

CHALLENGES AND OPPURTUNITIES OF AGRIBUSINESS GROUPS

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Abstract- The agribusiness sector (particularly in the areas where it is linked to a specific country's progress regarding the agricultural sector reform) is typically lagging behind other sectors. Fundamental forces affecting the Agribusiness are rivalry among existing competitors, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, the threat of substitute products technology and other drivers of change. Agribusiness faces challenges from strategic uncertainty, processing, marketing, production (throughout), enabling environment and agricultural production input, innovation, assessing innovation (creativity and innovativeness) and structural change. Agribusiness has opportunities such as form a leadership group, tap into increased demand for food resources, add value to raw products, improve collaboration and communication, exploit aquaculture and other seafood opportunities, diversified farming and the existence of a trade deficit.

I. INTRODUCTION

The agribusiness sector (particularly in the areas where it is linked to a specific country's progress regarding the agricultural sector reform) is typically lagging behind other sectors. This is due to the many complex questions involved in modernising agriculture, such as land ownership and the creation of a functioning market for land sales and acquisitions. In most countries the modernisation process substantially reduces the number of people employed in this sector, which makes modernisation a politically sensitive issue. This can lead to unemployment in rural areas that lack other employment opportunities. Fluctuations in agricultural production and increasing demand, which has recently triggered substantial price increases for basic commodities such as wheat, represent further concerns. The global food and agribusiness industry is in the midst of major changes—changes in product characteristics, in worldwide distribution and consumption, in technology, in size and structure of firms in the

industry, and in geographic location of production and processing. And the pace of change seems to be increasing. These changes suggest three fundamental critical future issues for the sector: 1) decisions must be made in an environment of increasing risk and uncertainty, 2) developing and adopting technology and new innovations is critical to long-term financial success, and 3) responding to changes in industry structure and the competitor landscape and industry boundaries is essential to maintain market position

The agricultural industry exhibits a number of challenging characteristics. First, it is highly volatile, both in production and market conditions. A combination of biological production processes that are subjected to unpredictable biological predators (disease, insects, pathogens, etc.), combined with variable climatic/weather/heat/rainfall patterns, results in significant variability in production and processing conditions and thus efficiency and output. This fluctuation in output or supply combined with the inelastic or non-responsive demand for food products results in dramatic price fluctuations, particularly at the crop and livestock raw materials stages of the supply chain

II. FUNDAMENTAL FORCES AFFECTING THE AGRIBUSINESS

Agribusiness industries are facing numerous challenges and opportunities resulting from various fundamental forces. An understanding of the forces that are shaping and shifting the competitive landscape is useful to not only understand the strategic positioning decisions of the firms in these industries, but also the dramatic structural changes that are occurring in the food production, processing and distribution sector. The fundamental forces creating change in the agribusiness industries, and how companies and decision-makers are being affected by, and adapting to, changes in these forces. Using the

analytical concepts of value chains and Porter's Five Forces agribusiness value chain is described as two chains which become one at the consumer end. One value chain follows plants and plant products, and another chain follows animals and animal products. These two chains blend into one chain at the processing and retailing stages of the chain. We also view the value chain rather simply

as four stages: (1) input suppliers; (2) producers; (3) processors and handlers; and (4) retailers. While the value chain could be viewed as specific for different products, aggregating to these two chains, plants and animals, permits the discussion of the major forces and impacts of interest to most readers.



Fig:1. Value chain for plants, animals and their products

This theme is split between the current and next issues of Choices. The forces affecting retailers and the plant and plant products value chain including the input industry, crop production, processors and handlers and retailers..

Michael Porter's Five Competitive Forces (plus two additional forces) to guide discussion of how economic forces are creating opportunities and threats, and how companies and the value chain as a whole are changing. Porter identifies five forces that shape an industry:

- Rivalry among existing competitors,
- Threat of new entrants
- Bargaining power of suppliers
- Bargaining power of buyers
- The threat of substitute products (Porter, 2008).

Two additional forces affecting competition have been described as:

- Technology
- Other drivers of change (Boehlje and Hofing, 2005).

These seven forces are described briefly below

- Rivalry among Established Firms:

The level of rivalry within an industry can depend, in large part, on the number of firms, demand conditions, and exit barriers. Due to the number of firms involved, many agricultural industries are often described as perfectly competitive—as opposed to monopolistic competition, oligopoly, or monopoly. However, government regulation and intervention, as well as the size and dominance of a few firms, can provide different degrees of perfect competition. Rivalry also varies depending on whether demand is growing with new customers, growing with existing customers, stagnant, or declining. With growing demand and new customers, firms can find customers more easily and expand production. With only existing customers, firms will have to compete more on price and nonprice factors to capture customers from competitors and keep current customers. Rivalry is greatest when demand is declining as firms vie for a share of a shrinking market.

- Threat of Entry by Potential Competitors

Potential competitors may be across the road, across the nation or across the ocean. The threat of entry depends on the height of barriers to entry. These barriers include: the extent to which

established firms have scale economies, the extent to which established firms enjoy a market or cost advantage over potential entrants, high capital requirements for new entrants, the extent to which established firms have better access to distribution channels for inputs and outputs, the extent to which government regulations restrict entry, and the extent to which established firms have brand name loyalty with customers.

- **Bargaining Power of Suppliers**

Suppliers are a threat to firm and industry profitability when they are able to increase the price of their product or affect the quantity and quality of the products supplied. Fewer suppliers mean they have greater power. Improved communication technology has taken away the power of many local suppliers. The recent mergers of suppliers and the consolidation of input technologies, such as seeds and pesticides, have increased the suppliers' bargaining power with farmer-customers, as well as changed the competitive pressures within the input industries. Suppliers have power if they are more concentrated than their buyers, do not receive a high percentage of their revenues from one industry, have customers with high switching costs to change suppliers, have a differentiated product, have a product with no substitutes, through either real differences or patent protection, or could forward integrate into additional stages in the value chain.

- **Bargaining Power of Buyers**

The number of buyers has a very large impact on how the market works. Fewer buyers mean they have greater power. If sellers cannot easily ship their products to other markets, or they do not have price information from other markets, a few local buyers can have considerable power even though the total number of buyers is large in the broader market. The increasing use of contracts can increase the power of the buyer through controlling the amount of price information in the marketplace. In ways similar to suppliers, buyers have power if they are few in number or a few buy a large percentage of the product in the market, products are undifferentiated commodities, or buyers could integrate backwards in the value chain. Buyers will also bargain harder if the product constitutes a major portion of the buyer's total costs, or if the product has little effect on the quality of the buyer's product or other costs.

- **Substitute Products and Services**

Substitute products limit the price that producers can seek or ask for without losing customers to those substitutes. Competitive pressure comes from the attempts of the producers of the substitutes to win buyers to their products. The advertising campaigns of the pork, beef, and poultry industries are an obvious example of the competitive pressures due to substitute animal protein products; each industry feels forced to advertise to keep customers, and cannot charge as much as they would like without pushing their customers into buying other products.

- **Technology**

Changes in technology can have a large impact on the production of and demand for a service or product of a firm. The risk from technological change depends on the size and the role of technology in the industry, as well as the speed of technical change. Advances in technology can be disruptive; they can cause leaps that leave users of old technology far behind. The expected lifespan or change in technology can put businesses on the treadmill of continually having to retool to keep up with their competitors. New technology can alter not only the efficiency and cost of the production process, but the actual products and services offered and demanded by others in the value chain. New chains may be created due to a new technology in communication as well as in products and services.

- **Other Drivers of Change**

Other drivers of change include changes in government policy and regulations, changes in international trade agreements, demographic changes, and other factors not included in the first six forces. Competitive pressure comes from differing abilities of firms to respond and adapt to these changes. The impact of these forces depends on the scope of the change, the speed at which change is anticipated or actually felt, and the depth and breadth of the responses needed to adapt to these changes.

III. CHALLENGES OF AGRIBUSINESS

Various challenges facing agribusiness are as follows

- **Agricultural Production Input:**

It is insufficient input service providers. There is a lack of proper distribution and extension channel, lack of knowledge, Inadequate and inefficient firm –production quality, competition.

- **Enabling Environment:**
There is a lack of good infrastructure-storage facilities, market center roads, telecommunication and irrigation networks, there are a lot policies constraints and there is quite a lot weak governance.
- **Production (throughput):**
There are scattered and small production units, technology is quite a lot obsolete and inefficient, farm managerial skills are quite a lot lacking, assessment of financing support is very difficult, different business services are very much lacking and poor, linkage and coordination is quite a lot inadequate, land is quite a lot fragmented and small in size, there are a lot many policy level constraints and information services are very poor.
- **Marketing:**
Farm markets are close to perfectly competitive while marketing firms are oligopolistic or monopolistic in nature and there is less bargaining power of farmers, Poor marketing facilities and sales networking are very poor and bad in shape, transportation and distribution losses are very high, marketing infrastructure and market information system is very inadequate in nature.
- **Processing:**
There is unreliable supplies of raw materials in terms of quality and quantity, technology of processing is Inadequate, standardization of quality is not there, financial access is less, there is high competition due to import of cheap products, load shedding is quite a lot frequent and labor disputes are common practice.
- **Strategic Uncertainty-**
The types and sources of risks and uncertainties faced by agribusiness decision makers have exploded in recent times—“unanticipated surprises” resulting from changes in government policy and regulation; mergers and acquisitions that change the competitive landscape and disease and food safety crises such as H1N1, BSE and salmonella contamination. Table 2 summarizes the key strategic uncertainties faced by agribusiness firms and various potentials and exposures for each.

Table 1. Strategic Uncertainties in Agribusiness

S. No.	Categories of Strategic Uncertainty		Examples of	
			Potentials	Exposures
1	Business/Operational	Operations and Business Practices, People and Human Resources, Strategic Positioning and Flexibility	Superior Cost Control /Operational Efficiency, Superior Workforce, Creating Synergies Through Scope	Business Interruption, Loss Of Key Employees
2	Financial	Financing and Financial Structure, Financial Markets	Strong Financial Position, Access to Equity Funds/Investors, Attractive Financing Terms (Amounts and Terms), Financial Reserves (Pursue Unanticipated Opportunities, Weather, Financial Shocks, Etc.)	Rising Interest Rates, Loss of Lender, Highly Leveraged
3	Market Conditions	Market Prices and Terms of Trade, Competitors and Competition Customer Relationships, Reputation and Image	Strong Brand, Strong Complementary Products and Bundling Potential, First Mover Advantages, Create High Switching Costs	Pricing Pressure/ Discounting by Competitors, Loss of Market

			(Create Loyalty	Share, Consolidation of Customer Industry, Hyper-Competition
4	Technology	Technological Change	Speed of Innovation and Commercialization, Niches Not Attractive to Others, Enhanced Learning Capacity	Limited Acceptance of Biotechnology, Slow to Commercialize New Products, Competitor has Preferred Standards/Platform
5	Business Relationships	Business Partners and Partnerships, Distribution Systems and Channels	Strong Market Position of Distributors, Strong Relationship with Processors, Enhanced Learning, Access to Future Opportunities	Dependence on Distributors, Not a Preferred Supplier to Processor, Not a Key Account to Suppliers
6	Policy & Regulation	Political Climate, Regulatory and Legislative Climate	Increasing Market From More Open Trade, Patent Protection, Speed of Approva	Changes in Intellectual Property Law, Changes in Industry Subsidies or Tax Policies, Local Limits on Technology Adoption

Source. Adapted from Detre et al. (2006)

- Innovation:

Innovation is critical to the long-term success of a firm as well as the economic health of an industry and the overall economy state that “Innovation is the lifeblood of successful businesses. It has become every firm’s imperative as the pace of change accelerates”. Indeed, innovations are one strategy to develop and maintain a sustainable competitive advantage (Kirwin et al., 2008).

- Assessing Innovation: Creativity and Innovativeness:

company to successfully build and maintain an innovative culture such as encouraging innovative behaviors; no penalty for failure; openness to new ideas; making innovation part of the strategic-planning process; and implementing a fast

innovation process to identify success and failure fast. They also indicate that to advance innovation, leaders should help their employees by defining the type of innovation they expect, by adding innovation to the formal agenda at regular leadership meetings, and by setting performance metrics and targets for innovation.

- Structural Change

The impacts and consequences of the structural change (consolidation, vertical integration and changes in the vertical and horizontal boundaries of the firms) now underway in agriculture are dramatic and profound (Stiegert et al. 2009). They will influence almost all the participants in the food production and distribution industries: consumers, food manufacturers and retailers, producers, input supply manufacturers and retailers, and public

regulators as well as educators and researchers. Because of the breadth and distributional dimensions of their impact (some will gain while others lose because of these structural changes), the realignment process will be surrounded with great controversy.

Three dimensions of those structural changes are reviewed here: a) the drivers/determinants of structural realignment within the industry; b) the unique role that risk management/mitigation plays in developing sustainable value chain governance structures, and c) industry convergence – the blurring of the boundaries of the agribusiness and related industries driven by advances of knowledge and technology applied across these boundaries.

IV. OPPURTUNITES

Various opportunities for agribusiness group are

- Form a leadership group:

To improve communication and collaboration and enable businesses to respond to a dynamic changing environment and market opportunities as they arise. The group to advocate and be a representative peak industry body for agribusiness.
- Tap into increased demand for food resources –

There is increased demand for food resources both locally and globally. There is increasing growth in demand by consumers for local food, together with growth of a ‘foodie’ segment within the market.
- Build on the region’s ‘Natural Advantage’ reputation for both a clean environment and some of the world’s highest food safety/security standards, and establish ‘Natural Advantage’ groupings
- Add value to raw products –

Adding value to raw products and provide a higher value return to producers and the range of products emanating from the region, which include: herbs, nuts,

dairy products (such as cheese and yogurt) confectionary, bush foods, dried and baked goods, coffee, tea, wine and fruit juices, olive oil and avocado oil and a range of sauces, jams and chutneys.

- Improve collaboration and communication –

Improve collaboration and communication to shorten the supply chain and establish cross industry, cross regional collaboration and partnerships. Recent industry forums have stressed the need for the Agribusiness industry to work collectively to identify how the economy can change, deliver critical new investment and opportunities to up-skill the workforce to achieve higher levels of employment, higher income levels and greater resilience to market fluctuations - while at the same time preserving what is best about the region.
- Exploit aquaculture and other seafood opportunities –

Exploit aquaculture and other seafood opportunities with growing global population and no increase in wild caught, aquaculture is the only avenue to meet demand.
- Diversified farming –

Diversified farming allowing farmers to introduce a new business activity to generate another source of farm-based income. The new or additional farming enterprise may be agricultural, such as a new crop or animal, or non-agricultural, such as agritourism or on-farm processing of food.
- The existence of a trade deficit-

The existence of a trade deficit in agricultural products, in which demand continues to rise, creates an interesting opportunity for those willing to invest in revitalising a once profitable and successful sector.

Table- 2: Entrepreneurial opportunities in Agribusiness

Farming(on farm)	Product Marketing	Inputs Marketing	Processing	Facilitative
Crop	Wholesale	Fertilizer	Milk	Research & Development
Dairy/Poultry/Goat	Retail	Agri. Chemicals	Fruits	Marketing Information
Fish	Commission Agent	Seeds	Vegetables	Quality control
Rabbit	Transport	Machineries	Paddy	Insurance
vegetables	Export	Animal feed	Sugarcane	Energy
Flowers	Finance	Poultry hatchery	Cashew	
Ornamental plants	Storage	Vet medicines	Coir	
Palmrosa	Consultancy	Landscaping	poultry	
Fodder		Agri.credit	Cattle	
Sericulture		Custom service	Tannery	
Agro-forestry		Bio-control units	Brewery	
Beekeeping		Bio-tech units	P. board	
Mushroom				

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