



The Grass Seed Industry – A Race to the Bottom

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The international grass seed industry is big, complex, and ever changing. Today the grass seed industry, like many industries, is making every effort to ride out the economic storm currently affecting our country and the world. However, some of the issues affecting the grass seed industry are self-inflicted or the result of an undisciplined commodity industry. This article reflects the observations of a seed industry veteran who has observed the grass seed industry while living and working in Oregon during the early 1980's and again over the past few years since returning to the Beaver State.

While working in the vegetable seed industry in the Willamette Valley of Oregon in the early 1980's, I could see that private investments in breeding new turf grass genetics were effectively developing and releasing significantly improved varieties. New varieties were being aggressively protected using PVP, trademarks, and brands. These improved varieties also appeared to be moving the grass seed industry toward increased profitability, thanks to the new proprietary genetics and branded marketing.

The investment in breeding looked like it would add some much-needed margin dollars into the grass seed industry. The new genetics and marketing efforts were positioned to move the industry from "commodity-based" to "proprietary-based"

seed businesses. And, the genetic improvements may have added some value to the grass industry for some years, via proprietary and branded genetics, but soon the commodity mentality returned and the value in propriety genetics vanished. The opportunity to change the grass seed industry to a proprietary product and pricing industry was lost, and only this current disaster in the industry may give it another chance to change.

What has happened to place the grass seed industry in today's so-called "survival mode"? Anyone who can grow grass seed has access to proprietary varieties by in-licensing from both public breeders and the independent/private grass breeders. Therefore, if you are a grass seed grower or a traditional independent seed broker, you now can access your own proprietary varieties by in-licensing and compete with those companies that have in-house breeding programs.

Competition in the market place is good for everyone, but when everyone has access to the best performing genetics, no one truly has "proprietary" genetics. Moreover, the improved turf and forage grass varieties of present are a clear testament to the skill and talent of today's grass breeders. Yet the number of grass varieties in the market place appears to be beyond what a well-managed market would demand. Consequently, the tough economic conditions will forcibly rebalance supply (quantity and assortment) with demand.

Some of the obvious reasons for the reduced demand for turf grass include: new home construction has slowed dramatically, homeowners are cutting costs and therefore have reduced their purchase of grass seed for over seeding, commercial

construction and related landscaping has effectively stopped, and new golf course construction is at a standstill as well.

The seed crop in Europe was poor in 2008, creating a demand from other production areas like the U.S. However, an average 2009 crop in Europe combined with the current Euro/Dollar exchange rate has resulted in declining exports into Europe. And interestingly, the lack of Variety Registration in the U.S. gives a green light to all international suppliers to quickly and easily market in the U.S.

Meanwhile, some of the changes that have reduced turf grass demand that may not be as apparent to those outside this industry include:

- Seed coating (encrusting) of turf grass seed has reduced the number of seeds per pound, and therefore the quantity needed to fill a container that is filled by weight. This practice of coating grass seed is currently limited to one major supplier. A larger conversion to this practice would have a further reduction in the quantities needed to meet the demand.
- Golf courses in the desert Southwest have reduced water usage by not irrigating the rough, and therefore no cool season grass is being used for over seeding in those areas that have now been returned to desert.
- Golf courses and other turf managers have tightened their budgets, and therefore grass seed purchases are being reduced.
- Water restrictions have also impacted grass usage and over seeding by homeowners and commercial landscapers. Some cities may even pay homeowners to take out their lawns to reduce water consumption.

These changes have driven the demand for turf grass seed to dismally low levels. Meanwhile, the utilization of growth regulators in the production of grass seed has significantly increased yield, thus leading to an oversupply of grass seed. The simultaneous occurrence of these events has led to a race to unload excess inventory by lowering prices.

The forage grass seed industry is struggling as well, but that may be due to the turf grass folks trying to survive by focusing on forage grass sales. This change of focus on forage seed sales along with the current economic situation has put stress in this sector of the grass industry as well.

The demand for grass fed beef might be the only bright spot for the grass industry. Another new innovation that has arrived in the U.S. forage seed industry is high sugar varieties that target improved silage. However, this new interest in grass fed beef and improved grass for silage will do little to change the dire situation facing this segment of the seed industry.

Another factor that seems to be playing out has been the lack of speculative buyers, who in the past would see that the price of grass seed was approaching or going below the cost of production, and step in and purchase seed with the anticipation of holding for many months until the prices returned to normal. Historically, these speculators would effectively have established a price floor (or a stabilizing force) for the grass prices. Without this stabilizing force, the seller's only choice to regain order is to beat the lowest price, and therefore the "race to the bottom" begins.

Moreover, as the 2009 grass seed crop is conditioned and added to the current

oversupply, a race to see who can survive may ensue. Thus, the price for grass seed is headed, in some cases, below the cost of production – a number that continues to increase.

The quickest solution to the oversupply dilemma is to reduce new seed crop planting and plow out some the current established acres. However, the alternate crops for some grass growing areas are limited and the commodity prices for these alternate crops are not what they were 24 months ago. Furthermore, it would be interesting if the straw that is now bailed and removed from grass seed production fields (burning is not permitted) could be turned into fuel for on farm use.

The ultimate impact of this crisis on the grass seed industry will be determined by who can hang on financially, how many acres will be taken out of production, and when the U.S. and World economies improve. With all these negatives in the grass seed industry, this could be (may be) the time to invest in this segment of the seed industry. This may also be a good time to begin breeding transgenic (drought resistant, low or no maintenance, herbicide resistant) hybrid turf grass and transgenic

apomictic¹ hybrid forage grass. With the coating of grass, as noted above, who will be the first to sell grass seed by seed-count instead of by weight? This transition (sell by seed-count versus weight) has already successfully occurred in other parts of the seed industry. The commodity priced grass seed industry needs to once again move to new, higher valued genetics with a clear understanding of the value chain in these markets, and realize that profit, not volume, is the end game.

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¹ Seed development without fertilization and meiosis. An apomict or apomictic plant produces seeds that are genetically identical to the parent plant.