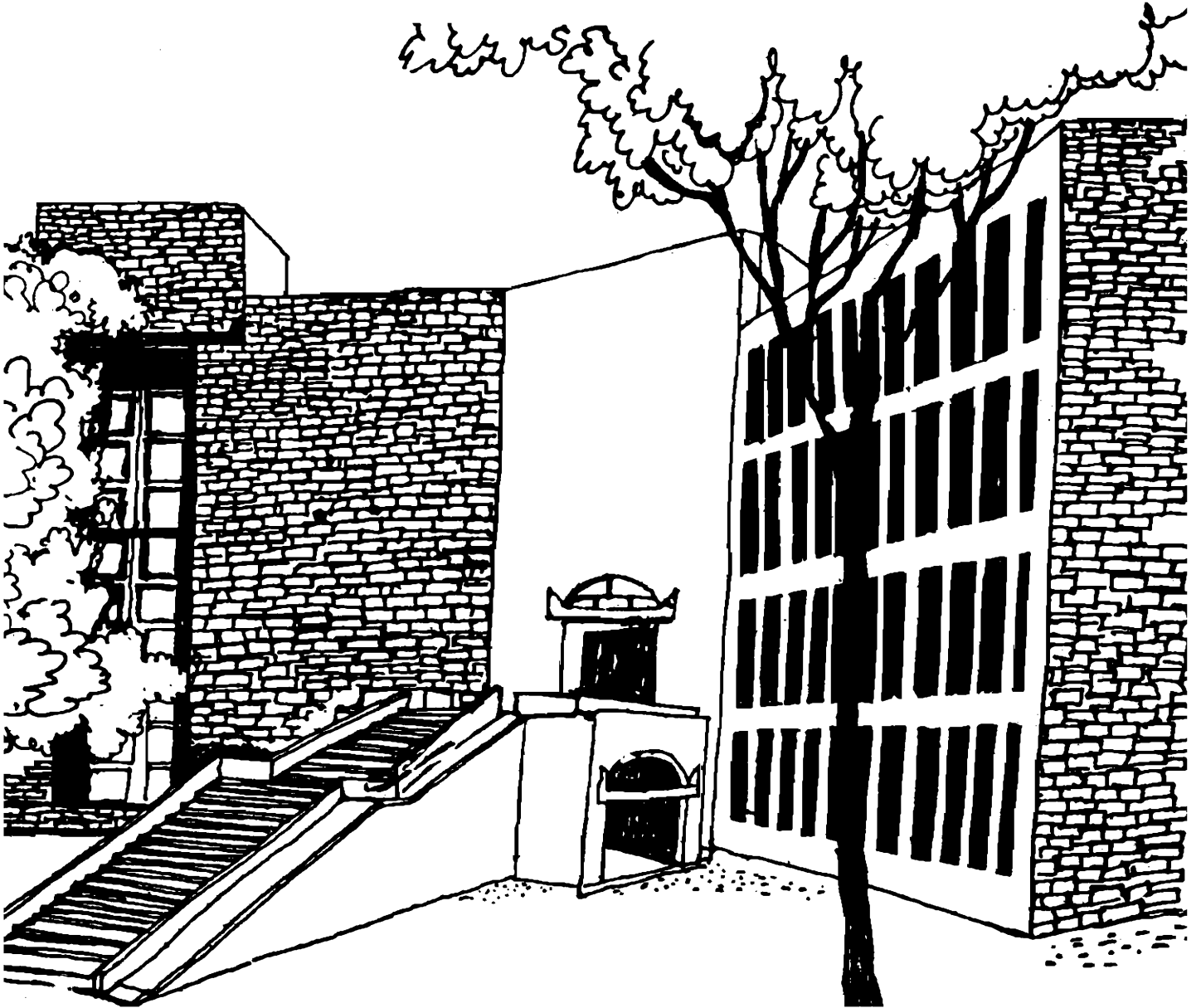




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# Working Paper



MARKETING OF SEEDS IN INDIA:  
STATUS AND ISSUES

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# **Marketing of Seeds in India: Status and Issues**

**Gurdev Singh and S.R. Asokan**

Seed is a very vital input and a dynamic instrument for increasing agricultural production. Inputs such as fertilizer, pesticides and irrigation are used to realise the potential of seed. Good quality seed in most crops is the cheapest of all the inputs required for increased production.

In traditional agriculture the cultivators retained a part of the crop for seed purposes. With the development of plant breeding in the early twentieth century improved crop varieties were evolved and their seed production was taken up in the organised sector. Thus, quality seed was made available and the farmers started purchasing seeds giving birth to a new industry. In India, development of seed industry began in earnest only after independence and in the next few decades it had grown to a fullfledged industry with an annual turnover of about Rs. 600 crores in 1991-92 in seed multiplication and distribution alone.

## **Nature of the Product**

Marketing of seed is the most important as well as a challenging aspect of seed industry because of the nature of the product. Seed being a live organism, its quality deteriorates faster. Thus its shelf life is limited and it must be marketed within the season. Left over stocks carried to the next season lose vitality and germination power goes down many a time to unacceptable level and hence are not used as seed. Because seed is treated with fungicide it is not fit for consumption either by human being or by animals. As such, it would not be possible to salvage even grain value of seed of food crops.

Another characteristics of this input is two to three years lead time required to meet the specific requirements. In other words, the estimate of requirement of seed must be available two to three years in advance, i.e., to meet the demand for particular seed, its production has to be organised at least two years in advance. The changes in weather, price of the crop, prices of competing crop may change the prospects of demand for seed of a particular crop variety at the commencement of sowing season. In times of increase in demand for seed, its supply cannot be increased as production

cannot be organised immediately whereas fall in demand would result in carryover of stocks. Such uncertainties in demand for seed makes its pricing a complicated exercise.

After production the seed is processed and made available at the nearest point to the farmer in remote villages well in advance of sowing time, in good quality and adequate quantity, and at affordable price. This warrants in addition to adequate production an effective delivery system.

#### **Existing Delivery Systems**

Seed is marketed through a network of distributors and dealers by the private seed companies as well as public sector corporations. A distributor/stockist is generally appointed for a region which may consist of one or more states. However, in some areas the companies reserve the right to appoint more than one distributor in a state depending upon the potential of the state. The dealers are appointed at district level. In some districts there may be more than one dealer again depending upon the potential of the district and marketing strategy of the seed agency. Generally they are appointed on non-exclusive basis which means the dealers can deal in products of other companies or even in other commodities.

Seed demand is seasonal and for a particular seed it lasts only for 3 to 4 weeks in the season. Hence seed forms only a part of the overall business of the dealer in all agricultural inputs. The retailers combine seed business not only with other agricultural inputs but in other commodities as well. The distributors, dealers and retailers are paid commission by the companies on sales. Normally 15 to 20 per cent commission is given to distributors who pass 12 to 17 per cent to the dealers while the retailers get 9 to 14 per cent gross discount on sales. In some cases the companies directly deal with the dealers who are paid at par with the distributors.

The distributor/dealer indent seed with the companies well in advance that is for the ensuing kharif season orders have to be placed in December. The companies insist on full payment on delivery of stocks. However, depending upon the track record of the distributor/dealer credit is allowed for a maximum of 30 days. The companies give incentive discount to the distributor/dealer against advance booking of seed with cash payment either in part or full. The incentive discount is normally equivalent to market rate of interest on call money. The advantages of advance booking against cash are that it ensures sales and reserves shelf space for the company and ensures supplies to the distributors/dealers. However, once seed is lifted from the company's godown it becomes the property of the channel and the carryover stock at the end of the season remains with the dealers/distributors.

The company on request helps in revalidation of the seed by the certification agency at the dealers'/ distributors' cost. However, some companies have the policy of getting back the unsold stocks so that they are not sold as fresh stocks in the subsequent season by the channel which might damage the image of the company among the farmers. The companies also may have their own retail sale points at the office premises at headquarters and at regional level and in some cases at specific locations.

The National Seed Project (NSP) aimed at creating at least 4 sales points of seed per block which means creating a network of minimum 20,000 sale points for the 5000 community development blocks. While creating such a marketing network great emphasis should be given to cooperative channel. Accordingly, the state seed corporations (SSCs) besides creating a network of dealers/distributors also marketed seed through cooperative marketing federations and agro-industries corporations of the concerned states. Most of the SSCs market three-fourths of their seed through this channel.

The NSP expected the National Seed Corporation (NSC) to gradually stop production of seed and start coordinating the production of seed by SSCs, and concentrate on inter-state marketing of seed produced by SSCs. However, NSC could not succeed in coordinating inter-state marketing of seeds from SSCs. Being producer itself it was often in competition with them.

Figures 1 and 2 illustrate the delivery channels of seed for private companies and public corporations respectively.

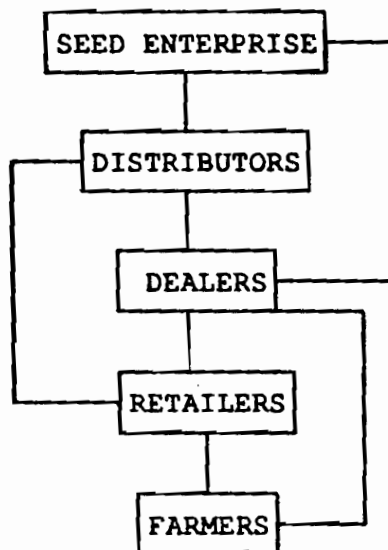


Fig. 1. Delivery Channels for Private Seed Companies

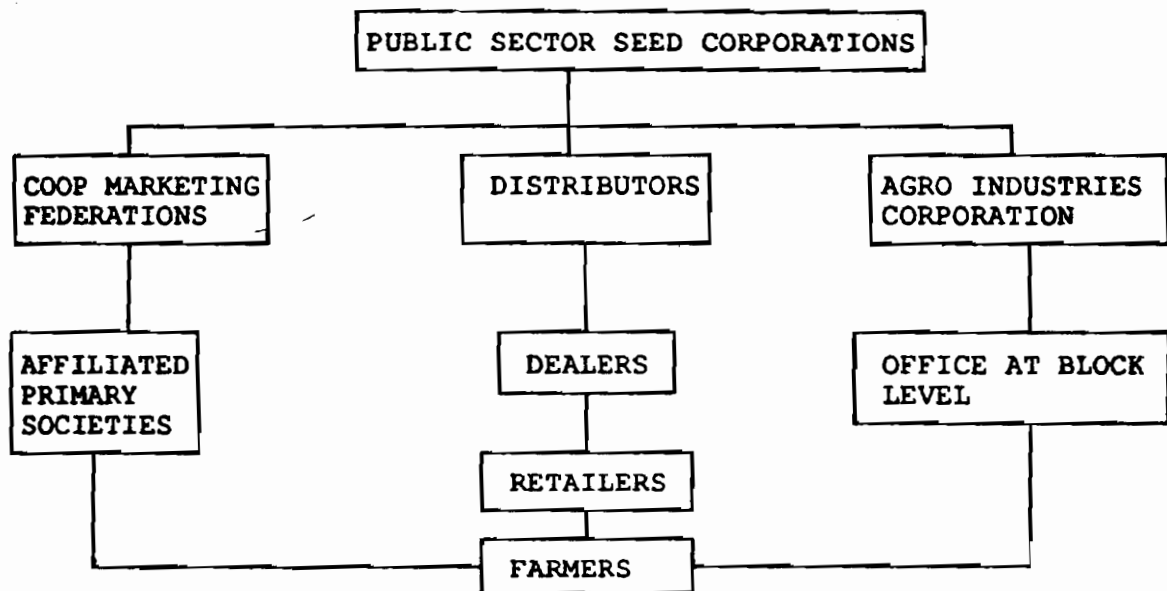


Fig. 2. Delivery Channel for Seed Corporations

### Issues in Seed Marketing

#### a) *Primary Seed Market*

Because the individual seed growers produce only small quantity of seed and they are scattered over large area, and because the consumers of seed are located at far off places, the growers can not take up seed marketing on their own. An organised effort becomes necessary. Private companies and public sector corporations have taken up this function. They decide on the basis of national priorities and farmers needs what seed to produce and how much. However, since they may not have adequate land, they have to organise production on individual farms in selected locations. The identified farmers become their registered growers and produce specific seed for these agencies on contractual basis. Since price of quality seed is fixed in advance (alongwith other terms and conditions), it becomes marketing linked production for the farmers. They negotiate for the risk free price for their produce. In the times of excessive production, however, the seed agencies become more strict on quality and rejection rate goes up. On the other hand, in the times of enhanced demand the producer farmers divert a part of produce to other channels at a higher price than the one negotiated with the contracting agency. How to solve these conflicts without harming the interest of the industry is a live issue.

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**b) *Demand Forecast***

Demand forecasting is absolutely essential in order to know what to produce and how much to produce. Demand forecasting for seed is extremely difficult because of the nature of the product. As it is difficult to estimate the demand precisely and match supply to it, often there is a situation of either glut or short supply. Seed companies do make some estimates of requirements for their seed by considering relevant information on individual crops like area in the previous years, area targeted for the ensuing year, and expected yield and price of produce. Expected prices and yields of the competing crops are also taken into consideration. This exercise is done for each crop districtwise. Although this helps them to organising production, such estimates go awry with unexpected changes in variables like weather in the sowing season. As a result there is excessive supply to some centres where demand has fallen on the commencement of the season. On the other hand, the supply may be short where due to some favourable conditions demand has increased just before sowing. To adjust these imbalances in demand and supply during the season cross transportation from one area to another becomes necessary involving additional costs and efforts on the part of sales staff. To avoid these hassles at the peak of the distribution, it is very essential to continuously monitor such variables till the sowing season is over. That is, an efficient information system may be developed and made available to all users. Individual seed agencies, however, will have to supplement this information with specific information gathered by them on their own seed. Such an information system will help seed enterprises to organise production better and market it efficiently. Who should develop the information system for the seed enterprises is another crucial question. Perhaps Seed Association of India or such other organisations can take up this responsibility.

**c) *Product Differentiation***

As we know seed is a live organism and is subject to deterioration in quality if not handled properly. It is thus pertinent to ensure sales in the first season itself. The objective of the company is to minimise the carry over stock and maximise sales.

Most of the companies/corporations multiply and sell public bred varieties where there is hardly any product differentiation possible. Only few companies have their own research and have developed lines with some distinct qualities. When product differentiation is not possible promoting company's brand name becomes important rather than promoting the product. So brand image of the company should be the focus in sales management.



**d) *Storage and Transportation***

Good storage facilities are needed for seed to obviate deterioration in quality. Although adequate storage may exist at processing plants, storage in transit is inadequate. Seeds are stored in central or state warehousing or in hired private godowns where the conditions are created for handling grains and not seed. The National Commission on Agriculture had recommended creating conditioned storage for breeder and foundation seeds and aerated storage for certified seeds. Although some efforts have been made in this direction the facilities created are not adequate. At present there is no data about the total storage capacity needed and where they have to be located. As an initial step the movement of seed should be mapped to work out the storage capacity needed and its location.

Delivering seeds at the doorstep of the farmers i.e. the nearest possible retail point in time at the beginning of the season is very crucial. Decentralised storage at consumption centres could avoid delays in delivery of seed to the user farmers. As bulk of the seed is transported through railways so allotment of space for moving seed must be accorded the highest priority. Care in loading and transporting in proper vessels would prevent deterioration in quality of seed in transit. Movement of seed is done by road in the north eastern states for which subsidies are provided. Similar measures can be thought of for moving seeds to remote areas in some states.

**e) *Operational Aspects***

The distributors/dealers have overall cash credit limit for their business. Seed is a seasonal business and peak time requirement for funds is high. The cash credit limits sanctioned for distributors and dealers for their total business are often inadequate. So the dealer/distributor have to resort to market borrowing at high rate of interest. The financial institutions may consider favourably additional cash credit limits for the seed marketing season to help ease the transactions between companies and the channel.

The distributors/dealers do not stick to the price by the company and do not operate at 10 to 15 per cent margin provided to them. The demand and supply situations are fully exploited by them. If there are shortages price hike is not uncommon. Since the entire seed is sold within two weeks or so distributors and dealers sometimes create an artificial scarcity. Further the distributors generally do not pass on the prescribed share in commission to dealers as they are aware that the latter would get adequate margin by hiking the price. These problems can be, to a large extent, avoided if the companies appoint the distributors for longer period of say five years or more than the present system

of one or two seasons. Such practices would enable the companies to get feedback on the product on a regular basis.

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