

FOCUS: SEED

Credit pressures for small seed companies

As we have discussed many times before in our articles and editorials, the corn and soybean business in the US has largely transitioned to a technology distribution business. That is a fact. It is a reality.

But opportunities remain for local seed businesses. Farmers highly value the relationships they have with local or regional seed professionals. The recent Large Commercial Producer Survey released by Purdue University late in 2008 confirmed that producers strongly value their relationships with seed suppliers. They value a local, loyal presence where there is a trusting relationship between them and their service provider. In addition, it showed that farmers value the combination of product offerings together with that local integrity.

However, as seed companies strive to deliver products and meet customer needs, several concurrent evolutions are impacting local and/or regional seed businesses. Credit terms are a key issue emerging for most of these companies.

For over a decade, seed companies that are technology licensees have benefited from the cash impact of receiving technology dollars from customers before they have to pay their suppliers. The amount of this benefit varies by company depending on their early cash and customer habits and location, but the amount has grown over the years to reflect very significant dollars. In many cases, this cash flow benefit has occurred without companies (and their banks) even realizing it.

But the world has changed. Monsanto has established that on 6/25/09, 70% of last year's royalty is due with the remaining balance due on 8/15/09. This means that seed companies have to pay their supplier before receiving early cash from next year and even before they fully collect receivables from this year. According to Monsanto, they lifted their prepay program to offset the cost of the term change and to help the licensee compete in the market. Some licensees understood that the impact of term change could have been totally offset and have profited by participating fully. Other small seed companies are playing catch-up.

What do you do? Context recommends a few key steps:

- Talk to your suppliers – no one likes to be surprised
- Talk to your bank – help them understand the impact of this change in terms
- Look aggressively and pro-actively at the long term impact of this situation on you and your business.

Ultimately, this seemingly subtle change has potential to have a huge impact on the local and regional seed suppliers currently in the market. Context's **Seed Services Group** is designed to help seed companies mitigate risk, evaluate change and effectively strategize business plans among the many changes at play. Contact Blake Sieker at blake.sieker@contextnet.com.



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The Context Network provides business management and strategy consulting services to the world's leading agriculture, biotechnology and food companies and government agencies and institutions. Major areas of expertise include strategy, merger and acquisition support, valuation of new technologies, formation of alliances, and market research. The West Des Moines-based firm is composed of a core of professional consultants that is complemented by a network of more than 100 industry and subject-area experts.