The steps for strategic market planning are discussed including: (1) assessing the situation with market conditions, customers, competitors, and your firm; and (2) crafting a strategy to prioritize target markets, develop a core strategy, and create a marketing mix. Examples of agribusiness successes are presented. The booklet concludes with a student quiz. (EH)
Strategic Marketing for Agribusiness

ABOUT THE COVER

Students studying in one of several programs in Purdue's Department of Agricultural Economics work as a team to analyze a demand curve in preparation for an in-class presentation.

ECONOMIC ISSUES for Food, Agriculture and Natural Resources is published by the Office of Academic Programs, Mary A. Welch, Editor.

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INTRODUCTION

Originally the term "market" stood for the physical place where buyers and sellers gathered to exchange goods. This gathering place was usually located in the village square. Today, economists use the term market to refer to a collection of buyers and sellers who are interested in trading a particular product. For example, a commodity market is a specialized kind of market where futures contracts (promise to buy or sell a commodity at a specified date in the future) for grain, livestock, precious metals, and lumber are bought and sold. A discussion of commodity markets appears in ECONOMIC ISSUES for Food, Agriculture and Natural Resources Fall-Winter 1989-90.

Business managers, however, define a market differently. For business managers, the sellers of the product constitute the industry and the buyers of the product constitute the market.

Firms that find ways to deliver value to their customers survive and prosper; those who don’t deliver customer value struggle and disappear. Value to a customer is defined as the tangible and intangible features of a product or service. An example of something tangible that delivers customer value might be a pair of black, high-top Nike Air Jordan tennis shoes. The intangible feature would be Nike’s guarantee or the image you project by wearing Air Jordans.

Illustrations of the importance of delivering customer value abound. In the highly acclaimed best selling book, In
Search of Excellence, co-authors Tom Peters and Bob Waterman interviewed managers from 43 high-performing companies such as Hewlett-Packard, Frito-Lay (PepsiCo), Procter & Gamble, 3M, Delta Airlines, McDonald's, and Marriott. Among the basic business principles that made all of these firms successful was a deep respect for customer needs; in other words “staying close to the customer.”

Professor Philip Kotler, author of Marketing Management, Analysis, Planning, Implementation, and Control, notes that some of the most successful companies of the late 1970s struggle in today's world because they failed to understand the changing market and the need to provide value to their customers. Kotler says, “Too many U.S. corporate leaders in the 1970s and 1980s focused their attention on the stock market and not on the real market. They relied on selling, not marketing. They pursued profits first and customer satisfaction second.”

What does Professor Kotler mean by the statement, “they relied on selling, not marketing”? In the 1970s and early 1980s many companies operated on the selling philosophy. The selling philosophy says that you build a good product and then convince (sell) the customer that they need the product. By the mid to late 1980s, most successful companies had moved away from this approach of doing business and adopted a marketing philosophy. Under the marketing philosophy, companies work to determine what the customer needs and then design, produce, and distribute a product which meets these needs. This customer-focused business approach is how most successful firms are operating in the 1990s.

Marketing is the process by which firms implement the marketing philosophy.
From a business manager's viewpoint, marketing is satisfying customer needs and wants while still making a profit. This simple definition of marketing captures the essence of the idea, but Professor Kotler provides a definition of marketing that is more complete: marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others.

A growing number of U.S. companies are recognizing the importance of turning from a selling philosophy to a marketing philosophy. Two hundred and fifty senior managers from major American corporations recently identified their number-one planning challenge to be: developing, improving, and implementing competitive marketing strategies. The need for good marketing is even more critical with international customers. The United States no longer can survive by selling just to itself. Successful marketers must be able to understand customer wants and deliver the real value to their target markets, whether those markets are located in Attica, Indiana or in Nairobi, Kenya. Marketing skills distinguish between success and failure in the global markets that everyone aspires to conquer.

Marketing philosophy is becoming especially important to food and agribusiness firms. The needs and wants of consumers with respect to food are changing very rapidly. People want safe food. They want convenient food. They want to choose from a variety of foods. They want food low in fat. And, the list goes on and on. When the needs of consumers change so fast, a strong marketing effort is needed for a successful food firm to continue delivering what the customer wants.
The same thing is happening to firms supplying farmers with inputs such as feed, seed, fertilizer, and pesticides. Not so long ago, a farmer was a farmer. Now, there are many different types of farmers, each with unique needs. Some farms are large commercial operations; others are small part-time or hobby operations. It takes a smart marketer to make certain that the agricultural input firm continues to meet all of the different needs of today's farmer.

The key for a manager in a modern food or agribusiness firm is knowing how to put the marketing philosophy into practice. How does a manager find out what customers need and want? How does the firm create value for their customers through products and services? How do they offer or communicate that value to their customers?

To answer these questions, many successful firms developed a process called strategic market planning. In this process, firms study their market and their competition. They take a long look at their own strengths and limitations and set goals for their marketing effort. Based on this knowledge of their market, managers develop a marketing strategy that provides and communicates value to their customers. Let's take a closer look at this process.

STRATEGIC MARKET PLANNING

The steps involved in the strategic market planning process are shown in Figure A. First, we will look at each step in the process by using a food product to illustrate how strategic market planning works. Then, we will take an actual agribusiness firm case study to provide a
more in-depth look at strategic marketing for agribusiness firms.

STEP I. ASSESS SITUATION

Figure A.

Market Conditions are events that occur outside the firm's direct control. These may include government policy,
interest rates, unemployment, weather, etc. Here, we want to define the main opportunities and threats that must be considered by the marketer.

Food Firm Example: More and more regulations relating to food safety, labeling, and waste disposal are being implemented each year. As an example, regulations relating to waste disposal have an impact on food packaging design.

Customers are the buyers and potential buyers for a product or service. Good marketers must understand their customers and be alert to any changes taking place in the customers' buying behavior.

Food Firm Example: Food firm customers are a diverse group. They may be working mothers and fathers, children home from school with soccer practice at 5:30 p.m., a single man or woman playing tennis three times a week coming home to dinner at 8:00 p.m., senior citizens busy with volunteer jobs and day trips, etc. The highly varied needs and wants of these groups must be closely monitored by marketers.

Competitors are other firms selling to the same customers. A marketer needs to know who these companies are, what they do well, and what they don't do well.

Food Firm Example: In most food markets, there is no shortage of competition. Your new food product will likely be copied and improved on by the competition if it is a good idea. The challenge for a good marketer is to stay a step ahead of the competition by knowing and serving the market better.

Your Firm. What does your firm do well? What advantage do you have over the competition? Where is your company or your product vulnerable? A strategic marketing plan must answer these questions.
Food Firm Example: Perhaps you are a well-established and trusted food processor who has done well in the industry. But, you have not introduced a really successful new food product in eight years. Your challenge as a marketer is to find out why and correct the problem.

STEP II. CRAFT STRATEGY

Prioritize Target Markets. What particular group of customers will you focus on, i.e., who is your target market? Marketing strategies are much more successful when they are focused on the specific needs of a target group.

Food Firm Example: A substantial number of potential consumers who profess a need for your product may exist. Your target market for a new thirst-quenching drink might be high school students who are active in sports. Note that interest in your product is not enough. The target market must be affluent enough to afford the new food product.

Develop Core Strategy (Your Position or Image). The core strategy or position is what you want your customers to think about your product. Some products are positioned as gourmet, some as convenient, some as dependable, and some as state-of-the art. Developing a solid position or image is crucial to marketing success.

Food Firm Example: An example of a position is the “milk kick” commercials developed by the Dairy Council. The position they want to achieve is shown in their advertisements in which they convey, “you will be energetic, have beautiful skin, and be a fun-loving and very healthy person if you drink milk.”

Marketing Mix (Product, Price, Promotion, Place). Here, marketers must
work with product designers and engineers to develop a product the customer wants, price the product, promote the product, and then get the product to their customer. These functions must support the position or image that the marketer seeks. For example, a luxury product should be well-made, and carry a high price. Developing the marketing mix is probably the most creative part of the market planning process. Decisions on the marketing mix include advertising strategies, discount programs, special services, package design, and the method of distribution.

**Food Firm Example:** Following up on the Sport-Drink example, a firm might choose to have five flavors of the drink (product) selling for a little less than existing drinks such as Gatorade (price). It may be advertised at high school sporting events and on MTV (promotion) and distributed through vending machines at school and convenience stores (place).

**AN AGRIBUSINESS EXAMPLE**

The following description of Brookston Supply and Elevator, Inc. is a management case study written by Dr. Jay T. Akridge, Associate Director of the Center for Agricultural Business (CAB) and an Associate Professor in the Department of Agricultural Economics. The Center helps food and agribusiness managers learn how to develop successful marketing strategies by conducting short-courses in marketing. Lectures and case studies such as the Brookston Supply and Elevator case are used to teach managers the concepts of strategic marketing.
BROOKSTON SUPPLY AND ELEVATOR, INC.

Brookston Supply and Elevator (BS&E) is a family-owned feed, fertilizer, and grain company located in Ackley, Iowa. The firm is owned and managed by Lance and Paul Taylor, the sons of the original owner, Joe Taylor.

BS&E distributes the animal feed, Rapid Gain. The firm currently employs five full-time personnel, in addition to the owners. In 1990, 15 percent of their total $4.0 million in sales was feed, 60 percent was grain, and 25 percent was fertilizer. BS&E sold about 2000 tons of feed in 1990. The firm has been profitable, but not exceptionally so. In 1989, they reported a loss of ($50,000) on sales of $4.0 million; but in 1990, the net income after taxes was $25,000 on about the same level of sales.

The Market

Consolidation has been the key word in the central Iowa market, and a smaller number of larger farm customers has been the result. BS&E had more than 180 feed accounts in 1974. In 1990, BS&E was serving fewer than 50 farmers, because farm size had increased, but selling twice as much feed as a result of some good management decisions and some competitors going out of business.

The average customer farms about 500 acres, typically one-half in corn and one-half in soybeans. Hogs are the only livestock in BS&E's market area; hog feed makes up 90 percent of BS&E's feed tonnage.
Competition

There are a number of other firms handling feed in BS&E's market area. Their toughest competition comes from a Lake Feeds dealer, Princeton Elevator, Inc. Lake Feeds entered the market five years ago and has pursued expansion aggressively. They market a high-quality product and sell aggressively on the farm.

Lake Feeds has maintained higher prices, thereby taking some of the price pressure off BS&E. Lance believes that Lake Feeds' growth has primarily resulted from taking business away from companies selling cheap, low-quality feed. In fact, BS&E's tonnage has increased over the past five years, despite the presence of Lake Feeds. Lance believes that Lake Feeds' aggressive quality push has helped BS&E increase sales.

The Firm

Lance (48) is the older of the brothers and handles the inside jobs such as waiting on customers, writing orders, ordering supplies and inventory, monitoring the books, and so on. Paul (46) handles the firm's operations by overseeing the fertilizer plant, feed mill, and grain elevator.

Paul also handles BS&E's outside selling effort. He has a cellular phone in his pick-up that has greatly improved communications. The firm takes a very low-pressure approach to selling on the farm. Paul's customer visits are viewed as problem solving and public relations, not necessarily sales calls. Paul makes few calls to farmers who are not current customers of BS&E. Lance and Paul considered hiring an outside salesperson, but they believe they just can't make it pay at this point.
Of the other five employees, one drives the feed truck; one runs the feed mill, one is a bookkeeper, and the other two are general warehouse employees. With the exception of one, all employees have been with the firm at least ten years. Lance and Paul hire seasonal labor to help them through the spring and fall peak selling seasons.

The firm owns two bulk feed delivery trucks. Their feed mill was constructed in 1973 and is in excellent condition. Paul figures the mill runs at about 75 percent of capacity. BS&E does not sell much pelleted complete feed, choosing instead to push concentrate feeds to keep their feed mill in use and reduce hauling costs in the process. The firm is located about 60 miles from the nearest Rapid Gain feed plant.

The brothers are considering the construction of overhead feed holding bins to reduce truck waiting time. They would also like to sell more bulk bins to their customers to reduce unloading time. "We must take steps to increase efficiency over the longer run," said Lance. The brothers are considering remodeling the office/showroom and acquiring a computer system to handle accounting tasks and keep customer records.

Marketing

Quality and service are key components of BS&E's business philosophy. They focus their sales effort on Rapid Gain's premium products and feel they get a good gross margin on what they sell, about 19 percent. The brothers are very conservative about growth, about five percent a year is all they want. "We cannot let our current level of customer support slip," said Lance. "And, we are
willing to let some opportunities go by to make sure that we can keep our current customers happy," he added.

Customer service is delivered several ways, according to Lance. Quality feed products are the cornerstone and the brothers have been very pleased with the Rapid Gain line over time. Nutritional support is another component of customer service. This is done by drawing on Lance's excellent knowledge of swine nutrition and by making heavy use of a talented local veterinarian who doesn't sell feed or animal health products. In addition, they draw on Rapid Gain's nutritional experts whenever necessary.

BS&E has worked hard to maintain margins, attempting to increase gross margins on feed over time. For the most part, they have been successful at increasing per-ton margins on feed. BS&E is not the cheapest feed company in the market, nor do they intend to be. "We will make money on what we sell," said Lance. They offer a two percent discount for cash. In addition, they have a volume discount program that Lance admits is a bit informal.

BS&E rarely advertises, and they hold farmer meetings only occasionally. "Unless there is a new product to push, I'm just not a great believer in meetings," said Lance.

Summary

Lance and Paul have built a good business. However, their market is changing rapidly, and the competition is getting tougher. The brothers wonder just what position they should take in the market? What will they need to do to support this position? How will they communicate the value their products
and services provide to their customers? Clearly, Lance and Paul have many tough decisions to make.

Lance and Paul Taylor are good candidates to attend one of the Center for Agricultural Business (CAB) seminars at Purdue University. At the seminar, they would meet managers of other farm input supply firms located around the country. Lance and Paul would have the opportunity to talk with these managers about problems which are common to their operations and to share ideas that may be useful. Paul and Lance's goal for attending a CAB seminar is to go back to their business with ideas to improve their marketing plans.

Let's look at an analysis that Lance and Paul might have conducted at a CAB seminar with Dr. Akridge and his associates from the Department of Agricultural Economics.

We will go back to the framework for strategic marketing that we discussed earlier for a food company. Let's assume that Lance and Paul decide to pursue a service-oriented marketing effort. How might they go about building a strategic marketing plan?

STEP 1. ASSESS SITUATION

Market Conditions. In order to evaluate the market conditions for this case, we need to know more about government regulations affecting hog farmers in Iowa, what hog and corn prices are doing and what the weather has been over the past few years.

Customers. BS&E is now servicing a smaller number of very large hog farms operated by farmers who demand a quality product and current information.
Their marketing plan must focus on this new type of customer.

*Competitors.* The Lake Feeds dealer is BS&E's strongest competitor. Lake Feeds is also trying to sell a premium, high-service product. This means that BS&E will have to give even better service if they want to capture some of the market now sold by Lake Feeds. On the other hand, BS&E may want to go after customers currently buying from one of the low-quality feed dealers and show these farmers how they could realize more efficient hog production. They would earn higher returns by feeding a high-quality product.

*Your Firm.* BS&E is a well-established farm supply dealer with loyal customers who are happy with Paul's public relations, trouble-shooting type sales calls i.e., no pressure (or low) sales technique. They have the capacity to expand their sales and use their extra facilities and experienced employees.

**STEP II. CRAFT STRATEGY**

*Prioritize Target Markets.* BS&E must approach those customers who need and are willing to pay for a high-service package. They must locate farmers who place a value on service.

*Develop Core Strategy.* Their core position is one of a high-service dealer who sells quality products. BS&E wants to convince farmers that an investment in quality feed will earn greater profits when compared to buying a cheaper product.

*Marketing Mix (Product, Price, People, Promotion).* BS&E might
develop several options. They might institute a high-performance feed record program by keeping records for farmers and showing them how their hogs performed (product). They might conduct a number of on-farm feed trials to demonstrate that their feed program is superior to that of their competition (promotion). They could offer a volume discount to very large producers (price) and ship feed directly to the farm (place). Lance and Paul need a marketing mix that supports the high-service position they want to build in the market.

**ECONOMIC PERSPECTIVE**

From an economic standpoint, what is a firm trying to accomplish with a strategic marketing plan? Through effective marketing, the firm is trying to change the demand for their product. In economics, a *demand curve* simply shows how much of a product customers are willing to buy at any given price. In the case of BS&E, the product is hog feed. A demand curve for feed is shown in Figure B. Note that as BS&E's price goes up, farmers will buy less feed. At some price, individual customers will find another source of feed at a lower price.

![Figure B](image_url)
Let's continue with this example. BS&E has decided to implement the marketing plan to provide top-quality service. In addition, they are spending money on promotion so that the market knows about their new products and services. With this new plan, they hope two things will happen. First, that there will be a shift in demand. BS&E hopes their customers will now buy more of their feed at any given price. This shift in demand is shown in Figure C.

**Figure C.**

![Graph showing demand shift](image)

BS&E hopes their marketing program will have a second effect. The managers at BS&E want to change the elasticity of demand. The elasticity of demand simply refers to the change in the quantity customers will buy for a given change in price. If BS&E raises the price of their feed and customers buy a lot less, we say demand is elastic (D1 in Figure D). If BS&E raises price and customers buy only a little less, we say demand is inelastic (D2 in Figure D). Through effective marketing efforts, BS&E hopes to make its product different from the competition and therefore demand for its product more inelastic. This change is moving...
In the case of BS&E, Lance and Paul hope that adding the new services will make demand for their hog feed less price sensitive (more inelastic) and therefore more profitable for them.

SUMMARY

Effective marketing strategies have become important factors to the success of companies. Food and agricultural input companies have received advice for building better marketing plans through continuing education programs at Purdue University. By understanding the marketing planning process and the economics of customer buying decisions, managers of food and agricultural businesses can make better decisions to help their businesses become more profitable.
Jay T. Akridge

As Associate Director of the Center for Agricultural Business (CAB) Jay works with the Center's educational programs, conducting research on improving the performance of both agribusiness firms and marketing systems. He also teaches courses for undergraduate and graduate students in strategic management for agribusiness firms.

Dr. Akridge has worked extensively on issues related to the financial management of retail fertilizer plants while examining compensation practices in agribusiness firms. He is also involved with the measurement of efficiency in grain and farm supply businesses, as well as developing a new system for marketing pork on a carcass value basis.

The Akridge family owns and operates a farm supply store, and Jay continues to maintain an active role in the management of this firm.

Professor Akridge is available to come to your high school through Professors in the Classroom to work with students in groups to develop a basic strategic marketing plan for a case study.
QUIZ:

1. According to the research of Peters and Waterman in their book, *In Search of Excellence*, what is a primary operating principle they discovered when interviewing managers of high performing companies?
   A. A creative targeted advertising campaign is the most important concept of a successful company.
   B. Listening to and reacting to the needs of customers is a primary goal.
   C. Training sales staff is most important in marketing success.
   D. Excellence is measured primarily by quality of the product.

2. Black dress shoes are required for many employees who need to walk or stand at their jobs. As a result of their market research, one of the sneaker shoe companies designs a shoe which has a dress shoe look with a sneaker inside construction. The company advertises and sells to quality retail stores. This company has developed a
   A. “selling” philosophy strategy
   B. “marketing” philosophy strategy
   C. “value-added” strategy
   D. “quality service” strategy

3. Which of the following is an example of intangible feature for a vitamin supplement added to hog feed?
   A. Proven studies show that this product enhances weight gain for pigs on this diet.
   B. Farmers feeding this supplement consistently receive higher price for quality meat of pigs on this diet.
   C. Farmers feeding this supplement feel good that they are providing their pigs the highest quality feeding program money can buy.
   D. Pigs on this diet have fewer health problems than pigs on diets of a low quality supplement (those with mostly fillers).
   E. All of the above are true.

4. Why does the food industry face such a challenge in today’s world?
   A. The needs and wants of consumers are changing at a rapid pace.
   B. People are living life styles that call for convenient and healthy food products.
   C. Other countries have different tastes, and the U.S. must learn to market internationally.
   D. All of the above are true.
5. Which of the following questions are important considerations when a firm develops a strategic marketing plan?
A. determining customers' needs and wants
B. creating value through products and services
C. communicating value and service to customers
D. All of the above are important considerations.
E. Only B and C are considerations.

6. When Maytag developed the "lonely repairman" they crafted an example of which of the following marketing strategy components?
A. marketing mix
B. core strategy or position/image
C. targeting the market
D. identifying market conditions

7. By offering top-quality service to their customers, Paul and Lance of BS&E hope to:
A. cause the price of their products to be more elastic
B. cause the demand of their products to be more inelastic
C. cause the price of their products to be more inelastic
D. cause the demand of their products to be more elastic

8. In the BS&E case, if Paul and Lance made no changes in their marketing strategy, what should they expect to happen if they raise the price of their products over a period of time?
A. Some customers will likely change feed dealers.
B. There will likely be no change in their business.
C. The demand for their products will become more elastic.
D. The demand of their products will be more inelastic.

9. Why might Paul and Lance be good candidates for the Center for Agricultural Business (CAB) program?
A. They need to increase the visibility of their products.
B. They need to develop a strategic marketing plan.
C. to gain perspective from other managers facing same or similar decisions
D. All of the above are reasons for Lance and Paul to attend a CAB seminar.

Answers: 1-B, 2-B, 3-C, 4-D, 5-D, 6-B, 7-B, 8-A, 9-D
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