How to Increase Sales of Agricultural Machinery in Romania

Carl Gillheimer
Uljebergs Säteri
SE – 590 17 Mantorp, SWEDEN

ABSTRACT

This article refers to a Master Thesis conducted by the author during summer 2010 at Väderstad Verken AB, Sweden and Väderstad Verken RO, Romania.

The master thesis is aimed towards two separate target groups; students with a business and agricultural background, and stakeholders involved in, or affected by, agricultural machinery sales in Romania at Väderstad Verken AB.

1 BACKGROUND

Väderstad Verken AB is a developing, manufacturing and selling agricultural machinery for soil tillage and seed drilling. The company is present in 40 countries all around the world but with a focus in the European market. Väderstad Verken AB has been preset on the Romanian agricultural market since 2001 through a local dealer, which now has been replaced by a fully owned subsidiary. Väderstad Verken believes they can mange the local business, sales and service in a better way on their own.

Romania has great agricultural potential with an enormous need of modern agricultural machinery. Most of the present agricultural machinery is obsolete and well used. This causes in many cases an inefficient agricultural sector with time consuming and costly breakdowns during the long and hectic agricultural seasons.

The country is a new Member State of the European Union since January 2007. As a member of the European Union they are entitled the same financial aid and support, for the agricultural sector etc., as any of the other 25 Member States.

One of the cornerstones in the European Union is the Common Agricultural Policy. It is one of the oldest policies in the European Community and allocates roughly 40% of the total European Union budget. The overall objectives of the Common Agricultural Policy are to ensure a fair standard of living for farmers and to provide a stable and safe food supply at affordable prices for the Member States citizens.

The Common Agricultural Policy is divided into two “pillows”; the first one strives towards providing a basic income support to farmers whilst the second one is towards support of the environmental and rural development. In this report is the second pillow of more interest.

Each Member State of the European Union has prepared National Strategy Plan in line with the general European Union’s policy for rural development. The plan covers the period from 1 January to 31 December 2013 (same as the EU budget period). Implementing the National Strategic Plan is carried out through National Rural Development Programs containing a package of measures grouped around four axes.

The overall aims of the Nation Rural Development Program in Romania are centred on three key challenges of transforming and modernising the agriculture and forestry production and processing sectors, to maintain and enhance the quality of the rural environment, and to ensure adequate economic and social conditions for the rural population.

Romania receives a significant amount of financial resources from the European Union, to be redistributed to applying farmers, in order to develop the country’s rural areas. During the pending EU budget period 2007-2013 receives the country €8.124bn, equal to roughly €1bn per year, in rural development. Out of this amount is €816mln allocated towards modernization of agricultural holdings (measure 121) like purchase of or lease-purchase of new tractors, harvesting machines, machines, installations, equipment and accessories.

2 Problem Definition

The aim with this master thesis has been to examine the available European Union funded financial support for investment in agricultural machinery in Romania, its regulations and limits and what customer group Väderstad Verken AB shall target during the pending European Union budget period 2007-2013. Also, recommend how Väderstad shall be able to increase their sales of agricultural machinery.

3 PURPOSE

The purpose of this master thesis is to increase Väderstad Verken AB’s and Väderstad Verken SRO’s understanding of the available EU-funded financial resources within the agricultural sector in Romania and to present an idea how to increase sales in relation to the available funds.
4 METHODOLOGY

The research has been conducted as a descriptive case-study in order to do an analysis of the present situation. The qualitative collection of the primary empirical data has mainly been made from Government publications and official statistics from the European Union’s website and Romanian Government’s website. The secondary data has been gathered from written sources; literature, reports and e-sources.

5 CONCLUSIONS

Available EU-funds for investment in agricultural machinery

Romania receives in total €816mln during the EU budget period 2007-2013 for investment in agricultural machinery. According to the latest figures from 1st of May 2010 has €525mln already been redistributed to applying farmers through five different sessions. Official remaining resources is therefore €291mln. There are two sessions planned for measure 121 in 2010, €150mln in May (3-31) and €100mln in October (1-29). If we include the previous session in May this year, remaining resources is €141mln (not yet published online). After the next measure 121 session in October there will remain €41mln. There is no information available what will happen to the remaining financial resources.

NRDP application

All potential beneficiaries have to prepare and submit an application regarding the investment in order to apply for financial support. A consulting company, paid by the NRDP, performs the preparation and submits of the application. In average the consulting company needs 2-4 weeks to perform their task. The application contains two parts, price (40% of total score) and technical specifications (60% of total score) where each part is scored by an established scoring system. Also, if the investment is greater than €10,000 the application has to include three alternative offers, if less in one offer enough.

Potential beneficiary must demonstrate their possibilities to private co-finance their investment in agricultural machinery in order to apply for the EU-funded financial support. In the absence of their own co-financing resources and refused by the credit institutions, the potential beneficiary are forced to abandon their investment projects. Many farmers in Romania are facing problems to get an investment loan from a bank due to poor financial figures and lack of trustful collaterals.

Historically has roughly 1/3 of all applications been approved by the Managing Authority for financing. The most common reason for elimination is lacking co-financing possibilities. The Romanian Government has in accordance with the European Union established a credit guarantee scheme in order in increase the absorption of the available funds. The aim of the guarantee is to undertake the credit risk and make investment loans less risky and more attractive for the Romanian banks. The guarantee is financed by the European Union and for measure 121 is €107mln allocated. The guarantee fee is fixed as 1.35% yearly compounded. The guarantee scheme is also available for those farmers who are not eligible to apply for European Union funded financial support but need a loan to finance their investment.

Co-financing

Farmers who have successfully obtained an approved application can enjoy 40%-60% of European Union-funded financial support. The range depends on how old the farmer is and where the investment is done. If the farmer is less than 40 years old, and if the investment is done in an areas classified as less favoured, the farmers receives an extra 10% investment support for each reason.

The remaining 40%-60% has to be privately co-financed in order to receive the financial support. There are banks specialised in offering National Rural Development Program-products for farmer who not is able to privately co-finance the investment. The bank VVAB is cooperating with in Romania, UniCredit, is one of these banks. They are offering theirs:
- Retail customs loans up to 85% of the total eligible expenses (bridge loan + investment loan) where the remaining 15% has to be paid as equity.
- Corporate customers loans up to 94% of the total eligible expenses (bridge loan + investment loan) where the remaining 6% has to be paid as equity.

Potential Customers

The Romanian agricultural sector is considered to be dual. There is a large number of small farms (4,102,984 farms, average size 2.15 ha) and a small number of large farms (18,263 farms, average size 269 ha).

VVAB’s primary customers are farmers with a cultivated area exceeding 100 ha. According to the national paying agency are there roughly 10,000 agricultural companies exceeding this area. Many of these companies are receiving substantial amount under the Single Area Payment Scheme. For example, in 2008 did farms operating over 1,000 ha (in total 790 farms) receive €156mln. This corresponds to 17% of the Single Area Payment Scheme allocation that year.

These large companies (>1,000 ha) are considered to be potential customers to VVAB because:
1. They receive such a large amount of financial support through the Single Area Payment Scheme that they have the financial strength to finance their agricultural machinery without the available European Union-funds.
2. There is also possible to sell multiples of agricultural machinery to these customers due to their large cultivated area.
3. Once the allocation to measure 121 is empty these customers can still invest in agricultural machinery.
6 RECOMMENDATIONS

In order to increase sales of Väderstad machinery in Romania the local VVRO must be able to offer their local potential customers a package of services as a single product. The goal with the product is to simplify the purchase process for the potential customer by offering a single product including the NRDP-application, private co-financing option and general consulting linked to the machine purchase. By taking over the intricate application processes and financing options from the potential customer and offer competitive single solution (product) VVRO will have an improved possibility to increase their machinery sales in the country.

The product shall be basic and easy to understand but still cover all parts of the application process and financing process. Three resources need to be included in order to make the product successful and complete; fiscal resources, external resources and internal resources.

The product shall cover the following resources;

- Fiscal resources: Consist of the financial support and guarantee scheme related to measure 121 Modernization of Agricultural Holdings. The financial support cover 40%-60% of the total eligible investment and the guarantee scheme up to 80% of the total eligible investment.

- External resources: Consists of the consulting firms and bank. The consulting firm conducts the application in collaboration with VVRO, the bank and customer. The bank finances the co-financing part of the investment (40%-60%) through a bridge loan and an investment loan.

- Internal resources: Consists of the local VVRO sales team. The team is having a leading role by guiding the external resources in line with the potential customers requirements.

A cornerstone in this product is a close collaboration with the external resources. VVRO cooperates since earlier with the UniCredit Tiriac Bank for their corporate banking activities and is therefore a good alternative to start negotiations with. Also, the bank has good knowledge within NRDP and dedicated employees towards the available EU-funds. The bank is also having close cooperation with six agricultural consulting firms, all specialised in conducting NRDP applications. This existing cooperation shall VVRO take advantage of and select two or three consulting firms and start negotiate with. Regarding the selection of the consulting firm is their quality and cooperativeness of highest importance. Their price has a minor influence since it’s covered by the NRDP.

VVRO’s sales team has to obtain sufficient training in the subject to be able to present the product in detail for the potential customer and give answer their questions. The sales team must also be able to organize a demonstration of the requested agricultural machine for the potential customer, preferentially at the potential customer’s site.

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