 1980s. They were the first to introduce advanced seed treatments on a broad scale. They have entered and left markets such as High-Oil corn and Nutri-Dense corn. In every case, the change came as a way to better serve its

current customers and penetrate new farm prospects, while increasing the brand's bottom line.

When considering the five parameters addressed in this feasibility study and the associated counter points, the belief is that AgriGold, as the leading direct-to-the-farm corn brand in the industry, has a huge opportunity to not just enter the soybean market with a unique and differentiated soybean offer, but a chance to significantly impact the industry. Depending on the possible go-to market strategies available to its management, the brand also has a huge opportunity to better serve its customers and prospects.

Furthermore, the addition of soybeans to the product lineup would help to deliver on its promise to its shareholders to meet and even exceed the financial goals. With that said, it is in AgriGold's best interests to move to extend its brand into the soybean seed market and begin to plan for an initial launch and go-to market strategy offering to its customers and prospects by the spring of 2017.

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