AGRIBUSINESS MARKETING AND MANAGEMENT

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Abstract:

Agriculture is a business. As a business it is critical to understand who your market is and what they want as well as how economic forces will affect your business. Moreover, according to the Food and Agriculture Organization of the United Nations (FAO), agribusiness includes the supply of agricultural inputs, the production and transformation of agricultural products and their distribution to final consumers making agribusiness one of the main generators of employment and income worldwide. This paper aims to answer questions related to agribusiness marketing in agriculture. The first and probably most important is "What are you selling?" Then, "are you marketing a commodity or a product?" "What is the price?" And of course, "Is your market local or the world?" Following these basic questions, the details of what a business in agriculture means will be discussed.

Key words: agriculture, business, marketing, management

JEL classification codes: Q01, Q14

Basic Economics

When we speak about basic economics we should think at: - supply and demand; - opportunity cost; - risk. *"Supply"* means how much you will produce at a given price and *"demand"* is about how much you will buy at a given price. When supply equals demand and markets clear we say that we are *in Equilibrium.* The point is that you can sell only what consumers will buy at a given price. If price is too high, demand falls. If price is too low, supply falls. In agriculture it is a bit more complicated since after harvest supply is fixed. So, price will adjust to clear the market (example: market for houses or land). Now, if you ask "What is my time worth?" The answer is: the value of your time is it's *opportunity cost*! Or, the opportunity cost of your money is what you could earn if you invested it somewhere else! Historically, owner's cost of labour and capital are ignored in calculating profit/loss in agriculture. Why is this important? Because, your net returns/breakeven need to reflect all costs. This is typically ignored by many farmers in the US when calculating breakeven prices or returns on investments.

Risk is the uncertainty or the unknown relating to an action or an activity. There are many types of risk: production/technical risk; price/market risk; financial risk; legal risk; personal risk. Here are some examples of risk in Agriculture: - availability of labour or capital; - equipment breakdown or accidents; - health of the business owner; - weather, natural disasters, and power loss; - changing government regulations; - crop and livestock disease; - terrorist attack on food industry. A very important issue when we talk about this subject is the ability and willingness to assume risk. Ability and willingness are not the same. Ability means "having the economic resources to pay obligations that arise." Willingness means "having the personal fortitude to accept responsibility of paying for obligations that arise." An individual needs both capacity/ability and willingness to assume risk. How to assess the risk associated with an activity? The most likely outcome, the average outcome, or the outcome of an expert opinion? Example: weather. The variability of outcome, range of possible outcomes, standard deviation among outcomes, and the coefficient of variation? Also, about decision making under risk, it is good to know some things. Identify alternatives, such as assume the risk, manage the risk, avoid the risk, etc. Tools for assessing risk: decision tree, payoff matrix, decision rules, most likely outcome, maximum expected outcome, risk and returns, safety first, break-even probability, etc. Managing risk not the same as reducing risk. If you reduce risk too much, you may also be reducing potential profits. Managing risk involves deciding which risks to accept, which to control, and which to avoid. The likelihood or probability that an event will occur. The magnitude of impact if the event occurs.

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Management Basics

Above all, management is about decision making. Also we speak about the role of goals, decision making process, about Strategic/Business Planning and, of course, about management skills. The functions of management are: planning, deciding, implementing, controlling and adjusting.

We "planning what to do", "deciding what to do" and then implementing what was decided and controlling/adjusting to respond to the outcome. It is good to know that management is an ongoing process, performing each of the functions on an ongoing basis. An outcome of the "control/adjust" step is to review, refine and update the previous plan, decision and implementation. Also, management is "attaining the organization's goals through an effective and efficient manner through planning, organizing, leading, and controlling". We say it is *effective* when the goal is accomplished, e*fficient* if use as few resources as possible, *planning* when developing a vision for what and how it to accomplish and *organizing* when identifying, acquiring, and using resources to accomplish the vision. And moreover, *leading* when motivating others to work towards the same goals; steps needed to implement the plan and then *controlling* when measuring the results, assessing if progress is being made and making appropriate changes/adjustments. A meaningful goal is:

- Specific;

- Measurable (offers a means to assess progress toward achieving the goal);

- Challenging but realistic;

- Time specific (a specific time when the goal should be achieved);

- Addresses key result areas.

Here are some common business goals: earn a profit, increase owner equity, do not assume unreasonable risk, offer workers a safe place to work, operate the business in an honest, ethical manner, offer consumers a safe product, minimize long-term adverse environmental consequences of the business operation. Goals are the criterion for making a decision - "Among my alternatives, which one do I think will best allow me to achieve my goals." Of course, setting goals takes time, requires effective, open communication. Last but not least, effective goals have specific characteristics.

Decision making is a process which implies: identify and define the problem or opportunity; identify alternative solutions; collect data and information; analyze the alternatives and make a decision; implement the decision; monitor and evaluate the results; accept responsibility. Long-term decision making is "strategic planning“ or having a strategic vision, provides a framework for making and implementing short-run decisions. Basic questions of strategic planning: *Where are we? Where do we want to go? How do we get there?*

Strategic Planning is a multi-step and on-going process about define the mission of the business, formulate goals for the business, assess the resources of the business, survey the business environment, identify and select strategies to achieve the business goals and Implement and refine selected strategies. Here are some strategic planning questions: What is the current status of my business? (inventory the business); What are my interest and skills? (consider the owners' skills and interests); What are my expectations about the future? (assess the business environment); What do I want to accomplish? (establish business and personal goals); Will the current business be feasible in the future? (assess capacity of current business to fulfil the owners' goals); What alternatives are feasible for the future? (identify alternatives and assess whether those alternatives can fulfil the owners' goals); What steps are needed to implement the feasible alternative? (develop a plan to implement the chosen alternative); What might prevent me from implementing the plan? (identify potential risks and opportunities; prepare contingency plans); How do I monitor progress over time? (develop processes and benchmarks to monitor and control implementation); How should I prepare to document, share, and revise my plan?

A good management means good communication skills! It is know that the purpose of communication is to exchange information, but also to persuade and influence. Add to this the nonverbal communication (e.g., body language), listening (reading and viewing) and informal communication within a group and you will have the complete picture.

Leadership! Another one important skill for management. A portrait of a leader should be like this: visionary leadership; transformational leadership (state a vision, shape values, trust colleagues, build relationships, involve others); willing to work towards a goal that benefits others; knowing when to lead and when to allow others to lead and lead by example. Moreover, ability and willingness to facilitate change, understand forces that cause change, external (environment) - consumers, competition, technology, suppliers, advances in production, communication and transportation technologies, implications of technological advances but also internal - experience, goals. And not to forgot, the ability and willingness to participate as a member of a team, a willingness to collaborate (if agriculture is growing more interdependent, would managers need to collaborate more frequently? how does information and risk, as well as the other economic resources, relate to a strategy of collaboration?), the negotiating skills (if interdependence and collaboration are trends in agriculture, do managers need the ability to effective develop, negotiate, business agreements?)

One more thing on this issue - a sense of business ethics and social responsibility (Ethics - moral principles and values that govern behaviour, different than law). Or, another way to say, it is about balancing social responsibility against achieving the goal of business success. Examples of ethical values and practices: honesty, integrity (will not compromise moral and ethical principles), being respectful of others, e.g., employees, customers, local and global community, taking responsibility when a task needs attention, striving to achieve the group's goals, not just personal goals, protecting confidential information, acknowledging the accomplishments and contributions of others (rather than taking credit for the accomplishments), accepting responsibility when something has gone wrong (rather than "pointing the finger" at others), respecting others and accepting that their values, goals and practices will be different than yours, but that their practices are no less valuable, practicing open communication (not gossiping; informing people when they need to be informed).

Conclusions

Agriculture is a business! That means:

- need to understand who your market is and what they want;
- need to understand economic forces and how they could affect you – risk;
- need management skills;
- decision making and leadership;