

Seed marketing

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Test 1

- **What is marketing?**
- **Write three things that come to your mind when trying to explain marketing to someone not so educated!**

(Tipoff: No one is going to see your answer)

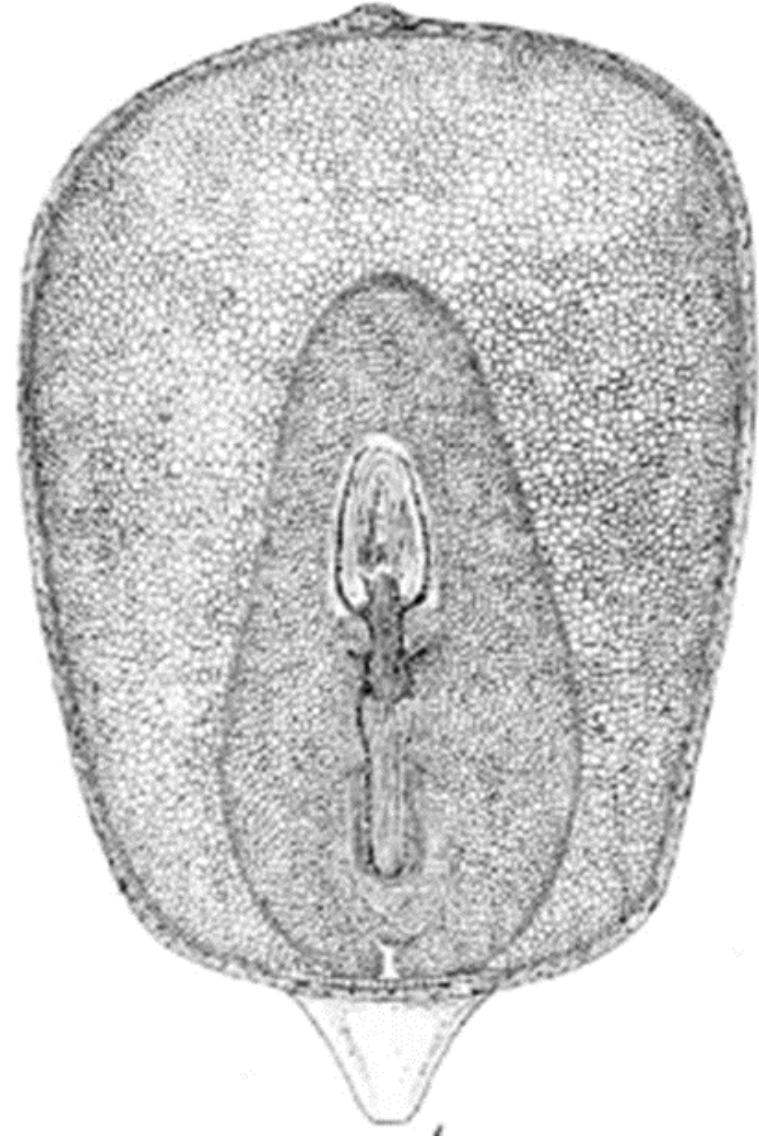


Outline

- ፈተና ፩
- What is seed?
- What is marketing?
- Seed marketing
- purpose and approach!
 - Understanding the market –market research and segmentation
 - Demand forecasting – why do we need to know demand?
 - Developing a product marketing plan – the real deal
- Costing and pricing – the accounting stuff
- ፈተና ፪

What is seed?

- **Biological [breeders'] definition**
- **Commercial/Marketing definition**



Seed – biological description

- The **unit of reproduction of a flowering plant**, capable of developing into another such plant.
- It is a reproduction unit from which plant growth and development starts
- A seed is a **small embryonic plant enclosed in a covering** called the seed coat, usually with some stored food.
- It is the **product of the ripened ovule** of gymnosperm and angiosperm plants **which occurs after fertilization** and some growth with in the mother plant.

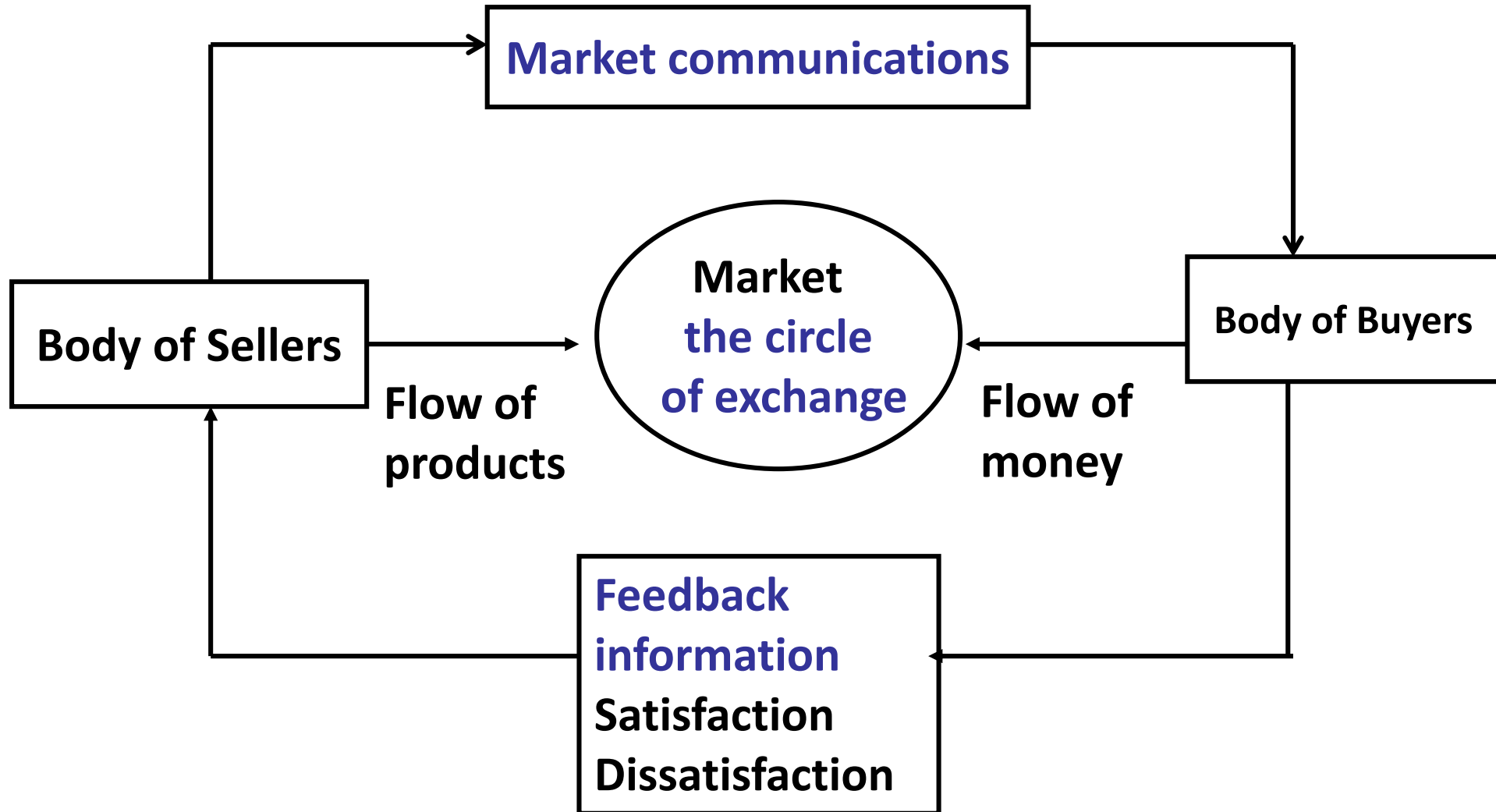
Seed – commercial description

- **Seed is a commodity.**
- Broadly speaking - seed is the product, but from a **marketing** point of view **it is the individual varieties which are the products.**
- The seed product **range** is therefore **all the varieties of all the crop species that are being sold.**

What is marketing?

Marketing = people + products + markets + money + non-market institutions

What is a market?



Three concepts of Market

- **Place concept**

- Market is **a convenient meeting place** for buyers and sellers to conduct buying and selling activities.
 - Mercato, Bahir Dar, Tana gebeya, Woldia - Adago.

- **Area concept**

- The **sphere or area within which price making forces of demand and supply tend to operate freely through the modern means of communication** and where **informed buyers and sellers** can establish close and continuous relations to carry on exchange of goods and services **without face-to-face meeting or direct contact.**
- Here a **place**, a particular site or hall as a central meeting place for buyers and sellers, **is not essential or important. It is only a matter of convenience.**
 - Global coffee market, flower market, meat market.

Three concepts of Marketing

- **Demand concept**

- Market represents an **aggregate demand** of the potential buyers of a commodity.
- Also means people with needs to satisfy, the money to spend, and the will or desire to spend that money to satisfy their wants.
- Our wants are unlimited and this process of want satisfaction is never-ending. Thus, market means consumer demand for product or service.
 - E.g., farmers' market, teenage market, ladies' market, automobile market, etc.

Most Important Elements of Marketing

Set 1 - General

- **Prioritizing the customer** – marketing begins with the customer, not the product.
- **Process of selection** – one needs to have an idea who to sell the product to.
- **Promotion** – it is helpful to let buyers know that the product for sale is available and of good quality.
- **Trust** – good marketing occurs when the customers trust the seller.

Most Important Elements of Marketing

Set 2 – Six Ps

- **People** – both customers and sellers
- **Plan** – how to reach the customers
- **Product** – the product to be sold vis-à-vis the customers' need.
- **Place** – where is the exchange to be made?
- **Price** – how much would be offered for the product?
- **Promotion** – how to inform people?

Marketing

- **Too many people think of marketing solely in terms of the advertising and selling of goods, whereas in reality marketing starts long before the goods exist and continues long after they are sold (FAO 1991).**



Marketing

- **Modern definition:**
 - A continuous **process of discovering and translating consumer wants into appropriate products and services, creating demand for these products under keen competition, and serving the demand** with the help of channels of distribution.
 - The art of **earning profit through profitable sales**, i.e., sale of right products to the right people at the right price and through the right channels and by the right promotion.
 - For us: **Marketing is about identifying anticipating and satisfying the needs of the farmer, as well as realizing the objectives of the supplier.**

Marketing

- Covers three basic activities
 - Discovery of consumer needs and desires revealing the marketing opportunities which can be exploited by a firm.
 - Matching the organizational resources and limitations (competition, government regulations, etc.) with the product.
 - Formulating and implementing the marketing program - **marketing mix** – to accomplish the twin objectives of profitability and consumer satisfaction.

Features of modern marketing

- Recognizes the consumer's supremacy in the marketing universe
- Begins with marketing research to generate adequate information of current consumer needs and ends with offering complete service and satisfaction (including post-purchase satisfaction).
- **Begins before production as well as it succeeds production.**
- Adopts the systems approach to marketing.

Aims of Marketing

1. Creation of utility

a. Place utility

- i. Movement of goods from producers to consumers

b. Time utility

- i. Making goods and services available at the time when they are required by the public.

c. Form utility

- i. Adds value by processing goods and services to make them readily consumable.

d. Possession utility

- i. Transfers ownership and possession of goods and services.

e. Information utility

- a. Promotion and advertisement

UTILITY

Aims of Marketing

2. Cost reduction

- a. Aims at reducing the cost of providing the benefit to both sellers and buyers.

3. Price stability

- a. Aims at stabilization of prices.
- b. An efficient marketing machinery must eliminate wide price fluctuations and maintain uniform prices in all markets.

The marketing mix

- In considering the **needs of their customers**, companies must think in terms of the *product* itself, the *price* of the product and the *place* where the farmer needs it, while making sure that the existence of the product is known through effective *promotion*.
- **Each ingredient is vitally important and each depends upon the other for its contribution.**

The Marketing Mix

- **Different markets will require a different balance of ingredients.** The mix should comprise:

1. Within the scope of company management

- ***a time scale***

a seed company must have a plan which indicates when it expects to achieve its objectives, both in the short, medium and long term

- ***strategic elements***

these will involve the overall development strategy of the company and require considerable judgment and expert: such decisions might involve the development of a new seed product range or a new distribution system

- ***tactical or medium-term elements***

the business environment requires constant monitoring; a company should have sufficient flexibility in order to react quickly to changing market circumstances

- ***short-term operational elements***

these involve predictable everyday decisions such as contacts with customers, organizing advertising and point of sale material, and planning distribution

The Marketing Mix

2. Out of the company's scope of management

- ***competition***
the competitors' strengths and weaknesses
- ***economic***
inflation, interest rates, credit availability, commodity prices, taxation
- ***legal***
import regulations, seed laws, consumer protection legislation
- ***demographic & geographic***
regional differences, both physical and cultural
- ***technological***
mechanization, quality requirements, breeding advances, computerization
- ***distribution***
the appearance of new outlets, cooperative development, direct marketing

Seed marketing – purpose and approach!

Seed marketing: Purpose

- **Purpose:** satisfying the farmer's demand for reliable supply of a range of improved seed varieties of assured quality at an acceptable price.
- Seeds are particularly important in farming systems where resources are scarce since a significant contribution to productivity can often be gained solely from the seed used, independent of other purchased inputs.
 - Therefore, the genetic potential of seed largely dictates crop yields and the productivity of other agricultural inputs and cultural practices.

Approaches to seed marketing

- In countries where the seed market is immature, improved plant varieties are released to farmers mainly through public sector research.
- Seed distribution may be undertaken by public sector agencies, cooperatives or the private sector or, as is often the case, by more than one of these channels at the same time.
- Varieties of seeds distributed through the public sector are usually under the control of state-run organizations.
 - In fact, whenever there are private seed companies, they usually have access to these public varieties.

Public and private sector

- In markets which support a mature seed industry:
 - private sector companies are usually the main source of new varieties.
 - public sector concentrate on basic breeding and releasing new genetic material rather than finished varieties ready for commercial use.
- The private sector is only likely to become involved if a well-regulated market exists and the products of private research are granted protection through Plant Breeders' Rights.
- This is particularly necessary for inbred crops.
 - Hybrids, and many vegetable crops, have a degree of in built protection as the breeder controls the parent lines.
 - Private companies therefore tend to focus initially on supplying the seed of the more easily controlled and more profitable hybrid and vegetable crops, leaving the public sector to concentrate on the more strategic, higher volume, non-hybrid crops.

Types of seed production and distribution organizations

State-owned corporations/enterprises

- Public sector corporations have an independent management and financial structure, albeit underwritten by government.
- As such they may have some financial autonomy but their operational strategies and approach to pricing are usually determined by official policy.
- Management is frequently expected to operate amid conflicting social and commercial objectives, while not losing money.
- State-owned seed corporations may have integrated plant breeding, production and marketing organizations or simply act as the seed supplier with breeding being part of government-financed research.
- Distribution may take place through government supply points, direct from seed plants or through private dealers. If a seed corporation is well managed, embracing commercial principles, then the option exists to attract a private sector partner in a joint venture.

Types of seed production and distribution ...

- **Private enterprises**

- Private enterprises' involvement can range from international seed companies and national seed businesses to local suppliers working in perhaps just one region of a country.
- Private businesses should operate within the framework of government seed legislation thus giving the farmer consumer protection.
- The distribution of seeds takes place through
 - retail outlets which can receive their supplies directly from the seed producer,
 - intermediate distributors, or
 - wholly integrated companies which control all the major functions of breeding, production and distribution and have a complete sales network.
- Private companies **concentrate their activities in those market segments where there is commercial demand and on those crops which can be marketed profitably.**

Types of seed production and distribution ...

- **Cooperatives**

- The main function of a cooperative is to act on behalf of its member farmers in **providing them with inputs and in the marketing of their crops.**
- Individual cooperatives can be members of a single centralized state organization or independent unions if owned directly by the farmers themselves.
- Cooperative groups are well placed to become involved in seed production on an independent or contract basis and can act very effectively as marketing agents.

Types of seed production and distribution ...

- **Seed producers' associations**

- Another kind of organization is one in which individual seed producers come together to form an association.
- In the beginning, an association produces improved seed from those crops which are planted by farmers in its immediate vicinity.
- As the association gains experience and seeks the services of technically competent personnel, it may extend the scope of its activities by adding new crops and seeking new markets.

Understanding the market

Market research, Market segmentation

Market research

- **Why market research?**

- The purpose of market research is to find out as much as possible about the market place so that the customers can ideally be given *what* they want, *when* they want it.
- Market research is just as important for a small seed company as it is for a large national organization.
- If a small seed company does not have the resources to support one individual to carry out market research, it still needs to devote time and resources for such information to be gathered.

Market research

- **Approach**

- It is obvious that the better the quality of the marketing information, the better the quality of the decisions that will be taken.
- However, there are costs involved in gathering and analyzing information, and it is therefore necessary to identify and focus on the most important issues.
- Seed companies must decide the information that is really needed and set priorities accordingly.

Market research

- The kind of information that is needed involves finding out **not only how large the market is, but also what factors influence farmers in their buying of seeds and the particular varieties they choose.**
- Such information is categorized into:
 - ***quantitative data***: which is factual and considers how big a market is in terms of **volume and value, what percentage of farmers buy seed and what share a given variety has**. This helps in planning seed production and market development activities.
 - ***qualitative data***: which is about **attitudes and opinions**, such as why farmers buy seed and how they select a variety. This helps in variety research programs, seed production planning and in marketing.

Market segmentation

- **What is it?**

- Market segmentation is the process of identifying and then separating a total market into parts so that different marketing strategies can be used for each part.
- Individual customers have different needs but an organization cannot provide a different product and service for each customer, neither can customers be served properly if they are all treated as being the same.
- This involves collecting marketing information about the different segments that the company has identified.

Market segmentation

- **Segmentation vs differentiation**
- Distinguishing between the **different characteristics and needs of consumers** in order to identify a particular market segment is called ***differentiation***.
- To be of value to the marketing manager the segments should include, *within the segment*, customers that are very similar to each other but, *between segments*, customers that are as *different as possible* from each other.
- The manager will look for segments that are large enough and have sufficient purchasing power to give an adequate return and make a differentiated marketing approach worthwhile.

Market Segmentation – **how?**

- Segments on the basis of geographical factors include:
 - ***location***
physical characteristics, rainfall, soil types, altitude
 - ***irrigated or dry land***
different cropping patterns and input regimes, farming systems
- Segments on the basis of crop species can include:
 - ***type or variety***
malt or food barley, white or yellow maize, hard or soft wheat
 - ***season***
winter, spring or summer sown
 - ***maturity groups***
early, medium, late
 - ***use and quality***
forage or grain, feed or bread making, oil or meal, etc.
 - ***hybrid or opv***
maize, sunflower

Demand forecasting ...

Why do we need to know the demand?

Why demand forecasting?

- If we don't adequately estimate demand, we may face **over-production or under-production**, both of which can cause serious financial consequences for a seed company.
- Too much **carryover and stock write-offs** will be costly while a **lack of seed not only means lost revenue but is also a source of frustration** for the sales force and the dealer network.



Why is demand assessment important for the seed industry?

- Accurate assessment of demand is necessary because:
 - long lead time for the development of new products from breeding programs,
 - seasonality of production,
 - production subject to variables like climate which are outside the control of management,
 - statutory controls and quality standards,
 - existence of a generation system - whereby the production in one year is the progenitor of the next,
 - limited 'shelf life' and loss of germination,
 - the high volume: low value ratio of some seed crops like cereals makes long-distance transport and long-term storage unattractive.

Demand forecasting: Seed requirement

- The first step in demand forecasting is to calculate the amount of commercial seed that is purchased by farmers.
 - Total commercial seed purchased = $(\text{Total purchased seed} / \text{Total seed used}) * 100$.
- In calculating seed requirement:
 - seed application rates must be taken into account; i.e., the difference between a crop grown for grain or forage, the difference between irrigated and dry land, the difference between a crop which is sown directly or transplanted.
- It is also important to define the various categories of seed that exist in the market, as an **understanding of these segments will assist in the assessment of demand.**

Seed classification [marketing point of view]

- **Types of seed**

- **grain retained on farm and used as seed,**
 - **grain bartered for seed at village or neighbor level,**
 - **grain sold as unlabeled seed bought from a market or trader,**
 - **certified or labelled seed bought from the distribution system.**
- Local custom and practice may be such that grain is retained on farm for use as seed. Or farmers may replace seed every three to five years.
 - Recognizing that grain of inbred crops will be retained by farmers for use as seed, the challenge for the seed industry is to convert as much as possible of the unofficially traded seed to certified or labelled seed sales.

What determines demand?

- Demand, to the seed seller, is the quantity that buyers are willing and able to purchase at a particular price. **This is called effective demand and is not the same as the seed requirement.**
- It is important to distinguish between the amount of seed farmers **will actually buy** and **how much they would like to buy**, or indeed **how much the government would like them to buy**. The total amount of certified or labelled seed sold may be quite a small proportion of the total requirement.
- So, what determines demand?

Factors affecting demand

- ***cropping pattern and intensity***
extension of irrigation areas; development of double cropping systems and multiple cropping of intensively grown crops; competing crops; new crops; rotations
- ***seed use***
type of seed used, i.e. non-hybrid or hybrid; variations under different farming systems, such as irrigated or dry land, and grade of seed used, e.g. if seed is graded and mechanically sown.
- ***climate***
rainfall and temperature patterns
- ***demand for crop products***
commodity demand; export demand; agro-industrial development

Factors affecting demand ...

- ***market situation***

commodity prices; yield levels; prices of seed and other inputs and farm costs; cost of growing competing crops

- ***disposable farm income***

levels of farm income; what a farmer will spend on seed; availability of credit

- ***rate or level of adoption of new technology***

farming techniques; mechanization (precision drills use less seed); hybrids replacing non-hybrid varieties; adoption of new varieties and certified seed

- ***government policy***

subsidies and other inducements such as price support and credit; privatization; extension programs; import or export policy and duty levels

- ***crop cycles***

frequency of good years and poor years; occurrence of natural disasters

Factors affecting demand ...

- ***habits and traditions***
socio-economic factors
- ***product performance***
comparison with alternative varieties
- ***competitiveness***
the choice the farmer has of using alternative varieties and suppliers; how do the suppliers compare in terms of image, convenience of supply, customer support
- ***price***
how prices compare with alternative sources?
- ***promotion***
special promotion campaigns being planned

Demand forecasting techniques

- Forecasting is the process of **making projections of demand** for products by examining **past and present performance levels**, combined with an **assessment of available products and markets**.
- This may be carried out within the government service or by individual companies in a purely commercial context.
- The following approaches can be used:
 - **target setting**
 - **growth trends**
 - **growth rates adjusted for new technology adoption**
 - **sampling.**

Demand forecasting: Target setting



- ***Target setting.*** This method is commonly used in developing countries where government is directly involved in planning and seed supply.
- In a centrally managed economy, targets are likely to be set at a national level and production plans fixed for each region.
 - In this region [for instance], it might be the Bureau of Agriculture that sets the annual target. ??
- Companies may opt to set a target for an ideal sales level while recognizing that this is unlikely to be achieved and budgeting for a more achievable situation.

Demand forecasting: growth trends

- This approach is based on the assumption that the rate of growth of seed demand as seen in past years will continue.
- This may give unrealistically high forecasts and will depend on the stage of market development for improved seeds.
- Small increases in volume in the early stages of improved seed use will represent a large increase in percentage terms, which may not be possible to sustain.
- [\[Computing growth rates-an example\]](#)

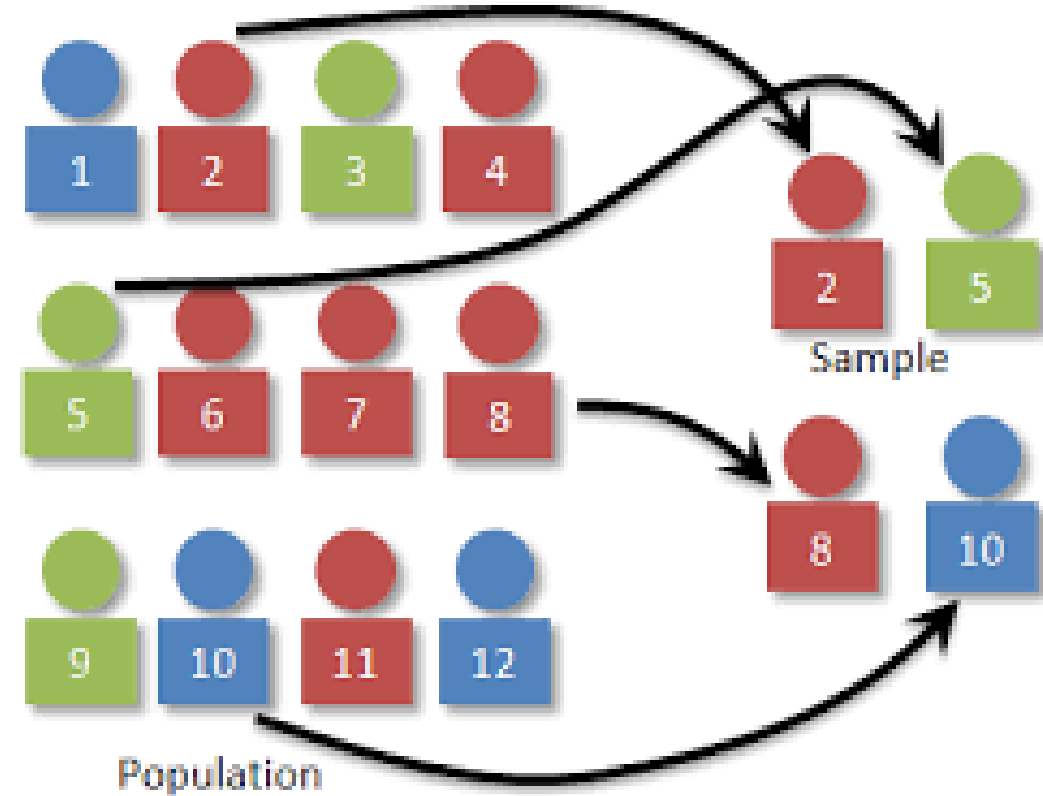


Demand forecasting: adjusted growth rates

- *Growth rates adjusted for new technology adoption:*
- Using this approach a given region is considered on the basis of **degrees of new technology uptake and the likely speed of change**.
- Each part of the region can then be categorized as '**low**' to '**medium**' or '**high**' growth, better reflecting the overall situation.

Demand forecasting: sampling

- The **accuracy** of the above approaches **can be improved** if **sample groups of farmers are questioned to gauge their anticipated demand for seed**.
- This exercise is more reliable where there is a reasonable awareness of the benefits of using improved seeds.



Some advice on using growth trends

- Historical sales can be examined to develop trend lines but the resulting projections must always be reviewed with the benefit of judgment and experience.
- Seasonal patterns and the variance between years need to be explained.
- Sales data from previous years are examined by preparing a graph of monthly/yearly and cumulative sales and comparing the different years.

Some advice ...

- A graph of successive years gives the overall trend and should answer the following questions:
 - is the market expanding or contracting?
 - if company sales are to be expanded in existing markets, shares will be taken from which competitors?
 - are increased sales going to come from existing customers or from new ones?
 - what products are being launched or phased out?
- **The sales forecast for each crop group is the total of individual variety forecasts.**
 - Thus each variety has to be considered as a different product line at different stages in its life cycle.

Some advice ...

- When forecasting demand, **a certain percentage should not just be added to the previous year's figures** as the previous year may not have been typical.
- It is necessary to create a **market-based forecast involving people in the company, as well as those in the distribution chain.**
- If a company expects to increase its sales by ten percent the dealers will need to plan accordingly.
- Demand forecasts prepared by dealers need to be discussed with them if they do not correspond to the company's forecasts.
 - For instance, it is possible that a dealer was left with carryover stock as a result of a late delivery in the previous season.
- Alternatively, local conditions may not correspond to the wider picture in the company's area.

Developing a product marketing plan

The real deal -

Developing a product marketing plan

- One aspect of marketing in a seed company is the design of a **product marketing plan** which, in turn, forms the basis of the production plan.
- This is how a market-driven organization should operate.
- Unfortunately, **in many non-commercial public sector agencies** the reverse is the case. Those who do not sell the seed are making the production decisions.



Developing a product marketing plan ...

- A 3 to 5 -year marketing plan should be created for **each variety of seed**. These plans should, in turn, be **combined to form a product group plan**.
- It is important to think in terms of a **3 to 5 year time frame as seed from one generation is used to multiply the next generation**.
- The stock of early generation seed must therefore be sufficient for the production of the later commercial generations.
 - **The plan has to be communicated not only to the production department but also to the breeders.**
- **Successful seed supply requires a planned and integrated approach.**
- If a variety is being produced under license from a foreign breeder, stock seed may have to be imported from abroad, adding a further stage in the process.

Developing a product marketing plan ...

- It is important that seed stocks are built up in advance of the launch of a new variety so that the sales growth phase is not slowed down by a shortage of seed.
- A delay of two or three years will mean that any yield advantage will be eroded by successive new varieties.
- Work on varietal purity and early generation seed production would normally commence during the last few years of the trial period **but building up commercial seed stocks prior to variety registration involves some risk.**

The operational marketing plan

- An operational marketing plan serves as a detailed 'road map' for the planning and supervision of all marketing activities for the following year.
 - The plan is therefore concerned with tactics and action.
- The marketing plan should be made up of a series of sub-plans covering all elements of the marketing mix for each product line.

The operational marketing plan: sub-plans

- Developing an effective marketing plan involves **understanding the expectations of the consumer**, in order to make decisions about *Product, Price, Place and Promotion*.
- Each sub-plan must be prepared to satisfy the **expectations of the consumer** and to meet the business objectives of the company.



The operational marketing plan: sub-plans

- The product plan should cover:
 - the product range and the number of varieties to be offered,
 - the key performance factors, e.g. yield, resistance, grain quality,
 - seed specification in terms of quality and treatments,
 - new product flow and new variety launch.

The operational marketing plan: sub-plans

- The price plan is concerned with:
 - pricing policy,
 - commissions/margins in the distribution chain,
 - dealer discount structure,
 - short-term pricing tactics, e.g. new variety, stock clearance.



The operational marketing plan: sub-plans

- The place plan needs to consider:
 - the distribution networks that will be used,
 - intermediate storage and transport arrangements,
 - sales territories and responsibilities of the representatives,
 - customer convenience .

The operational marketing plan: sub-plans

- The promotion plan must take into account:
 - packaging type and design, color, logo and product information,
 - the advertising and PR campaign,
 - the promotional material and sales aids,
 - demonstrations,
 - coordination with other organizations.

Costing and pricing

The accounting stuff -

The cost of seed

- The costs involved in putting a bag of seed on the farm must be recorded, analyzed and known to management.
- These costs will include **the cost of the processed and packaged seed and the marketing costs** associated with selling and distribution.
- Costs may be grouped according to the activities involved notably:
 - **Seed production, involving procurement, processing and storage, quality control and certification.**
 - **Seed marketing, taking into account marketing, market research, advertising and promotion, sales and distribution.**
 - **Administration and finance.**

Cost and revenue accounting

- A seed company/enterprise can use different ways. The key elements that make up a cost/revenue account are:
 - ***revenue***
income from various sources such as *sales*, *commissions* or *royalties*
 - ***sales***
direct income from sales of seed *commissions* indirect income from sales made on behalf of a third party
 - ***royalties***
income earned from licensing varieties to a third party
 - ***cost of goods***
direct costs of procuring seed for sale plus treatments and packaging; may include processing costs depending on accounting policy
 - ***gross margin***
sales income less purchase costs (also expressed as a percentage); serves as a useful indicator of the earning power of the product or business.

Cost and revenue accounting

- ***expenses***
company overhead costs associated with different activities such as production, sales and distribution, marketing, and administration
- ***trading profit gross***
margin less expenses
- ***plant breeding***
breeding, variety maintenance and trial costs
- ***gross profit***
trading profit less plant breeding expenditure
- ***net profit after finance and tax***
gross profit less finance and tax charges
- [An example.](#)

What is price?

- Price has different meanings for different groups of people:
 - to the buyer price is a cost which is used as a measure of value; the buyer evaluates one variety or source of seed against the alternatives;
 - to the seller price is revenue and therefore a key element in the marketing mix; setting the right price is an important tactical decision and is a key factor influencing revenue and profit;
 - to a government price may mean popularity and votes and is therefore a sensitive political issue; governments may therefore seek to influence and control seed pricing.



Price and pricing

- Price can be one of the most effective marketing tools available to a company.
- Pricing strategies for a product or product line should be established on the basis of **reaching short and long-term marketing objectives** such as selling a certain quantity, achieving a certain market share or making a given margin over costs.
- However, prices are often set **without taking into account the true cost of production and the effect which that may have on the competitive position** of a product or product range.

Why is it important?

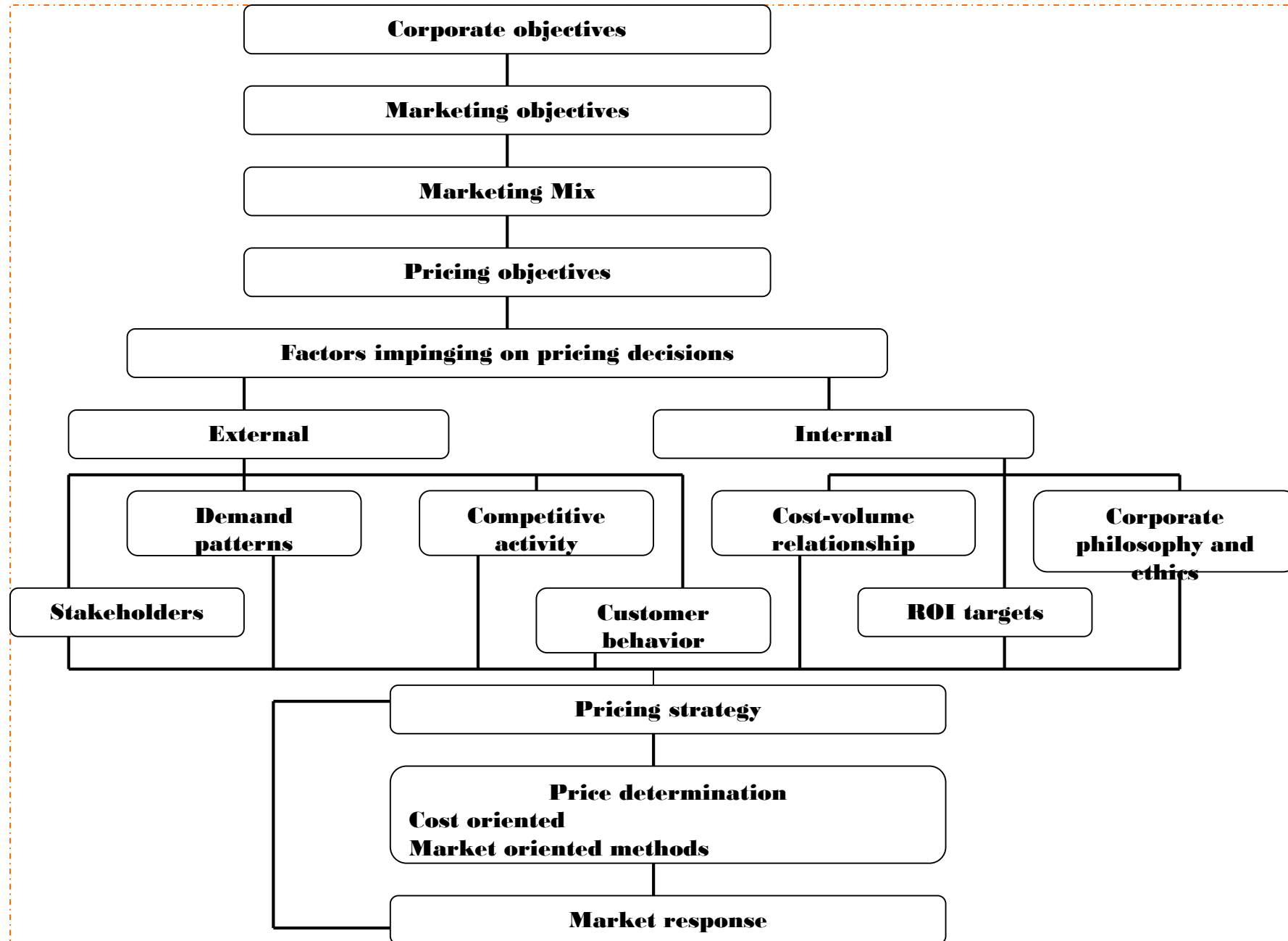
- **The importance of price varies from one market to another and between different segments in the same market.**
 - For example, non hybrid seed, which the farmer can save, will be more price sensitive than hybrid seed.
- **Price will be a more critical factor in marginal farming areas, where spending power is low, but less important where high yields can be obtained and farm produce can be sold profitably.**
- **Provided that the benefits of the seed are understood, it is other factors, such as the availability of fertilizer and confidence in the produce market, rather than price that dominate the farmer's decision to purchase.**

Pricing

- The task of pricing is reiterative because it takes place within a dynamic environment:
 - **shifting cost structures** affect profitability,
 - **new competitors and new products** alter the competitive balance,
 - **changing consumer tastes and disposable incomes** modify established patterns of consumption.
- This being the case, an organization must not only continually **assess its prices, but also the processes and methods it employs** in arriving at these prices.



The process of Price determination



Pricing policy

- Seed pricing involves setting prices when a new product is launched or a new distribution channel is used.
- Pricing might also change in response to competition and to the general market situation.
- In the public sector prices are often based on an economic pricing policy.
 - **Economic pricing considers the effect of seed price on the economy, taking into account the amount officials think farmers can afford to pay and the role of the seed industry in the development of agricultural production.**
 - Ideally, however, the public sector should follow a more commercial pricing policy which accounts for all costs and allows for an element of profit.
- Economic vs financial/commercial pricing



Economic vs financial/commercial pricing

- The **objectives of public-sector** seed agencies are usually similar to those of government since the main purpose is **to maximize seed use while achieving a marginal profit to finance the organization.**
 - Institutional inefficiencies often mean that profits are not realized and the government is, in effect, financing a hidden subsidy to make up for the losses which cannot be covered by cost increases or operational improvements.
- Pricing to maximize profit or to stay competitive in the industry??
- State-run organizations may continue to **supply the high volume and low margin non-hybrid seeds**, such as cereals, or seeds of public varieties while **the private sector develops more profitable high margin and imported seeds.**

Pricing strategies

- **Low price strategy**

- Low price strategies are used where consumers respond very positively to small downward changes in price.
- A company may not always gain from setting low prices as more efficient competitors may respond with similar price cuts.
- If the product is not particularly price sensitive then the net effect of a price reduction can simply mean a reduction in revenue.

- **Market price strategy**

- Where a few large companies dominate supply, products tend to be similar (known in the seed industry as "me-too" varieties) and the role of price tends to be neutral, i.e. a market price is established.

- **High price strategy**

- This strategy can be used as a long- or short-term policy.
 - In the case of **the long-term policy the company will have identified a market segment for a high quality, value-added product such as graded and treated seed for precision drilling. *A high price will reflect the exclusive image or added value of the product.***
 - **A short-term, high-price policy takes advantage of a new product introduced onto the market, as may be the case with a new high-yielding variety where supply is limited.**

Pricing techniques

- **Cost-plus pricing**

- This method involves **calculating the unit cost of a product and adding the appropriate profit margin to give a base price** which might then be altered in relation to prevailing market conditions.
- While this seems a simple approach the fact that such pricing is production oriented and may therefore not reflect what is happening in the market place, makes it risky.

- **Contribution pricing**

- This is a form of cost-plus pricing which involves separating the different products that make up the product portfolio and allocating to them the direct costs associated with their production.
- The price is determined at a level which will generate revenues in excess of these costs, thereby contributing towards meeting business overheads.
- **Individual products can be analyzed in terms of their ability to cover their direct costs and contribute to overheads.**

Pricing techniques

- **Competitive pricing**

- **Where there is market competition, costs cannot always be the determining factor in pricing.** Here the nature and extent of competition will have a major influence on the price.
 - If a product is faced with direct competition from similar products the price will be restrained.
 - In contrast, when a product is faced by indirect competition from products in different sectors of the market there will be more scope to vary the price.

Pricing techniques

- **Short-term pricing techniques**

- Pricing can be a useful tool for pursuing short-term marketing and sales targets.
- When a new variety is launched higher prices can be set.
 - **This provides the opportunity of earning higher returns from those farmers willing to pay the higher prices before seed becomes more widely available.**
- Lower prices may be linked to promotional activities such as
 - boosting sales of established varieties,
 - creating interest in new ones,
 - reducing high stocks and
 - encouraging farmers to buy early.

Test 2



- **What is marketing?**
- **Write three things that come to your mind when trying to explain marketing to someone not so educated!**

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