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Preparing for Success in the Agribusiness Market Place

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With the dramatic changes occurring in the agricultural industries, it is critical to develop and maintain competencies that will enhance one's competitive position in this rapidly evolving market. The skills or capacities required to be successful are dynamic capabilities which embrace new ideas, change, innovation, analysis, integration, and teamwork—capabilities which may not be part of the experience base in the more traditional agriculture of the past.

Key Words: adding value, capabilities, change, innovation, intellectual capital, organizational transformation

The food production and distribution industries are undergoing a profound change that will reshape not only the firms participating in those industries, but also dramatically impact the people who contribute to the success of those firms. Eight key challenges faced by agribusiness firms in this new agriculture are discussed, followed by the identification of 10 important skills or capabilities that will be essential for an organization or individual to be successful in this dynamic new industry.

Key Challenges of the Future

Successful agribusinesses will face eight key challenges in the agriculture of the future: globalization, adding value, achieving profitability, defining organizational capabilities, adapting to change, dealing with technological innovation, securing competence and intellectual capital, and achieving organizational transformation. Each of these challenges is discussed in sequence below.

Globalization

Global demand for food and fiber will drive increased demand for agricultural inputs and products in the next decade. Increases in population and rising incomes in many

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of the world's developing economies suggest increasing world demand for food over the next decade. The Chinese and other Asian economies head the list of growth opportunities. Such growth could lead to major export opportunities for U.S. agriculture and a strong domestic market for farm inputs and food products. However, this demand growth will occur only if projections of steadily rising incomes in these economies materialize. In addition, increased world trade will depend heavily on continuation of the trend toward a more liberal world trade environment (Tyner et al., 1997).

Supply issues must also be considered in the globalization challenge, because the location of agricultural production will determine the location of market opportunities for agribusiness firms. The projection of a growing export market for U.S. producers assumes the domestic farm sector remains competitive with other major agricultural regions of the world. As new competitors such as South America solve infrastructure and policy problems, and obtain access to new technology, they could challenge some of the traditional strengths of U.S. production agriculture. With the emergence of increased efficiency, productivity, and capacity in other production areas, along with the worldwide sourcing and selling strategies of global food companies, the United States and Europe will face increased competition in world markets in the future (Abbott, Boehlje, and Doering, 2001–2002; Sonka, 2002).

Adding Value

Value is the new buzz word—the new fad—in agriculture today. Producers are focusing on downstream activities and attempting to form producer alliances and value-added cooperatives to capture some of the margin from further processing. Prompted by the often repeated warning, “unless you add value, you won't be part of the new agriculture,” fertilizer and crop protection product retailers and other input suppliers are attempting to create value in their customers' minds.

Adding value is not easy, and in many cases it is difficult to define and measure. One definition of value is represented by the following notation:

$$VALUE = FUNCTIONALITY/COST.$$

Note the above definition suggests value can be created in two ways: first, by increasing functionality, perhaps through product features or service characteristics, and second, by lowering cost for a specific set of product and service features (Erickson et al., 2002).

Standards for functionality—acceptable levels of product and service performance—will continue to rise. Producers, given a wide range of solutions to their problems, will demand ever higher levels of performance from suppliers. Competitive response will continue to ratchet-up these standards. In some cases, this will reflect a tightening of standards by first-handlers and processors. In other instances, this higher performance standard will simply be the result of a more demanding producer and a more competitive market.

Total value will increasingly be the focus, and more sophisticated producers will be even more discerning of the value of product/service bundles offered to them. Features and services having little value will be quickly dismissed by value-conscious buyers. Product features which do not enhance revenue or drive down costs will be ignored. However, products, services, and information shown to enhance producer returns will be quickly embraced by a more sophisticated and business-like producer (Akridge et al., 2000).

Achieving Profitability

Profitability is always a challenge in a mature industry like agriculture with only modest growth in most segments. If profitability can't be achieved through efficiency, it will have to come from growth in volume and market share. The changing producer, the emerging competitive environment, the financial markets, and the food consumer all will continue to exert tremendous pressure for efficiency on the agricultural input markets over the next decade.

Many agricultural inputs are commodities or near commodities, while many others have close substitutes. Suppliers work to add value and differentiate offerings; but in the current and expected competitive environment, even this is a challenge because any innovation is quickly copied and "commoditized." There is enormous pressure on margins, with the resulting emphasis on internal operating efficiency.

Even firms serving as technical or service leaders will feel the pressure from value-seeking producers willing to explore a wide range of input alternatives, and from financial markets demanding returns comparable to nonagricultural businesses with a similar risk profile. Striking a balance among investing in activities which enhance competitive position, reengineering to drive out excess costs, and promoting growth to achieve further size economies and volume will continue to be a major management issue for such firms.

Defining Organizational Capabilities

A fourth key challenge facing agribusiness firms is the development of a realistic assessment of the capability and capacity of the firm or organization. This challenge goes beyond identifying the core competencies of the organization and the sustainable competitive advantage of the firm in an increasingly competitive market. It also involves an explicit identification of what the firm cannot and should not do—i.e., a candid assessment of those areas where the firm's efforts are unproductive or expertise is lacking.

Deciding what not to do is as important in developing a sustainable strategic position as is deciding what to do, because strategy involves tradeoffs. Specifically, a firm or organization cannot exploit and expand its capacities and competencies to maintain a strategic competitive advantage without giving up activities which do not contribute to that competitive advantage, unless managerial resources are underemployed (Porter, 1996). Consequently, identifying and defining organizational

capabilities involves an honest appraisal of what the firm or organization can do well, and what it should stop doing.

Adapting to Change

The pace of change in agriculture is rapid and appears to be accelerating. Given this rapid transformation in the industry, it becomes increasingly imperative that agribusinesses better understand the sources of change and innovation, anticipate the changes and innovations which might occur, and manage their businesses to absorb and adjust to change rather than be surprised and threatened by it.

A critical dimension of evaluating changes and innovations is whether they can be characterized as “sustaining,” or whether they are better characterized as “disruptive” (Christensen, 1997). Sustaining changes are those that increase the efficiency and effectiveness of the business in producing its product, providing its service, etc. In essence, sustaining changes do not alter the business direction fundamentally—instead, they improve the capacity of the business to deliver the defined products and services to its established customer base.

In contrast, disruptive changes do not necessarily improve the operations and functioning of the current business—they redefine the business in terms of different products and/or different customers. A disruptive change might be the use of biotechnology to create differentiated products for the industrial products market, such as plastics from corn. Disruptive changes might also be in the form of new ways of doing business—for example, e-commerce as a means of supplying inputs to farmers.

This distinction between sustaining and disruptive changes and innovations is more than an academic exercise. Management techniques for these contrasting types of changes markedly differ. Sustaining changes are valued by current customers, whereas disruptive changes are frequently of most value to new customers. Consequently, adopting a disruptive innovation will require the manager to seek out and pursue those new prospective customers and not expect the current customer base to embrace the change or the current marketing channel to promote that change. Disruptive change generally starts out with a smaller customer base (a niche market), whereas sustaining change usually increases the firm’s efficiency and effectiveness in broader and larger markets. Therefore, the manager of disruptive changes must understand how to search out niche and more narrowly defined markets, and manage the business to be cost effective at lower output levels and smaller volumes than might be expected for sustaining changes.

Dealing with Technological Innovation

Technological innovation has always been part of agriculture. Some firms focus their resources on developing new products and processes to capture the value associated with technological leadership. Because technology is advancing so rapidly, maintaining such a leadership position can be costly. Market premiums quickly dissipate as competitors copy, modify, or develop similar technologies. While the stakes are

high, the potential rewards from maintaining technological leadership can be substantial.

However, it is critical to understand that all technical advantages are transitory. If the innovation is truly unique and creates a significant competitive advantage, competitors will quickly create an alternative which is similar or perhaps superior in some ways. The sophistication of today's market place makes it nearly impossible to completely protect an innovation, even though the concept might be technically protected by patent law. If it proves impossible to emulate the technical advantage, competitors are likely to cut the price of their now technically inferior products, making them a more attractive alternative to the new technology. The true source of innovation advantage is response time, or the ability to consistently follow market winner with market winner at a pace always one step ahead of aggressive competitors (Grant, 1998).

Securing Competence and Intellectual Capital

Securing competence and intellectual capital is not just obtaining the right personnel or human resources to get the job done today. And it is not just the responsibility of the Human Resources (HR) Department. The challenge is positioning for the future—determining not just the current skill levels, but the capacities and competencies needed to successfully compete in the future. Moreover, many of these competencies may not be available in the market, or if so, they are available only at exorbitant prices. Thus, the organization often must invest in the intellectual capital of its own personnel to develop those competencies.

Developing an attitude of continuous improvement, life-long learning, and a progressive orientation doesn't happen without the commitment and support of the CEO and the executive management team, with the HR Department playing a critical role in the implementation necessary to secure competence and intellectual capital (Goffee and Jones, 1996).

Finally, securing competence implies successful retention programs as well as strong recruitment and development programs. While investing in intellectual capital is important for long-term success, maintaining and retaining that capital investment is essential for such success.

Achieving Organizational Transformation

With the profound changes occurring in the agricultural industry, an organization wedded to the past—whether it be in technology, in supplier and buyer relationships, in business arrangements, or perhaps even in customers—will face considerable challenges. E-commerce is challenging traditional distribution systems. The evolution of supply chains is resulting in new business models and relationships. New competitors are constantly redefining the market and challenging historically dominant players. Changes in the customer base may not only require restructuring of the product/service/information package, but may in fact necessitate a new line of business.

The capacity of the organization, as well as the employees, to redefine its mission, its customers, its competitors, its markets, and possibly even its core business, will be important in this transition period of dramatic change in the agribusiness industries (McGrath and MacMillan, 2000).

How Do Individuals and Firms Prepare and Position?

So what are the keys to preparing and positioning for success in this rapidly changing agricultural industry? The following comments/suggestions are applicable whether an individual is positioning for his or her first job, is striving for further advancement within an organization, or is a management-level decision maker seeking to guide the firm. First, some basic marketing and strategy concepts must be applied to the development of a career. Marketing and strategy concepts both argue a product has more value if it is differentiated, and resources have more value to the firm if they are unique and difficult to replace.

Developing basic analysis and management skills through courses or self-study, obtaining a degree, or acceptable performance in the current job all serve to position an individual as a “commodity” in a market which is really seeking differentiated products. However, these “commodity” features only allow entrance into the market; they don’t define uniqueness. Consequently, the first task facing the resolute individual or firm is to develop the competencies and capabilities to *secure a place* in the market. This accomplishment must be followed closely by successfully *differentiating* oneself and one’s firm from other market participants. What are some of the ways to achieve this status? What techniques can be applied in developing individual as well as organizational capabilities to respond to these changes? Consider the following 10 skills or strategies:

1. *Expect and embrace change.* If the industry and the firm are in a period of profound change, success will be difficult to achieve if the firm and its management and employees are not willing to expect and embrace that change. In fact, some would argue the most successful firms and the people in those firms are those who shape the change rather than just accommodate or adjust to it. Change creates tension, and care should be taken not to make changes just to show activity. Change is disruptive, so it must be managed carefully—but it can and should be managed.
2. *Understand the new agricultural industry.* Given the rapid changes in the industry, it is critical for both individuals and management to constantly stay alert to new developments. All participants should be encouraged to become actively involved in trade association and other business meetings, to dialogue with industry leaders, to network aggressively, and to energetically seek out new ideas or insights that might promote an understanding of how the future of the firm and of the agricultural sector will unfold.

3. *Embrace analytical (and even theoretical) frameworks.* Theory is not the real world—it is, by design, an abstraction. But concepts and theory help us understand the real world, and when there are rapid changes in the business climate, a broader set of concepts can be useful in understanding those changes. Individuals and firms are well advised to develop a solid background in the analytical tool kit from the fields of management/strategy, marketing, finance, organizational behavior, and even economics to assist in the process of framing and analyzing problems and issues, and to foster a better understanding of the changes taking place within the industry.
4. *Be comfortable with data.* Equally important to conceptualization skills that draw on theoretical concepts are quantitative skills which facilitate numerical analysis. Understanding the usefulness as well as the potential misuse of data and numerical analysis is essential in business decision making. Three dimensions of quantitative analysis are critical: (a) being comfortable with data and data manipulation with such standard tools as Excel spreadsheets as well as financial statements and documents, (b) having a healthy respect for the potential inaccuracies in data so they are not misinterpreted or misapplied, and (c) having the capacity to convert numerical/quantitative analysis into concrete decisions and recommendations to capture the qualitative as well as the quantitative dimensions of any real-world problem.
5. *Demonstrate the integration of concepts and quantitative analysis.* While understanding concepts and theory, and having a capacity to perform numerical analysis and manipulate data, are critical skills, they have little value if used independently. And in a surprising number of circumstances, this disconnect occurs in business decision making. Sound business decision making is not that much different from the scientific method used in the research lab: a problem is identified, a set of concepts useful in solving the problem are captured, data (both quantitative and qualitative) are collected and analyzed using the conceptual framework that has been formulated, and decisions/recommendations/conclusions are developed based on this analysis. Business decision making which shortcuts this logical analysis format has a higher probability of being incorrect.
6. *Develop team-working skills.* The ability to work together in the classic hierarchical business structure of manager and associate or employee is presumed. Increasingly, the essential strategy for long-term success is team-working/building skills combined with the ability to make group decisions. More of the work activity in almost all business environments is being conducted with collaborative or group processes which include cross-functional skills and personnel. The attributes of consensus building within teams, joint or collaborative decision making, appreciation and respect for different viewpoints or perspectives, managing the shirking or noncooperating team

member, and encouraging/stimulating collaborative and cooperative rather than competitive behavior among team participants represent a set of skills frequently not experienced or learned in most educational or training programs, nor are they necessarily part of the early career experience for many employees.

7. *Take calculated risks.* Taking care of current customers or “doing the job” is no longer enough. With the significant changes occurring in the industry, a firm’s customers and an individual’s job will evolve on a regular basis. Maintaining a sustainable competitive advantage requires constant experimentation and risk-taking in a changing competitive market. With the industry’s ongoing transformation, a critical and important task for firms and employees alike will be to continually reassess and redefine job parameters to assure continued contributions toward the success of the firm within this evolving industry.
8. *Broaden your perspective.* There is much to learn from other industries. Talk with business managers in the computer, automobile, consumer goods, or telecommunications industries. Instrumental to personal success in the changing industry paradigm is a broadening of your reading focus beyond trade publications and the *Wall Street Journal* to a regular review of publications and Internet sites with a business focus. Consistently review the business press such as *Forbes*, *Fortune*, *Fast Company*, *Business 2.0*, *Technology Review*, or *The Economist*. And don’t ignore the *Harvard Business Review*, the *Sloan Review of Management*, *The Academy of Management Executives*, and *The Journal of Marketing* in your scan. Have you read a good business book lately? As just two noteworthy examples, you might consider *Blown to Bits: How the New Economics of Information Transforms Strategy* (Evans and Wurster, 2000), and *The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail* (Christensen, 1997).
9. *Communicate.* Communication and persuasion skills are as important as are analytical skills in the success of any business or organization. Telling the story may be as important as the story to be told. As with most other skills, communication skills can be learned—but they must constantly be reinforced by practice, practice, practice.
10. *Generate products/output.* What have you as an individual or a management team produced lately? Can you identify specific outputs? specific products? specific results? And note the question is not what activities you were involved in, what teams or committees you participated in, what meetings you attended. The bottom line is: What were the results, the products, the outputs, the impact? Your observations and answers to these questions may be revealing, and may even prompt a reassessment of goals and priorities.

A Final Comment

With the dramatic changes occurring in the agricultural industries, it is critical for both firms and individuals to develop and maintain competencies that will enhance a competitive position in this rapidly evolving market. The skills or capacities required to be successful are dynamic capabilities which embrace new ideas, change, innovation, analysis, integration, and teamwork—proficiencies perhaps not part of the experience base in the more traditional agriculture of the past. Developing these capacities will enable participants to be successful players in the new agriculture of integrated, interdependent value chains competing on cost, quality, and time metrics.

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