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Formation and Development of Value Added among Grain Growing and Processing Enterprises in Agriculture

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Abstract

Global agricultural markets reflect the increasing complexity of modern consumer demand for food safety and quality. This demand has triggered changes throughout the food industry, and led to greater opportunities for product differentiation and the potential to add value to raw commodities.

Keywords: complex, safety, reflect, increase, final

Greater differentiation and value adding over time has in turn dramatically changed the price spread or marketing bill between the farm value of products and the retail value. Thus a significantly greater percentage of the final price paid by consumers is now garnered down chain rather than up chain over the last 20 years. This apparent shifting of value creation or addition, as measured by the marketing margin, has invigorated empirical questions as to where, and how much value, is created along the agri-food value chain. First we define value creation/ adding, and then we estimate the economic value added for 454 firms. We validate our findings by creating and employing three additional value creation measures-the modified economic value added, the creation or destruction of value, and the persistence of value creation. Finally we estimate value creation at each node of the value chain, measure the relative differences among firms and nodes, and estimate a model measuring the drivers of value adding. As individuals within a society become more specialised in their economic activities, they come to rely upon others to supply at least some of the products and services which they need. Thus begins a process of exchange between buyers and sellers. For a while buyers and sellers remain in immediate contact and each party is able to determine what the other needs and values and, therefore, will be willing to exchange. As the economy develops the number and types of exchanges expand, there is a concomitant need for increasingly specialised marketing services such as physical distribution, storage, grading, market information gathering and so. The number of participants also increases with many of the specialised services being provided by intermediaries between the seller and ultimate buyer. Few buyers and sellers are in direct contact with one another and communication between them is channelled through a complex marketing system. This introductory chapter is devoted to exploring the nature of marketing and marketing systems. Economic development itself provides the impulse towards more sophisticated and more efficient marketing systems. Dixie[2] suggests that as countries experience economic growth, their rate of urbanisation tends to increase substantially. Whereas the rate of population growth, in developing countries, averages around three percent per annum, their cities and towns are increasing their populations at about four percent per annum. In essence, this means that the number of people, in urban areas, needing to be fed by rural people, will double within sixteen years. This has clear implications for agricultural production and the marketing systems that direct

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that production and distribute the output to the points of its consumption. Subsistence farming is likely to diminish in importance as farmers respond to the increased opportunities that development and urbanisation create; farms are likely to decrease in number whilst increasing in size; and agriculture will probably become less labour intensive and more capital intensive.

Dixie also highlights the potential contribution of agricultural and food marketing, towards attempts to improve rural incomes in developing countries. The inequality of incomes between the rural and urban areas draws people away from agricultural production and places great stress upon the infrastructure and social services of a country's towns and cities. Nowhere was this more dramatically demonstrated than in Nigeria when petroleum oil was discovered and then exploited in the 1970s. A large number of jobs were created in the urban areas and people abandoned agricultural production in large numbers. Nigeria became a net importer of many agricultural products of which it had formerly been a net exporter. For as long as the world price for petroleum remained high the economy thrived and could well afford the food import bill. However, as soon as the world price for oil fell, the food import bill became a serious burden. Nigeria would only have avoided this scenario if it had been able to motivate people to continue in agriculture and this would only have been possible if the disparity between urban and rural incomes had been reduced. Rurally based enterprises, including small-holdings, can greatly improve their earning potential by adopting a market orientation. They can be encouraged to add value to commodities by adding to their utility. Value added products normally carry a higher margin than raw commodities.

Another development which has in recent times increased interest in marketing practies is the trend, in many developing countries, towards market liberalisation as part of economic structural adjustment programmes (ESAPs). The view that direct and indirect government participation in production and distribution had brought about structural distortions in economies has become widely accepted. Measures intended to correct these distortions include a return to market prices for all products and resources, the encouragement of a competitive private sector and the commercialisation, and sometimes privatisation, of all or some of the functions of marketing parastatals. All of this requires a better understanding of marketing practices and processes within the country implementing ESAPs, in general, and within the agricultural marketing parastatals affected, in particular.

So far this discussion has been set in the context of commercial marketing but social marketing should also be acknowledged. Social marketing identifies human needs in non-competitive economies and/or sectors of society and defines the means of delivering products and services to meet these needs. The marketing mix of social marketing strategies is evaluated using quite different criteria from those employed in assessing purely commercial marketing strategies. Criteria such as the percentage of the target population reached with the technology, products, processes or services, quantities produced and distributed and uptake of the product, service or technology are more often employed. Benefits are measured in terms of development goals, such as improved nutritional status or increased rural incomes. The use of economic criteria is usually limited to the latter and to selecting the least-cost strategy to achieve a quantitative goal. However, the criteria used to evaluate commercial marketing strategies should not automatically be eliminated, because these improve the efficiency of some aspects of social marketing strategy without preventing the attainment of social objectives.

There is a danger that the marketing concept will be adopted by some parts of the system but not others. Thus, for example, a food manufacturer may be trying hard to implement the marketing concept and offer products that meet the precise needs of a target market. If, however, the manufacturer has to rely upon a farming community that is still very much production oriented, for

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raw material supplies, then the overall marketing objectives may be frustrated. In the same way, if only some functions are performed according to the marketing concept then the system as a whole may not achieve a market orientation. For instance, the marketing department may set out to serve the market for a high quality fruits and vegetables, for which it can obtain premium prices, but if transportation is performed using the same open-topped bulk carrying wagons used to ship grain and other aggregates then it is unlikely that the enterprise will deliver the product in the right condition for the target market. A common marketing problem, in developing countries, is the low level of incomes leading to low levels of effective demand for many products. The challenge to marketing is to somehow channel what income is available into effective demand. In the case of agricultural equipment marketing this might involve offering hire-purchase schemes where the prospective buyer makes payment in regular installments. During this time he/she is deemed to have hired the machine. If payments are not forthcoming, the machine can be recovered since its ownership remains with the seller up until the final payment is made, at which point the farmer is considered to have purchased the machine. Alternatively, the seller might set up leasing, rather than purchasing schemes where again the farmer is making regular payments but never takes title to the machine. Where a food item is being marketed, to a low income market, the seller can consider reducing the until price of the product by making the pack or lot size smaller. Another tactic is to make the product more affordable by using cheaper ingredients and/or packaging. Instant coffee can be sold at lower prices by substituting some of the coffee with chicory; the price of meat products is reduced by increasing the percentage of cereals in these products and including less meat and/or making use of less expensive parts of the animal such as entrails, offal, feet and head.

Marketing is also concerned with the financing of the enterprise itself. Here again some creative solutions can be developed. Where internal financing is insufficient for the purposes in view, an enterprise in a developing country can look to several alternatives including:

- development banks
- commercial banks
- shares issues
- credit co-operatives and/or credit unions

Where these sources of finance are considered inappropriate, or are simply not available to a particular enterprise, a strategic alliance in the form of a joint venture could be the answer. These are partnerships formed to exploit market opportunities more effectively and/or efficiently than either party can on its own. An enterprise, in a developing country, may engage in a joint venture with either an indigenous partner and/or with a foreign partner. The agreement between parties to a joint venture normally specifies their respective contributions of resources, share of management control, profit and risk.

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