

SEMIS,
Marketing Management
Exercises in Pricing

Seed Enterprises Management Institute

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Tanmaize's TMV 1 Production

- John Okiwa, Sales & Mktg Manager of Tanmaize Seed Company (TM) was 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

- Tanmaize's selling price for TMV 1 was \$ 1 / kg
- It offered 10% commission to dealers on selling price
- 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

Bumper profit estimate

- 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)
- Each of Tanmaize's three main dealers (out of total 10 dealers) have offered to sell the entire quantity on his own
- One of them has also offered to pay the full amount (\$ 135,000) in advance
- The company's finance manager wants to accept this offer to solve cash flow problems

Tanmaize sales meetings

- John's Sales Officers and dealers have assured him that they will sell the entire TMV 1 quantity
- However, when he discusses the issue with his CEO who has much experience in the seeds business, they conclude that , if they did nothing, Tanmaize will be able to sell only 200 M.T. of TMV1
- Based on this input, the CEO asks the Finance Manager to work out the company's sales and cash flow statement which looks pretty bad

Tanmaize's cash flow based on sales of 200 M.T.

Net sales OPV Maize	180,000 (200 M.T. @\$.90)
Net sales F1 maize	135,000 (50 M.T. @ \$ 2.7)
Total net sales	<u>315,000</u>
Grower payment	<u>300,000</u> (0.50 x 500 M.T. +(\$ 1.00 x 50 M.T.)
Gross Profit	<u>15,000</u>
Proc., Pack., Transport, Adv	82,500 (550 M.T. x 0.15)
Sales & Marketing personnel	<u>27,000</u>
Loss (available for admin	(94,500)

Costs, interest, depreciation,
profits)

Carried over stock 300 M.T. of TMV 1

Tanmaize will not have money to pay growers or for its expenses

Sales sensitivity

- The CEO and John study the market situation, talk to a few dealers in confidence and conclude that:
 - If they reduced the price by 5 cents, they will be able to sell 300 M.T.
 - However, if they cut price by 10 cents, they will be able to sell 400 M.T.
 - If they reduce the price by 20 cents, they will be able to sell entire 500 M.T. and even get the entire money in advance

What should Tanmaize do?

- What should Tanmaize do?
 - Do nothing and end up selling 200 M.T.
 - Reduce price by 5 cents and sell 300 M.T.
 - Reduce price by 10 cents and sell 400 M.T.
 - Reduce the price by 20 cents, sell entire 500 M.T. and get the entire money in advance
 - Should they sell F1 maize to all 10 dealers, three dealers or the one dealer who wants to pay 100% advance?

Tanmaize sales and cash flow

Price \$ / kgS	1.00	0.95	0.10	0.80
Sales Qty M.T.	200	300	400	500
Sales \$				
Less discount				
Net sales				
PPT costs				
A & P costs				
Amount left for other exp				
Margin from F1 sales*	77,500	77,500	77,500	77,500
Profit				
Cash Flow				
Carry over	300 M.T.	200 M.T.	100 M.T.	Nil

* Sales 150,000 minus commission 15,000 minus PPT and A&P costs 7,500