https://www.linkedin.com/pulse/discount-last-argument-attempt-keep-share-insolvent-domestic-lomakin/

Discount as the last argument in an attempt to keep the share of the insolvent domestic market of Russia.

- Опубликовано 4 марта 2020 г.

Recently, more and more negotiations with representatives of foreign companies expressing interest to the Russian pesticide market and rejoicing at a possible increase in the supply on the Russian market in the near future, I came across a global misunderstanding of new and potential players with the realities of price wars that have been going on for several years, with tacit presentation the top ten players, from the camp of multinational and Russian manufacturers.

Official and semi-official reports on the size of the pesticide market in Russia report an annual increase of 10-15% per annum in dollar terms (up to 2,500,000,000 US dollars), but an increase in the hidden discount from 7 (25%) to 50 (70%) speaks only of the paper growth in pesticide consumption in Russia and the recession of the market, which is observed in the entire economy as a whole in Russia, may also be hidden in tonnage.

What is the actual problem.

It's easy to get a list of 20 or even 50 major suppliers of pesticides in Russia, but behind this list of Recommended Retail Prices *** (RRP) is a discount system called the "Loyalty Tree" at Bayer Crop Science, or distribution by a group of goods in August CJSC to the categories from A to D by types of profitability and, accordingly, the amount of discount for distributors and / or large agricultural holdings. In some cases, commercial offers can be reduced to personal offers of business owners or their representatives in %% discount from 50% to shocking 80%.

New players do not have access to this information and cannot have it, and collecting it takes time and many independent sources of information, which is difficult to do within even a single large and successful distribution company.

The absence of this information, at least in a substantial approximation or with assumptions, I hope will help build a true picture of the ongoing in-depth processes in our country on the pesticide market.

A bit of history.

I remember those glorious times when, for a contract of more than USD 1,000,000 (prepaid !!!), the August CJSC company in 2003 or 2004 offered a discount of 7% of the standard price in negotiations at the level of the owners of the enterprise. Multinational companies (Bayer, Syngenta, Dupont) had a simple motivational mechanism (more sold - more discount received), which was limited by a discount of 25-30%. The exceptions were mega-holdings and Bashkiria, which received up to 40% in industrial projects. But ammont of those are few and do not crash the market situation cause such buiseness goes under the carpet. The discounts did not change from year to year and stability was traced, which was interrupted by a short-term shortage of some goods that allowed successful distributors to earn a little more than usual.

Current situation.

Before or immediately after the 2008 crisis, an initiative group of local importers and manufacturers tried to assemble a cartel alliance for trading pesticides exclusively on a prepaid basis (like traders in fertilizers and seed hybrids at that time), but the attempt was thwarted by the owner Shchelkovo Agrochem, who flatly refused to sell products for prepaid and stated that he would deliver on credit base to the bitter end.

This can be considered the beginning of a full-scale price war, which is raging in Russia to this day. And no "new viruses" or "a shortage of an individual product in the PRC" issues or the Russian of anti-dumping sanctions against EU herbicides can stop this war.

The first victims of this war were distributors of multinational companies that lost all profitability from doing business and are doing it out of habit, not knowing what to do after losing it. The second victim was importers of the middle hand, who could not correctly assess their risks, and a rash credit policy in the market led them to the brink of bankruptcy.

But in the end, the final consumer pays for it - in the end, the market will come to a strict monopolization or nationalization of the market with equalizing prices, avoiding discounts and dumping losses on the food industry.

Will our agricultural producer survive it or will it become another bargaining chip as time will tell how heavy engineering and other industries in our country are.

ANNEX (current maximum discounts of leading manufacturers from RRP **)

Bayer Crop Science RUS - 60%

Syngenta - 55%

August - 60%

Schelkovo Agrochim - 60%

Agroexpert group - 70% and more

Technoexport - 50%

Adama - 60%