SEMIS, Exercises in Marketing & Sales Concepts

Nairobi, 23.07.2012
Dilip Gokhale
Tanmaiz’s TMV 1 Production

• John Okiwa, Sales & Mktg Manager of Tanmaiz Seed Company (TM) informed by his CEO that this year, the company was heading for 500 M.T. production of TMV 1 maize seeds.

• TM’s annual sales of TMV 1 were 300 M.T. p.a. for the past three years.

• It was an old variety being replaced by hybrids.

• John happened to meet the Sales Manager of TanSeeds, the largest seed company in Tanzania. Even they had excess production.

• He then phoned his friends in three other seed smaller seed companies. It seemed everyone had excess production.
Tanmaize costs

- Tanmaiz’s selling price for TMV 1 was $ 1 / kg
- It offered 10% commission to dealers
- It paid $ 0.50 per kg to out-growers
- Its other costs were:
  - Processing: $ 0.03 / kg
  - Packaging: $ 0.05 / kg
  - Transport: 0.02 / kg
  - Advertising & promotion: $ 0.05 per kg
  - It paid $ 5,000 / year each to its 3 sales officers and 2,000 / year to its 6 field sales staff

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• John immediately called a meeting of his three Sales Officers and six Field Salesmen
• They said, “Don’t worry sir, we will definitely sell the entire quantity”
• He then made a tour of his dealers and met each one personally in his location
• Each one of them assured him of selling off 67% more than his annual sales.
• He was now sure that he will sell the entire quantity and returned home much relieved
• He reports the outcome of his meeting with sales team and dealers to his CEO.
• Both are happy because Tanmaize seems to be heading for record profits
• Tanmaize’s market share of TMV 1 in the 10 markets where it had dealers was 20%
• TM has also produced 50 M.T. TM 101, a new proprietary hybrid ranked No. 1 in Govt. trials which is in high demand. (Sales price $ 3.00 / kg, grower payment $ 1.00 / kg
• Does John need to do anything? If so, what?
## Tanmaize’s costing & profit estimate

<table>
<thead>
<tr>
<th></th>
<th>300 M.T.</th>
<th>500 M.T</th>
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</thead>
<tbody>
<tr>
<td>Sales $</td>
<td>300,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Less dealer commission</td>
<td>30,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Balance</td>
<td>270,000</td>
<td>450,000</td>
</tr>
<tr>
<td>Grower payment</td>
<td>150,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Production costs</td>
<td>30,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Balance</td>
<td>90,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Marketing costs</td>
<td>42,000</td>
<td>52,000</td>
</tr>
<tr>
<td>Amount (available for admin Costs, interest, depreciation, profits)</td>
<td>48,000</td>
<td>98,000</td>
</tr>
</tbody>
</table>

In addition, TM will make $ 90,000 margin on TMV 101
• The CEO is so happy with the profit estimate that he decides to buy a Land Cruiser for himself
What actually happened

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Sales $</td>
<td>200,000</td>
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<tr>
<td>Less dealer commission</td>
<td>20,000</td>
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<tr>
<td>Balance</td>
<td>180,000</td>
</tr>
<tr>
<td>Grower payment</td>
<td>150,000</td>
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<tr>
<td>Production costs</td>
<td>30,000</td>
</tr>
<tr>
<td>Balance</td>
<td>0</td>
</tr>
<tr>
<td>Marketing costs</td>
<td>42,000</td>
</tr>
<tr>
<td>Amount (available for admin costs, interest, depreciation, profits)</td>
<td>-42,000</td>
</tr>
</tbody>
</table>

In addition, TM will make $ 90,000 margin on TMV 101
Carried forward stock 100 M.T. 50% of which had to be written off

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What should John do

Marketing:

• Make a realistic estimate of sales in view of bumper production (by every seed company)
• Define if and to which markets to expand to
• Review / revise product promotion budget (how much?)
• Consider revising (reducing) “real price” by offering incentives to dealers on meeting targets
• Prepare an incentive scheme for salespersons
• Not treat and pack all seeds so that if required part of the unsold quantity can be sold as grain
What should John do

Marketing:

• Continuously revise sales and income forecast during season / prepare sensitivity analysis

• What will be company sales and profits be at sales level of 200, 250, 300, 350, 400, 450 and 500 M.T. and net realization of $ 0.90 per kg, 0.85 / kg or even $ 0.80 kg (net realization means price minus dealer commission, additional incentive, sales team incentives etc)
What should John do

Sales:

• Appoint dealers in selected markets
• Recruit sales personnel
• Fix revised targets for all customers and sales persons including the newly appointed ones
• Communicate these targets
• Pre season placement of seeds
• Timely transport during season
• Collection of sales proceeds
Lastly ....

What should John do

SEMIs UoN
Seed Enterprises Management Institute
University of Nairobi
Lastly ....

Request the CEO to not to buy a new Land Cruiser yet (not to count the eggs before they have hatched...)