

MAIN STRATEGIES OF PROMOTING PESTICIDES IN RUSSIA since 1990.

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In connection with the growing interest of foreign companies of the so-called third world to the market of plant protection products in Russia and the numerous unsuccessful attempts of some players to quickly enter the market, I will try to describe some of the prevailing strategies on the market that are likely to occupy a niche in the market.

Multinational company

If there is enough portfolio of registrations (at least 10 -15, and at most 50 pesticides per company), the following action plan is chosen:

1. Formation of the price-list for the final consumer with an average profitability (from the cost of production of not less than 100%) in the main product niches with predominantly sub-patented products.
2. Organization of a stable distribution network in each region with internal (inter-distributive) competition.
3. The formation of a motivational program with an average margin of 20 to 40% on the distributor from the recommended end-user price (REP).
4. Distribution of leverage between distributors to ensure the rapid formation of product presence for the season
5. Insurance of financial risks of non-return by reinsurers and a motivational program (exclusion of privileges of the distributor)
6. Formation of an artificial deficit of some products
7. Goods-locomotives (rabid dogs) - to ensure demand and control market share
8. Direct work with holdings (regions of the Russian Federation) with a discount greater than the distributor (industrial projects) and direct sales
9. Marketing pressure on the market (quality of pesticides, belittling competitors, patent law in the country, judicial blackmail)

Strengths

- Large financial opportunities
- Patent defending of formulations and active ingredients

- Support from government and force structures
- High average profitability of doing business
- Transfer of risks to distributors and insurance of financial risks

Weak sides

- Pressure from low-priced generics and counterfeit
- Lobbying of Russian producers to reduce market share
- Difficult financial situation of distributors (zombie customers)

The Russian manufacturer

If there is enough portfolio of registrations (at least 10 -15, and at most 50 pesticides per company), the following action plan is chosen:

1. Formation of the price-list on the basis of generics with the highest possible yield, with the orientation of the price of multinational competitors or higher under conditions of state support
2. Lobbying interests through state structures (30% subsidies for production and consumer, subsidies for cultivation, tenders, state support in financing the construction of plants)
3. Sales of products through their own representative offices and warehouses in key regions, a huge own staff of poorly paid specialists in the field
4. Loans to end-users up to 100% for terms up to 3 years.
5. Special offers on holdings and large structures with a maximum discount of up to 60 - 70%)

Strengths

- Support from government and force structures
- High average profitability of doing business
- Wide representation on the country of warehouse and realization structures

Weak sides

- Limited financial capacity (compared to multinational companies)
- An absence of patent products
- Pressure from low-priced generics and counterfeit
- A difficult financial situation of end-users

- Annual dumping of financial resources in non-performing receivables
- Huge costs for production and staff
- Staff pressure due to low salaries towards fraudulent actions against the employer

Importer-discounter

1. Registration of own brands or access to permits.
2. Import of high-yield and/or highly liquid formulations
3. Work on 100% prepayment
4. A concentration of goods in one warehouse
5. Refusal to work with the end user

Strengths

- The best price offer on the market
- The best ratio in the market of the cost of doing business to the number of sales

Weak sides

- Limited financial opportunities
- An absence of patent formulations
- Low effective demand
- A difficult financial situation of end users and distributors
- Limited customer resource
- High price threshold for pesticide registration (long payback period of investments for registration)
- Marketing and legal pressure from market monopolists
- High competition in the market
- Low market coverage

Importer-smuggler

1. Import of counterfeit sub-patent high-yielding preparations of multinational companies
2. Implementation directly to the end producers or through a narrow network of distributors

Strengths

- High marginal revenue
- The best price offer for a brand product
- Loyal customer base

Weak sides

- Limited market
- Risk management
- Criminal liability for doing business
- Pressure from low-priced generic pesticides
- Low market coverage

Secondary market operator

1. Purchase of expensive products of multinational companies taken from end users
2. Purchase of used packaging of expensive products of multinational companies taken from end users
3. Realization of secondary products of multinational companies to end users

Strengths

- High marginal revenue
- The best price offer for a brand
- Loyal customer base

Weak sides

- Limited market coverage
- Risk management

- Criminal liability for doing business
- Low market coverage

Distributor

1. Work with multinational and Russian producers and importers on the principle of who will give the credit supply and cheaper product supply
2. Formation of its sales network of branches
3. Balancing with liquidity and financial result

Strengths

- Control and better knowledge of the market
- The maximum price of product sales
- Credit commodity resource from suppliers

Weak sides

- Limited financial opportunities
- Low effective customer demand
- A difficult financial situation of end-users
- Ultra-high competition in the market
- Absence of exclusivity
- Marketing and legal pressure from market monopolists
- Pressure from low-priced generics

Service company

1. Provides services in crop processing, dressing and agronomic support

Strengths

- Control and better knowledge of the market
- The maximum price of product sales

- The high loyalty of the end user

Weak sides

- Limited financial opportunities
- Low effective customer demand
- A difficult financial situation of end-users
- Depreciation of fixed assets
- Low sales cost of provided services
- High-risk activities
- Low market coverage
- Weak (low-quality) technical base
- Lack of normative and legal basis (partially illegal business conduct due to lack of permits)

SUMMARY:

The above presented 7 strategies on the market are the main refined structures, not excluding the mutual absorption of strategies and shaping the strategy by taking the traits of the other.

So on the market there are companies logically combining the signs of "Distributor" and "Secondary Market Operator" or "Importer-Discounter" and "Importer-smuggler", but also there can be a "Russian producer" and "Importer-smuggler" and so on.

The confusion or withdrawal, according to the author, of these strategies and the existence of some strategies ("Importer-Smuggler" and "Secondary Market Operator") speaks only of the hard and unhealthy position of the market as a whole and their players (buyers of producers and sellers). The previous review of the financial Russian pesticide market for the last 10 years of the author only confirms this.

Attempts by new foreign market players to blend the signs the "Multinational company" in the field of prices and the "Importer-Discounter" in the field of services provided to the market speaks only of their unpreparedness and lost time and financial resources.

Wrong orientation to the price segment of the recommended retail price of "Multinational companies" and "Russian manufacturers" and ignorance of the actual values of competitive prices in the market leads to a mistaken marketing strategy of entering the market and the collapse of the implementation program of the new player.

The main mistakes of new players on the market

1. Wrong formation of prices from REP of multinational companies, the use of price lists as a guide for the formation of the final price offer
2. Attempt to reach the end user
3. Refusal of registration of pesticide formulations in the Russian Federation
4. Registration of pesticide formulations for a Russian based company-subsiidiary
5. Offer in the market of an unbalanced offer (high price - advance payment)
6. Lending to end users
7. A concentration of sales or products on the largest agrarian region of Russia (the North Caucasus - Krasnodar and Stavropol regions)
8. An attempt to sell products through large holdings or companies
9. Low settlement margin for the distributor (less than 30%)

And finally some lyrics...

- The presence of a DDP and registered goods in a warehouse in Russia at the lowest price in the market is not a guarantee of its successful sales yet
- The average cost of doing business with the distributor is at least 25 - 30% of the turnover
- Net income of a large distributor in Russia is no more than 5%, with overdue receivables of at least 20%
- Overdue accounts payable of major Russian producers in 2018 will exceed their annual turnover
- Every year, several medium-sized distributors of multinational companies stop their business due to the inability to continue
- On average, the number of companies trading pesticides is estimated at several dozens per region
- A margin of importer-discounter cannot exceed 10% of turnover
- Each year, the importer-discounter sells part of the product below its own to maintain cash flow
- There is not a single player in the Russian market who would not have had problems repaying debts to foreign suppliers of active substances or formulating
- Russia is one of the riskiest countries in the Sinosure classification