

Management of a Seed Enterprise and Its Pricing Policy

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ABSTRACT: Seed sector has to be recognized as the saviour of the human race in the face of the food deficits which are likely to assume alarming proportions in the coming decades. This phenomenon of the world's food security situation provides both challenges and potentials to the seed sector. With dynamic and drastic policy changes and with the addition of desirable dimensions to the seed sector both private and public- should be capable enough to meet the situation to the best advantage of all the components of this sector.

- Governments could formulate a compact, clear, concise and constructive seed policy with a high accent on the privatisation of the seed sector.
- Seed sector should receive a definite and priority allocation in all budgetary exercises.
- Multi-lateral agencies, financial institutions, banks and development agencies could embark upon a 'Seed Policy' for the developing world.
- A 'Management pool' has to be created and developed for the continuous growth of the seed enterprises.
- International and national research institutions and the private sector seed enterprises should have expanded exchange of experience.

Key words: Management, Seed enterprise, Pricing policy

Agriculture is the base for the survival of human race as it is solely concerned with production of food for man and fodder for his livestock. It provides employment for the bulk of people and maintains ecological balance essential for their existence. It fosters a chain of industries and generates purchasing power. The economic and social order hinges around agriculture. Having realised the importance of agriculture, governments all over the world have accorded high priority to agriculture. Paradoxically industrialised countries have provided for better attendance to their farms and farmers than the governments of developing world (with the exception of some) where agriculture is neglected. This situation cannot linger long, all advancements and achievements will crumble unless agriculture gets singular significance all over the world: there does not only have to be a parity of progress between the agricultural sector and other sectors, but the tempo has to be tilted in favour of agriculture.

SEED AND ITS SENSITIVITIES

Within the agriculture sector, the greatest challenge lies before the 'seedsman', because unlike this century, the 21st century cannot bring additional land

under cultivation and no more forests could be substituted by fields. Fertilizers and irrigation could, fill up the gap. In 'horizontal growth' only whereas the seed has to play a prominent role in the 'vertical growth' of the world agriculture. We have seen how the corn yield of an Egyptian farmer could jump from 1,000 kgs/hactare to 15,000 kg/hactare with a mere substitution of the 'domestic seed' by the single cross hybrid seed. This is not an isolated example, such cases are going on and the 'seed revolution' has to seize the world soon.

COMPONENTS OF THE SEED SECTOR

The range of seed sector is very long-unlike several other sectors and enterprises, the seed sector and the industry has to have the following components:

- (I) Ministry of Agriculture
- (II) Public Sector
- (III) Private Sector
- (IV) Farmers Sector

Ministry of agriculture

To create a conducive atmosphere for all the components to work with confidence and to achieve

concrete results, is perhaps, the primary role that the government has to play in any country. Developing the dependable infrastructure and designing a dynamic policy frame-work for the development, multiplication, conditioning and the distribution of seed is the crux for the successful operation of the seed sector. Ideally, the Ministry could play an active role in developing the requisite awareness amongst the farmers, bureaucratic systems, agricultural Institutions and the seed enterprises to achieve the sectoral goals with fairness, speed and commitment. It should also be recognised that the various components should work with definite autonomy. The scope for incentives and the weightage for the market forces have to emerge through suitable policy formulations and institutionalised practices. Looking at the monetary and the managerial limitations of the governmental sectors and institutions, the Ministry of Agriculture could provide its push for the accelerated expansion and growth of the private enterprises in the seed sector.

Public sector

Public sector has been playing a pioneering role in the development of the seed industry in the developing world. But unfortunately, in their anxiety to give total care to the seed industry several governments assumed the total responsibility for policy, research, breeding, seed multiplication, distribution and finance. The results have not been encouraging. Based on my experience, I firmly believe that the public sector should play the promotional role. Providing policy inputs to the governments, organising research activities, boosting breeding programs to release public varieties, catering to crop diversification needs, organising registration system, protecting breeding rights and germplasm of various owners and creating an overall healthy and competitive atmosphere for the seed enterprises, are the areas where the public sector has to play a well-defined role. R&D has to be its domain.

Development of 'human resources' for the seed sector is a very important area, which has remained neglected in one way or the other. In various parts of the world. Sporadic attempts made by the individual enterprises and institutions have always fallen

significantly short of the requirements. It is, therefore, imperative that the public sector assumes this responsibility soon.

Private sector

Privatisation may not be the panacea for all the problems, but it does provide the base for creating a vehicle for growth with speed, smoothness. Significant impact and substantial results. *riso live*

Agriculture systems in the developing countries are now witnessing a fast change. Several governments in Asia, Africa, and Latin America have realised that enormous benefits can be derived from privatisation. Besides releasing pressure on scarce resources, the countries are able to obtain progress in the areas through the private sector where high skills, investments, patience and complicated planning is required. Developing hybrids with huge investment, long wait, collective and organised efforts. Multiplying them for commercial purposes and selling them to the farmers on acceptable prices, still earning reasonable results on the investments, is an extremely tight rope walk that cannot emanate from the public sector. It is therefore, strongly felt that the private seed enterprises have to play an enlarged role in the seed sector. Such trends are emerging fast and the Pioneer has set up seed enterprises in various countries of the third world.

Farmer's sector

Farmer is the base and the back-bone of a seed enterprise. He is the grower and the purchaser. His skills determine the production competence and his purchasing power and willingness decide the acceptability and the profitability of the product. He is sensitive, and traditionalist. He is a good accountant too. There has to be a very systematic and collective effort to mould the moods and the moves of the farmers. The need for farmers' education, extension services and agronomical support cannot be over-emphasized.

ELEMENTS IN THE MANAGEMENT OF THE SEED ENTERPRISE

Seed industry has several peculiarities and complexities. Unlike other industries where the conversion of the raw material into the finished goods

involves a straight and less time-consuming process, seed industry has to create its own raw material and its vulnerability to the moods of the climate, tastes of the soil, likings of other creatures, etc. is very high. Similarly, its process of product development, product creation, conditioning, marketing and realisations is very long. Further, a seed enterprise has to undergo a lot of difficulty in getting its product accepted by the system and the farmers. Moreover, the returns on investments in the seed industry are not very high. It is a capital-intensive industry that can be set up by people with enormous prosperity, perseverance, planning and performance.

Broadly, the spectrums of a seed enterprise encompass the following elements.

Product development

The process of the product development for a seed enterprise is very long and, therefore, it requires a substantial investment in men, money and materials. The R&D aspect is very important.

There are several stages in developing a product. An indepth study of the climatic conditions, soil substances, irrigation systems, cropping pattern, crop diseases, yield patterns and expectations, etc. have to be made. Land legislation has to be understood thoroughly. The requirements of the product testing and registration have to be followed well.

Once the scanning of the market has been done, the seed enterprise has to develop a hybrid which is suitable for production in the given climatic conditions, resistant to the existing diseases, insects, worms, etc. Its acceptability in terms of yield and pricing is vital. It also has to conform to the colour, size, and appearance standards. Again, it has to be created fast, updated continuously and discarded after the use for a few years. An enterprise might take 5 to 7 years to develop a product, but it could use it just for 2/3 years, both as per the local requirements and also on account of the market situation. Perhaps, these difficult situations, where the seed enterprises have to invest colossal amount of money and employ a band of agriculture scientists, make the 'breeding program' as the 'bleeding program'.

Production

Production process consists of two stages, viz. growing the seed and conditioning the seed. Seeds and grains look alike but the vital difference lies in their quality.

Generally, a seed enterprise organises its production through the 'progressive farmers' on contract basis. The company enters into a contract with a grower to produce the seed of a particular crop on given terms and under agronomical support and care of the company.

After the harvesting of the crop, the seed has to undergo a lengthy process of cleaning, sorting, conditioning, grading, sizing, treating with chemicals etc., so that it has hundred per cent purity and complete vitality. The entire process is completed through a highly advanced and costly seed conditioning technology. The packaging, storage and distribution also require abundant care and cost.

The common problems that a seed enterprise encounters in the areas of production and sales relate to the non-availability of land, inputs, growers indifference and incompetence, climatic vagaries, infrastructural difficulties, lack of transportation facilities, restrictive import and export regulations, rigorous exchange controls and so on.

Finance

If the product development and production are the core of a seed enterprise, finance is the crux, seed industry is capital intensive and the return on investments is both slow and low.

A seed enterprise has to make a substantial investment in R and D, promotional activities and production process. It has to set up a costly seed-conditioning plant, construct a huge well-conditioned warehouse, create a transportation system, extend credit to distributors/farmers, build up a big organisational structure. The facilities created are put to use seasonally. production process attracts investments for several months, products are not sold immediately and the sales realisations are slow.

Thus the whole operational pattern of a seed enterprise involves the blockage of funds on a long-term basis and the turnover of the investment is not

fast. These features of the industry require a strong financial base. A seed company could look to the commercial banks, term lending institutions, international agencies, development funds, agricultural development banks, etc. But the financial base of the enterprise has to be built up very carefully. It cannot afford a high dose of debt nor can it find it convenient to finance the entire project with equity-stakes have to be reasonable and the returns have to be encouraging. Thus the bottom line' has to be viewed with satisfaction and expectation.

Ideally speaking, the seed project should be financed by equity up to 40 to 50%, term loan should be raised at around 10% and working capital could be managed at interest rates ranging between 15 and 20%. Production, distribution and realisation efficiency has to be good. Company's credit policy should be suitable to the market situation. Management cost has to be realistic and, the dividend policy should be supportive.

With these careful combinations a seed enterprise can expect a return of 15 to 25% on its equity and an impressive growth.

Organization and management

Organizational set up, its shape and size should be tailored to the demands of the local culture, capital structure, manpower availability, management practices and standards.

Generally, the following alternatives are available to a seed enterprise:

- 100% subsidiary
- Majority joint venture
- Management contract with minor shareholding and
- Producers/distributors arrangement

Pioneer prefers a 100% subsidiary or a majority shareholding with management rights since the management of a seed enterprise is a highly complex exercise and its success is a must for the investors, farmers, consumers and the government. Its management cadre should be complete, consisting of highly skillful, experienced, motivated, committed and concerned staff of agricultural scientists, financial

and management experts, administrators and marketing executives. Seed enterprise has to be managed both on monetary and missionary considerations. Its management and personnel policies have to put greater reliance on delegation, and decentralisation practices. Its operating units should be the focal points, with a distinct degree of operational and managerial independence. Team spirit is important everywhere, but here it is inevitable. Personnel policy should be based on the employees' sense of belonging, security, and growth.

PRICING POLICY

Pricing policy formulation for a seed enterprise is a very important exercise. In any market situation, it cannot be decided in isolation. Despite best quality, high-yielding products of a highly efficient seed enterprise, the mere factor of pricing may make its products absolutely unacceptable even in a monopolistic market situation. It is, therefore, inevitable that good research of the market sensitivity is done before fixing the price of any product.

Apparently, the sale of a product has to provide enough funds, on a going basis, to satisfy the contract seed growers, meet the operational cost, give incentive to the seed distributors, enhance the profitability of the farmers and undoubtedly, generate a reasonable return to the shareholders. It has to be admitted that no organization, be it in the private sector or in the public sector, can survive and grow unless it makes profit. In a private enterprise, the management has to sustain the shareholders' moderate expectations—a minimum return of 15 to 20% per annum, which is not high as compared to other industries. Similarly, in the public sector, the management team has to respond to the tax-payers' sensitivities.

To achieve the above objective, the seed enterprise has to face a very tight rope situation it has to face the two strong poles—growers and farmers: in economic terms, producers and consumers. Thus the management of a seed enterprise is reduced to the mere mechanism of optimising the returns through managerial excellences in managing growers, conditioning and distributing costs and indeed, the moods of the markets.

At this stage, I would like to share my experience about the moods of growers, markets and farmers towards the pricing policy of a company. Seed enterprise gets a price and it gives a price. The biggest component of its cost is the growers compensation. It has universally been accepted that contract growers system is the best system of getting the seed grown. The enterprise can minimize its investment through this system as the grower has his land, inputs and labour. But he needs a strong agronomical support from the enterprise. The grower needs price for the use of his land, labour and inputs. Since the farmer is said to be the greatest economist of the world, he knows how much he is earning presently and how much extra investment he has to make to grow the sensitive seed and thus he wants full compensation for his inputs. The seed enterprise has to compensate him fully and additionally it has to provide him some extra incentive. How efficiently and effectively, this exercise is done, would primarily lay the foundation for the enterprise's capacity to determine its own pricing policy. This factor is common in all the situations and all the continents. Similarly, the enterprise has to cover the conditioning, management and finance costs.

Marketing cost is both the actual cost and an incentive for getting a better price. The determination of this cost and price is again a complex exercise. Before adopting the marketing system and deciding the pricing policy, the enterprise has to carefully consider the market situation, its nature and sensitivity. Generally, there are three market situations-competitive, less competitive and monopolistic. In the first two situations the products and pricing have to be highly competitive. It is not enough that the products are competitive in terms of price and quality, but equally important is the awareness of the farmers and the distributors about the favourable elements of the products. Farmers are guided by 'Brand' name and their personal experiences of the products. It would thus mean that a product which has competitive qualities can sell better if market development exercises have been done well. Further, the existing and established products will not remain strong in the market for an indefinite period; products need advancement and prices require adjustment.

In a monopolistic market situation, the price determination might look easy on the face of it, but, as a matter of fact, the seed enterprise in a captive market has to be doubly cautious. Its price should be such that its products remain acceptable to the market in the long term, it avoids the emergence of competitors in the market and above all, people's perception about the enterprise is pleasant.

Consideration of the 'sensitivity of the market is of great significance in the formulation of the pricing policy of a seed enterprise. Broadly speaking, sensitivity could cover the mood of the government and the farmers. In several countries the prices of grains are determined by the government and, therefore, the seed, which is the raw material for the grain has to have link with the grain and its price. Generally, depending upon the quality of the seed and more particularly, its yielding capacity, the price of seed should not be more than 300% of the price of grain. Further, in many countries, even the prices of seeds are also regulated by the governments. Again, the sensitivity of the farmers is of the prime relevance. Farmer is the buyer and the seed market is always a 'buyers market', because the farmer always has an alternative in any market situation-he has his own grain to use as seed. Farmer's sensitivity will depend on his purchasing capacity, productivity of the seed and the eventual return that he gets in the market place. In some markets, extremely costly single cross hybrids are more in demand than the cheaper double crosses or the modified crosses.

Pricing will also depend on the seed enterprise's variety and the volume of production. The companies which have better product mix and bigger volumes effect economy in fixed costs and can compensate the price deficiency of one product from the price manoeuvrability of the other product. They could maintain their growth and profitability with such adjustments and at the same time they can pass on benefits to the farming community, more incentives to growers and realistically reasonable prices to farmers.

Pioneer Hi-Bred International has all along endeavoured to provide high-quality products to the farmers at reasonable prices: it has given fair

compensation to growers and its employees at the same time, and it has earned satisfying return for its shareholders. Its 'long-sighted' philosophy of dealing honestly and fairly with its employees, business associates and customers' for their maximum profit has ensured the company's growth with dignity and speed in the world since 1926.

RECOMMENDATIONS

- (I) Governments could formulate compact, clear, concise and constructive seed policy with a high accent on the privatisation of the seed sector.
- (II) Seed sector should receive a definite and priority allocation in all budgetary exercises.
- (III) Multilateral agencies, financial institutions, banks and the developmental agencies could embark upon a 'Seed Policy' for the developing world.
- (IV) A Management Pool' has to be created and developed for the continuous growth of the seed enterprises.
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