

The Florida Sustainability Case Study Series

A Project of the Educational Alliance for a Sustainable Florida

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LEFILS CORP

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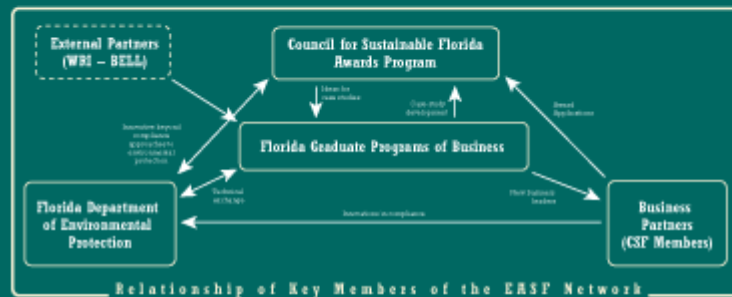
The Sustainability Case Study Series is a collection of Florida-specific teaching cases produced through the Educational Alliance for Sustainable Florida (EASF), a project funded by the Florida Department of Environmental Protection and implemented by the Council for Sustainable Florida. For more information on the EASF Project, please visit the project website:

<http://www.sustainableflorida.org/SignatureProgram.cfm>



Educational Alliance For A Sustainable Florida (EASF)

Investing in Tomorrow's Business Leaders



A Unique Partnership-

The Network is made up of 10 universities, industry, and government. Together, the Network works to

- Raise awareness
- Share resources &
- Build capacity

among Florida's graduate programs of business on the role of and practices for integrating social and environmental sustainability into the curriculum.

The EASF Program includes a variety of activities including

Speakers' Forum

that brings leaders in the field – from business or the academe – to share their expertise on cutting-edge issues.

A Clearinghouse located on the Council for Sustainable Florida's web site - www.sustainableflorida.org - makes materials, methods and minds available to faculty students and businesses throughout the state.

Monitoring the project tracks change in the programs offered by participating schools using a modified form of the BELL survey

Council for Sustainable Florida

LEFILS CORP.

In October of 2003, Donald LeFils, CEO of LeFils Corp., received an interesting offer to place a conservation easement on all or part of the Corporation's 2700 acres. For several years, housing developers had been exerting pressure on LeFils and his neighbors to sell their large tracts of land in Osteen, Florida. LeFils wondered what was the best market opportunity for his land, cattle and timber.

LEFILS CORP.

LeFils Corp. Products

The LeFils family business started in the 1920s with open-range cattle farming. By the 1940s, the LeFils family had acquired 2700 acres mostly in response to the fence laws that were enacted in Florida. Timber farming for manufacturing pulp was added to the LeFils product portfolio in the 1940s, and by the 1950s, the farming of this natural resource was in full swing on the LeFils' land. It was about this same time that Donald LeFils took over the management of the land, cattle and timber farming from his father. LeFils Corp. was incorporated in 1988 and Donald LeFils was appointed CEO at this time.

Organizational Culture of LeFils Corp.

While Donald LeFils was CEO of LeFils Corp., he sought the input of each of his family members, which included his wife, Mary, and their eight children and their families. Although a large family, the LeFils were very close both emotionally and geographically. Donald and Mary along with four of their children lived on the 2700 acres. The other four children lived within a 60 mile radius of the LeFils' property. Most of the children and their spouses had careers outside of LeFils Corp., which were their primary source of income. However, Donald and his son, Jim, worked as cattle ranchers for the LeFils' operation. In addition, one of Donald's other sons, Don, was LeFils Corp.'s ranch manager. Donald also had several grandchildren who were becoming involved in LeFils Corp.'s ranch operations.

Donald ensured that every family member had a chance to be involved in major decisions that impacted the business and ultimately, the family, by holding family meetings periodically. Donald stated that the family's well being was the top priority in making any business decision. Donald and Mary worked hard to instill family values that included a sense of pride in the family's heritage, stewardship for the land, and respect for agriculture and food production in the US. Their son, Don, reinforced his family's strongly held values by stating, "You won't get rich from cattle ranching. You are in this business because it is a part of you, a part of your soul." The LeFils' passion for the land and agriculture had been the inspiration to continue the family business, so much so that LeFils Corp. currently included the fourth generation.

MARKETING LEFILS CORP. PRODUCTS

Land

LeFils Corp.'s 2700 acres of land were the key to the management of the Corporation's two other products, cattle and timber. Recently, LeFils Corp. had added fill dirt to its product portfolio following the discovery of several reservoirs on the northern portion of the land. Agriculturally, fill dirt had no worth since nothing would grow in it. Therefore, it was sold to the many developers in the area. See Exhibit 1 for market information.

Within the preceding 15 years, LeFils Corp.'s acreage had caught the attention of various governmental agencies due to its environmental importance. In 1990, the state of Florida established a conservation corridor that was partially located on the LeFils' property. This corridor contained a natural creek drain, called Deep Creek, that ran through the property roughly from the northwest corner to the southeast corner. It eventually flowed into the St. John's River. The State believed that by establishing Deep Creek as a conservation corridor, it would maintain it as an aquifer recharge area. In turn, it would help to mitigate the impact of urban growth on Volusia County's water quantity and quality. See Exhibit 2 for area map.

Cattle

Cattle farming had been part of the LeFils family business for about 80 years. LeFils Corp. ran a cow-calf operation that annually sold approximately 150 young cows at approximately 6 months of age and 500 pounds in weight. LeFils Corp. strictly followed the best management practices guidelines for beef production. The market price for beef was somewhat volatile given the fluctuation of the supply of beef by domestic and global operations and the occurrence of cattle diseases such as Mad Cow Disease. See Exhibit 3 for market information.

Timber

Timber farming for pulp manufacturing was added to the LeFils' product portfolio about 20 years after cattle farming was established. Timber farming required long-term planning given pine tree seedlings took at least 15 years to reach the minimum size required to harvest. This type of farming also required periodic maintenance such as controlled burning and mowing. LeFils Corp. followed the best management practices guidelines for timber production as well. Unfortunately, the market price for timber had also been very volatile given the increasing competition from global competitors. See Exhibit 4 for market information.

CHANGING AGRICULTURAL ENVIRONMENT

Florida Fires

In 1988, LeFils Corp. sustained a quarter-million-dollar loss from a fire set by two minors who wandered onto the LeFils property from the neighboring city of Deltona. This fire spread over 600 acres of land on which timber was growing. In 1998, Florida experienced a rash of fires, which burnt thousands of acres. These fires were caused by natural forces as well as by humans. Although these other fires did not directly affect the LeFils's property, they raised concerns for Donald and his family. With the increasing urban growth of Deltona, it was more difficult to control the possibility of fires occurring on the forestry property.

Urban Sprawl

The City of Deltona, which lay along the western border of LeFils property, was growing dramatically to the point that Volusia County was in the process of developing policies concerning Deltona's urban sprawl. In addition, landowners on all sides of the LeFils property were negotiating various contracts on their land. To the north, a property owner was able to annex 5000 acres into Deltona and was in the midst of negotiating a contract on the land. To the south, a property owner was negotiating a contract with a developer to build houses on 10,000 square foot lots. To the east, a landowner negotiated a contract to place 4000 acres under a conservation easement.

The LeFils Corp. property was in a key location for the development and urban growth of Deltona. In the last three to four years, Donald had been feeling increasing pressure from developers to sell his land. He had been approached with several lucrative contracts from housing and commercial developers. One of the major drawbacks of entering into a contract with these developers was that these contracts included on average a year and a half for contingencies in order to assess the feasibility of such issues as rezoning of the property. Thus, there was a possibility that after signing a contract with a developer and tying the property up for a year and a half, the contract could be void if the contingencies were not met.

At the same time, Volusia County was in the process of proposing urban growth boundaries to help protect the County's environmental resources and rural areas by limiting development. One of the proposed urban growth boundaries ran very close to the LeFils' property line, separating their land from the growing city of Deltona. Although these urban growth boundaries were in process of being negotiated with various legislative bodies, Donald was concerned that if passed, these boundaries would limit the alternatives he had available to market the LeFils Corp. land.

Conservation Easements

Another option for farming families to earn additional income without selling their land to developers was to place a conservation easement on their property. A conservation easement was a contract between a landowner and a government and/or private conservation organization in which the landowner permanently separated certain ownership rights from a particular tract of land. In some cases, landowners received a reduction in their property taxes. However, since LeFils Corp.'s property was zoned as an agricultural extension, the property taxes were already very low. Thus, LeFils Corp. would not receive any additional reduction in property taxes under a conservation easement.

Landowners placed conservation easements on their property to protect the land from certain types of development while retaining private ownership. These easements ensured that the property's resources were protected forever, no matter who owned the land. Conservation easements limited the use of the land to activities such as forestry, agriculture, educational or scientific activities, hunting, fishing, and other related activities. Activities such as mining fill dirt were excluded due to the fact that they negatively impacted the land's natural resources permanently.

In Volusia County, several contracts placing conservation easements on private property had been made. The government organizations involved in negotiating the contracts included the United States Department of Agriculture (USDA), the St. John's Water Management District and Volusia Forever.

POSSIBLE ALTERNATIVES FOR LEFILS CORP.

Donald had several marketing opportunities for managing the LeFils' product portfolio. He knew it would be a tough decision given that several of the family members held very different views on how to market the land. His son, Greg, summed up the situation by stating, "This decision process epitomizes our family values. It is a family decision involving family core values that are held close to our hearts. Yet because of the family bond, we will work through this very important intergenerational decision – intergenerational because it will affect forever."

Donald decided to outline the four major alternatives for his family to discuss concerning how to market LeFils Corp.'s property.

- He could decide to sell his 2,700 acres to developers, thus closing down the farming operations altogether. Several developers had approached Donald with contract offers averaging around \$10,000 per acre.

- A second option would be to negotiate a contract that would grant a conservation easement on the LeFils' property. The USDA, St. John's Water Management District and Volusia Forever offered LeFils Corp. \$3,375.00 per acre. This option would allow LeFils Corp. to continue its farming operations as well as explore other options that were allowed under the conservation easement.

- A third option would be to split the 2700 acres so that the Deep Creek portion of the property (1700 acres) would be placed under a conservation easement and the rest of the land would still be available for possible development. This option would allow

the continuation of the farming operations on the entire property. The conservation easement would also allow for the possibility of dividing the 1700 acres into six sections of 250 acres each in case LeFils Corp. wanted to sell the land in the future. Each of these six sections would continue to be under the restrictions of the conservation easement no matter who owned the land.

- Of course, Donald could also opt to do nothing for now and wait to see how the property around the LeFils' land developed.

CONCLUSION

In October of 2003, Donald LeFils was considering a contract he received from the USDA, the St. John's Water Management District and Volusia Forever to place a conservation easement on 1700 acres of LeFils Corp.'s 2700 acres. Faced with the various alternatives, Donald was considering which one would be the best market opportunity for his land, cattle and timber. He decided to call a family meeting to discuss the different options.

**EXHIBIT 1
LEFILS CORP.
MARKET INFORMATION FOR FILL DIRT***

Average yards of fill dirt sold/year	100,000
Range of price/yard for fill dirt during last five years	\$.30 - \$.60
Average cost of mining fill dirt/yard	\$.25

*Total capacity for mining fill dirt was estimated at 3 million yards.

**EXHIBIT 2
LEFILS CORP.
MAP OF VOLUSIA COUNTY AND LEFILS' PROPERTY**

- ☉ Fill Dirt
- Ⓜ Timber
- Cattle (free grazing)

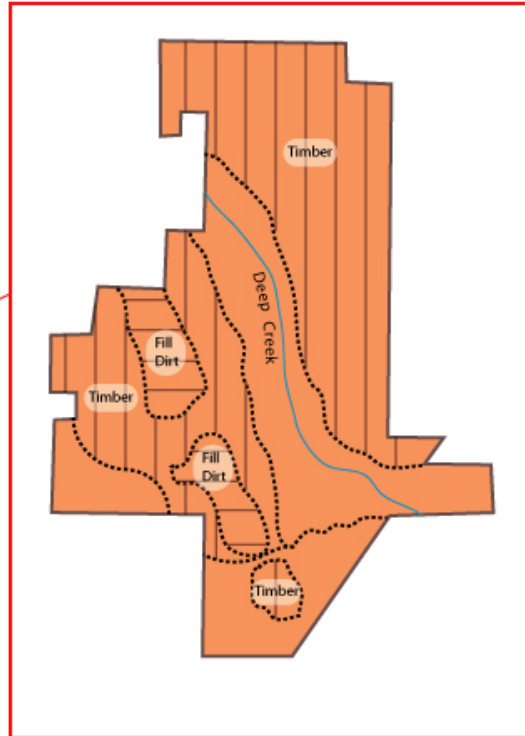
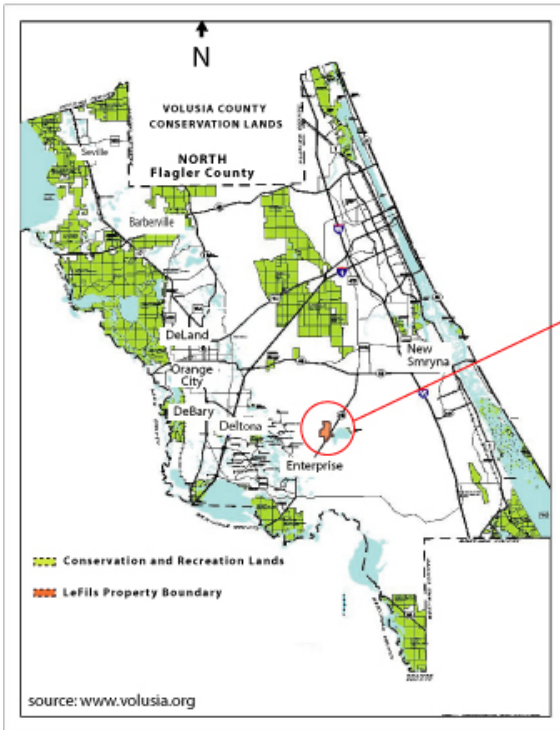


EXHIBIT 3
LEFILS CORP.
MARKET INFORMATION FOR CATTLE

Average number of cows sold/year	150
Average weight/cow	500 lbs.
Range of price/lb. for beef during last five years	\$.40 - \$.80
Average cost of raising cow/lb.	\$.58*

*Does not include taxes, labor and gas.

EXHIBIT 4
LEFILS CORP.
MARKET INFORMATION FOR TIMBER

Average yield of timber sold/year	1200 cords
Range of price/cord for timber during last five years	\$10.50 - \$39.00
Average cost of harvesting timber/cord	\$ 14.27*

*Does not include labor and gas.

LEFILS CORP. TEACHING NOTE

OPENING PARAGRAPH

In October of 2003, Donald LeFils, CEO of LeFils Corp., received an interesting offer to place a conservation easement on all or part of the Corporation's 2700 acres. For several years, housing developers had been exerting pressure on LeFils and his other surrounding neighbors to sell their large tracts of land in Osteen, Florida. LeFils wondered what was the best market opportunity for his land, cattle and timber.

TEACHING OBJECTIVES

1. This case is intended for an introductory marketing course. The primary audience for this case is marketing undergraduate students.
2. On the analytical dimension, the problem will be stated, possible alternatives given but no solution provided. Students will be expected to analyze the data, alternatives, and decision criteria and provide a solution.
3. On the theoretical dimension, students are expected to understand and apply the skills of product planning using sustainable marketing practices.
4. On the presentation dimension, the case is short, well-organized, and contains almost all relevant information with little extraneous information.

IMMEDIATE ISSUE

The decision maker, Donald LeFils, needs to assess what is the best market opportunity for his land, cattle and timber given the uncontrollable factors in the marketing environment.

BASIC ISSUES

1. Uncontrollable factors in the marketing environment (e.g., natural resources, competition, economy, legal/political issues).
2. Product planning applying sustainable marketing practices, specifically looking at the redesign of an existing product so that it is based on sustainable development principles (i.e., placement of a conservation easement).
3. Conservation easements and urban sprawl

SUGGESTED STUDENT ASSIGNMENT

1. Which uncontrollable marketing factors are impacting LeFils Corp.'s marketing strategy? Explain your answer.
2. How could sustainable marketing practices be incorporated into Donald LeFils' decision?
3. Which alternative should LeFils Corp. select given the uncontrollable factors impacting the marketplace in which it operates? Describe your analysis for each alternative and explain why you chose a specific alternative.

RESPONSES TO THE SUGGESTED STUDENT ASSIGNMENT

1. *Which uncontrollable marketing factors are impacting LeFils Corp.'s marketing strategy? Explain your answer.*

The major uncontrollable factors that are impacting LeFils' marketing strategy are competition, natural resources, economy, and legal/political issues. Global competition in the cattle and timber markets is causing shifts in supply of these products in the US. In addition, most of the global competitors are able to produce beef and timber at a lower cost than US producers. This is due in large part to the US economic environment in which there is a higher cost of living. Natural resources such as water and land are becoming increasingly scarce in the area in which LeFils Corp. operates. This trend is causing developers to put increasing pressure on LeFils Corp. to sell its land. It is also causing various governmental agencies to increase their legal/political efforts to find ways to protect these natural resources for future generations.

2. *How could sustainable marketing practices be incorporated into Donald LeFils' decision?*

Donald LeFils could in essence redesign one of his products, his land, so that the management of the land is based on sustainable development principles. This would mean negotiating a contract to place a conservation easement on some or all of the 2700 acres. A conservation easement would help to sustain water quality and quantity in Volusia County and the state of Florida. A conservation easement would also alleviate urban sprawl in this high growth area.

In addition, Donald could redesign LeFils' timber and beef operations so that each product targeted market segments that want to purchase sustainable products. This could include obtaining certification of organically raised and/or free-range cattle and sustainable harvested timber. In general, products that are awarded such certifications are sold at a premium, which could translate into higher profit margins for LeFils Corp. This case does not contain enough information for students to assess the costs or market advantages of certifications, but students may note nevertheless that LeFils' values and practices may be consistent with seeking certification for the beef and/or timber operations.

3. Which alternative should LeFils Corp. select given the uncontrollable factors impacting the marketplace in which it operates? Describe your analysis for each alternative and explain why you chose a specific alternative.

Donald LeFils has four alternatives to choose from in making his decision of what is the best market opportunity for his land, cattle and timber given the uncontrollable factors in the marketing environment.

Alternative 1 - Donald could decide to sell to commercial/housing developers. This in essence would mean that LeFils Corp. would sell off all of its current products and discontinue the fill dirt, cattle and timber operations on its 2700 acres. This alternative would provide revenue of approximately \$27 million for LeFils Corp. The potential downside of this alternative is that given the 2700 acres are adjacent to a high growth area (the city of Deltona), local government has proposed to draw the line to stop urban growth close to or on the property line of LeFils Corp. Although the adoption of the urban growth boundaries proposal is uncertain, if passed, it would keep LeFils Corp. from being able to sell this property for development purposes. This issue is especially important given developers include in their contract a period of a year and a half on average to allow for contingencies such as the feasibility of the rezoning of the land in question. This decision would also violate the values of the organization, namely a sense of pride in the family's heritage, stewardship for the land, and respect for agriculture and food production in the US. It would also mean that many of the LeFils family members would have to find new jobs and homes since they work and live on the 2700 acres.

Alternative 2 - Donald could decide to place a conservation easement on LeFils' 2700 acres. This alternative would mean that LeFils Corp. could stay in cattle and timber farming. Revenue generated from the conservation easement contract would be approximately \$9.1 million. In addition, LeFils Corp. would have annual revenue streams from cattle and timber production (see analysis below) but the fill dirt operation would no longer be allowed to continue. The cattle and timber products do not significantly contribute to revenue though. In a year when market prices are at their low, LeFils Corp. may experience a loss on one or both products or may only break even. This decision alternative would align with the values of the organization and would not disrupt the LeFils family's homes or jobs.

Alternative 3 - Donald could decide to split the land into two sections. A conservation easement could be placed on approximately 1700 acres on which Deep Creek is located. The other 1000 acres would be available for development. This alternative would also mean that LeFils Corp. could stay in fill dirt, cattle and timber operations. Revenue generated from the conservation easement would be approximately \$5.7 million. In addition, LeFils would have annual revenue streams from cattle and timber production (see analysis below). This decision would align with the values of the organization and would not disrupt the LeFils family's homes or jobs. The conservation easement contract would also allow them to sell the property in 250 acre sections if future revenue is needed. It would also provide the possibility for additional revenue on the remaining 1000 acres such as continuing to pursue the fill dirt operation (see analysis below) as well as other development opportunities. The potential downside of this alternative is that given the 1000 acres are adjacent to a high growth area (the city of Deltona), local government has proposed to draw the line to stop urban growth close to or on the

property line of LeFils Corp. If the urban growth boundaries proposal were adopted, it would keep LeFils Corp. from being able to sell this property for development purposes.

Alternative 4 - Donald could decide to do nothing. Given the pressure LeFils Corp. is feeling from the various uncontrollable factors in the marketplace, this option would eventually lead to a decision on the next three alternatives. Putting off the inevitable could put LeFils at a disadvantage given the current pace of the county government's motivation to stop urban sprawl and the increased activity of his neighbors entering into contracts with developers and/or governmental agencies.

Calculations for low end of market prices

Fill Dirt

100,000 yards x \$.30/yd. = \$30,000 REVENUES
100,000 yards x \$.25/yd. = \$25,000 COSTS
so \$30,000 - \$25,000 = \$5,000 PROFIT

Cattle

150 cows x 500lbs. each = 75,000 lbs total beef/yr
75,000 lbs. x \$.40/lb. = \$30,000 REVENUES
75,000 lbs. x \$.58/lb. = \$43,500 COSTS*
so \$30,000 - \$43,500 = -\$13,500 LOSS

Timber

1200 cords x \$10.50/cord = \$12,600 REVENUES
1200 cords X \$14.27/cord = \$17,124 COSTS**
so \$12,500 - \$17,124 = -\$4,624 LOSS

Calculations for high end of market prices

Fill Dirt

100,000 yards x \$.60/yd. = \$60,000 REVENUES
100,000 yards x \$.25/yd. = \$25,000 COSTS
so \$60,000 - \$25,000 = \$35,000 PROFIT

Cattle

150 cows x 500lbs. each = 75,000 lbs total beef/yr
75,000 lbs. x \$.80/lb. = \$60,000 REVENUES
75,000 lbs. x \$.58/lb. = \$43,500 COSTS*
so \$60,000 - \$43,500 = \$16,500 PROFIT

Timber

1200 cords x \$39.00/cord = \$46,800 REVENUES

1200 cords X \$14.27/cord = \$17,124 COSTS**

so \$12,500 - \$4,200 = \$29,676 PROFIT

*Costs do not include taxes, labor and gas

**Costs do not include labor and gas

SUGGESTED ADDITIONAL READING

1. F. Kaid Benfield, Jutka Terris & Nancy Vorsanger (2001). "Solving Sprawl: Models of Smart Growth in Communities Across America," National Resource Defense Council.
2. Rick Pruetz (1998 Summer). "Putting Growth in its Place with Transfer of Development Rights," Planning Commissioners Journal #31.
3. F.Kaid Benfield, Matthew D. Raimi & Donald D.T. Chen (1999). "Once There were Greenfields: How Urban Sprawl is Undermining America's Environment, Economy and Social Fabric," National Resource Defense Council & Surface Transportation Policy Project.