

Behavior changing post-patent pesticides in the Russian market.

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Stiff competition, low liquidity and lack of effective demand, as well as an uncomfortable ratio of turnover to non-returnable receivables with a constant decrease in net income forces market players of plant protection products to constantly look for new and new models of interaction with customers.

Large foreign players (multinational companies) are protected by patent restrictions and try to extend the life of high-yield and exclusive products by insuring and reinsuring their business directly from insurers, and constantly changing the so-called loyalty tree or distributor purchasing program and timely settlement.

Large Russian manufacturers are trying to find synergy from a cocktail of hard lobbying against formulated products import, along with general credit and retention of ultrahigh (of course, with respect to bare estimated cost) selling prices.

Distributors of multinational companies run between commitments to in-time debt cover for the received products, participation in mega-holding tenders and a persistent desire to go bankrupt.

Medium-hand importers, experiencing ever-increasing pressure from law enforcement and regulatory agencies (customs, tax offices, Rosselkhozadzor, police, etc.) often do not withstand market pressure and, either getting into the Sinosure black list or blacklisted as unreliable suppliers from the next mega-holding, increasingly reflect on the impermanence of life.

The beginning of 2019 was marked not only by the change of the head of the department for issuing conclusions on the issuance of pesticides import permits and the annual and usual pause in issuing the last ones before the start of the season, but also by leaving at least one importer from the top ten company not caused only customs and tax authorities, but also its EU founders, who not so long ago lost an enormous amount by the standards of Russia when supplying chemicals to neighboring Kazakhstan, automatically disrupting not only the delivery season but the Chinese suppliers debt returning time.

Smaller importers (native and with founders from sunny India) were not able to find a fine line between the fair price for their products, but also for the import product range and were confused by the founders about why 5% alpha-cypermethrin formulated product can be sold in UK by US \$22 per liter in 100% prepaid terms, but it cannot be added on 100% credit base for US \$ 7 in Russia.

Several large China and Indian manufacturing monsters, as well as not big EU formulators for Multinational Companies, having invested huge sums for registration in Russia (sometimes \$ 250,000 for one formulation) could not find a worthy place of their products on the Russian market and channels to promote their goods.

The main problem of the market and for its players is still the inability of the players to focus on determining their customer and the stage of life of the goods being brought to the market.

Defining the client in the market of plant protection products is generally a doctoral dissertation topic and I will not take it, but the successful pesticides length of life on the Russian market and its pricing are very interesting for me and I want to share my observations with my friends.

The classic understanding of the life of a product is described on the graph of market growth rates depending on the value of the goods.

In recent years, I was faced with a clear feeling that the last two stages of product life declined exponentially from the number of registrations for a post-patent product, and now the number of registrations has ceased to be the decisive value in this equation and the output of two or three registrations crumbles accordingly, the marginality of a once-profitable product to natural values. Moreover, the smaller the market for this product, the faster and more dramatically the price collapse.

In the early 2000s, it was possible to rely on a few years of good income in the framework of 100% marginality; nowadays, the price bar sharply during the year can fall from exorbitant heights to unacceptable 10% - 20% profitability.

I would like to make a disclaimer - these observations reflect the positive cash flow market of prepaid transactions at the importer-distributor level and do not take into account the huge reservoir of cashless sales with an unpredictable prospect returns share and moneyback time terms.

350 g / l thiamethoxam-based seed treatment initially held and still promotes the highly respected Multinational company in the Russian market, offering it in the price range from US \$217 per liter per end customer to US \$130 for a distributor with 100% prepayment in January.

In 2013, the unknown company registered in the interests of two Russian based co-registrant (at that time, the partners of the registrants rapidly entering the Russian market), the first post-patent analogue based on thiamethoxam seed treatment. The reason to registrate this way was to avoid by owners legal struggle that the company usually leads when their products are out of patents with Multinational competitor.

In the mid-2000s, the owners of the another Russian company encountered the same issue when they launched an affordable analogue dessicant based on diquat. Numerous lawsuits and pressure from Rosselkhoznadzor presented many unpleasant moments not only to the owners of the new brand but also to consumers (a ban on selling processed products is a simple way to force farmers to return to purchasing a more expensive product from Multinationals).

The initial entry price for the product was defined as US \$35, with a potential income of 300%, which is basically not bad for 2013, the fall in the market after the 2008 crisis gave a chance for a fresh sip when owning an exclusive in the available range.

Despite the signed memorandum between co-registrants and the presence of two players in the first year immediately brought down the price to values of US \$25 per liter. Moreover, an invisible player joined the fight - a gray market, which began to drive a stake into intra-corporate relations between the co-registrants suspecting each other of a dishonest game.

Simultaneous registration of another player in Russia only accelerated the prices crash.

Watching the rapid price down of insecticide seed treatment and possible sanctions on the part of Multinationals, others players did not dare to register direct analogs and began to make multi-ingredient pesticides based on thiamethoxam.

In 2017, trying to maintain profitability, the joint registration of two new companies 60% thiamethoxam product only accelerated the selling prices down.

Today, on the threshold of registration of more than 10 analogues on the basis of 35% thiamethoxam in Russia, the price has already collapsed to values of US \$14– US \$18 per liter, which leaves more than a modest income for legal importers.

We can observe that over a relatively short period of 5 years and a significant introductory discounting of a post-patent pesticide, the price drop was more than 100%.

A price comparable Multinational difenoconazolebased fungicide began the competition in the market since 2012, with the invasion of Russian importer in the list of registered pesticides with a price proposal of US \$60 per liter against the US \$196 per liter in Multinational price list offer for the agricultural producer and US \$118 for the distributor.

The higher entrance price is due to the higher cost and apparently the absence of other competitors in the market. Unfortunately for some, and to the delight of others, the pressure on the market was not strong due to the relatively weak financial position of the Russian importer, which preferred to concentrate more on expanding the registration dossier than on sales itself. The market entry of a more affordable fungicide was not noticed either by the market, or, as it seems to me, by the Multinationals, which was absorbed at this time by the Chinese state monster.

The situation changed in 2016 when two registrations of a similar formulation came from the new coming Russian importer and Ukrainian based supplier.

The real prepaid price on the market collapsed immediately by 2 times, and the gray market in the border southern garden regions of the country offered a product in 20 liter cans for a price of no more than US \$17.

And, as in the first case, a string of product registrations issued by the Ministry of Agriculture several registrations of the same type product will finally kill the attractiveness of the product, reducing its margins to average market values.

What we can draw conclusions:

1. The risk-free business of 100% prepayments cannot guarantee a medium-term period for obtaining high margins and may be limited to one or two years.
2. The rising costs of registering pesticides in Russia and reaching hundreds of thousands of dollars with an average market margin significantly complicates and slows the return of funds invested in registration.
3. The exit from the patent under the regular formulation most rapidly leads to the flooding of the market of gray products under the first registered brand of generic and kills its planned super-profit.

4. In the short term, the pioneer who hopes to collect the high profit to the new registrations is caught up by competitors and finally turns the profitable drug into a market average product.

Pros:

- In three - four years, several analogues appear from different groups of players on the market competing with each other
- Tough competition is rapidly bringing super profitable sub-patent pesticides to generics with comparable cost in China

Minuses:

- The increasingly shortened life of the super profit state of generic destroys the investment attractiveness of the market in the area of registration of post-patent pesticides in connection with the slowdown in return on investment
- Gray market kills and pushes to death a new generic product
- Russian market becomes non-consensual for foreign investments in the registration of foreign companies
- The farmer does not benefit from the fall in prices for generic products, since he is not mainly a player in the solvent pesticide market in Russia, preferring to borrow expensively and on credit.