

Comments on Future Prospects of Small and Medium Size Agribusiness

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Small and medium agribusiness (SMA) has played an important role in both generating income and employment and also in income distribution particularly in the rural areas since SMA is labor intensive and raw material oriented. Because of such significant role, it is essentially interesting to investigate its future prospects and set strategies to strengthen the business in details. From the studies by Saenjan (1997), Perilla and Abarquez (1997), Fujishima (1997), and Arya (1997), strength, weakness and threats as well as strategies for SMA development are analysed and recommended accordingly.

1. Strength of SMA

Among disadvantages to the large agribusiness (LA) enterprises, there have still been several business strengths for SMA which are :

1.1 Proximity advantage to sources of raw materials. SMA usually has the raw material location advantage since it is more dynamic in factory-location selection oriented to raw materials (Saenjan 1997) in particular even though it comes with higher cost of product distribution to the market.

1.2 Capital saving or labor intensive technology. Comparing to the other manufacturing sectors and also to the large agribusiness (LA), SMA has used the capital saving or labor intensive technology. The advantage of low capital technology is the shorter payback period of capital. It also makes the business more flexible in reducing the volume of production with less burden to the firm when the demand has shrunk since SMA has a higher portion of labor which is a variable input.

1.3 A tremendous number of varieties of agri-food products demanded by consumers comparing to the non agricultural manufacturing provide the agribusiness entry opportunities for SMA since LA cannot cover all kinds of the products due to many constraints. e.g., the volume limitations.

1.4 Export demand for selected agri-food products has been rising both in Thailand and especially the Philippines (Perilla and Abarquez, 1997)

1.5 Low import content in SMA. Currency devaluation (if any) will favor the exporting SMA the most.

1.6 More flexible and resilient than LA (Perilla and Abarquez, 1997)

1.7 More dynamic in price strategy when raw material prices decrease.

1.8 Fast decision-making (Perilla and Abarquez, 1997)

1.9 Competitiveness in the production of goods which are : of limited volume, of short-run special lots/designs, of high precision, and of selective demand (Perilla and Abarquez, 1997)

1.10 Less raw material supply liquidity (adequacy) risk.

2. Weakness of SMA Perilla and Abarquez, and Saenjan have observed weaknesses of SMA as follows :

1. Weak financial management including difficulty in raising working capital, inadequate investment in plant and equipment and no track record and propensity for defaults.

2. Weak market information especially information about prospective markets and suppliers as well as sources of fund.

3. Weak technology by using obsolete technology resulting in low productivity.

4. Lack of human resource development programs

5. Lack of research component leading to poor product design, packaging, no new product development, and no technology innovation.

6. Low level of managerial skills in the aspects of poor financial and marketing managements, poor internal control systems, and intuitive, often emotion-driven decision-making

7. No bargaining power in credit acquisition, and particularly in price negotiation

8. Less economies of scale compared to LA, and

9. Extremely less proportion (only 8 %) of the total number of SMA enterprises who receive investment promotion privileges compared to the LA in the Thai economy contrary to the Philippines.

3. Threats

1. Several agri-food products are among the protective measures from the world market (Saenjan, 1997). The measures are for examples on the issues of environmental protection, health assurance, anti-dumping and countervailing duty.

2. severe competition in the world market using price-cutting strategy (Saenjan, 1997) has been reducing the SMA export potential.

3. Large agribusiness enterprises have increasingly dominated the SMA in many aspects, e.g., the economies of scale, high technology leading to the lower cost of production and high quality.

4. SMA enterprises have extreme difficulties to receive low-cost capital compared with the LA which could be listed in stock exchanges much easily and could raise funds from them more conveniently.

Strategies

In order to help strengthen the SMA enterprises, strategies should be developed to create opportunities and advantages in the business. Some leading strategies recommended are :

1. Avoiding to compete with LA and trying, if possible, to be in the LA's production and marketing plan, e.g., through subcontracting in intermediate inputs or finished products under the LA's brand names.

2. Doing business with large multinational firms through franchising or licensing. Some successful SMA franchises of

McDonalds, KFC are good examples (Perilla and Abarquez, 1997).

3. Using niching as a marketing strategy because SMA enterprises are better competitive in serving the selected niche which essentially attracts fewer competitors. Market nichers could serve to meet their target customers' needs better than the other firms in the same niche and make high margins compared to mass producers who aim at higher volumes (Perilla and Abarquez, 1997)

4. Quality strategy. It is essentially important for SMA to standardize the quality of agri-food products especially for the world market and also the quality should meet the industrial standard in accordance with the world regulations e.g., on hygienic and environmental requirements (Perilla and Abarquez, 1997 and Saenjan, 1997).

5. Research and development (R&D). R&D, e.g., on product and technology developments is crucially necessary to strengthen the competitiveness of SMA. Individual SMA enterprises cannot afford to conduct R&D on their own investment since it is costly with the small and medium sizes of the business and they also have no expert in this area. Thus the government should take the role to invest and support R&D through agri-food research institutes and disseminate research and development findings to SMA enterprises.

6. Entrepreneurial development. SMA entrepreneurs in general have low levels of managerial skills, e.g., poor management in finance, production and marketing with intuitive and often emotion-driven decision making (Perilla and Abarquez, 1997). Intensive training programs on accounting and financial management, marketing, production management and investment analysis should be accelerated to develop the entrepreneurial skills.

7. agricultural cooperatives dispersing in all regions could be considered as leading SMA enterprises in Thailand. Managerial and marketing merger would help the cooperatives expand marketing network, acquire lower costs of capital, production, product distribution to markets, strengthen

bargaining power, and enjoy the economies of scale.

8. Extending and accelerating investment promotion privileges to cover more SMA enterprises are highly recommended.

All these weaknesses and threats could be alleviated through relevant policies and measures. Thailand and especially the Philippines have launched many concrete policies and measures to help eliminate these weaknesses. This could strengthen the future prospects of SMA especially in the Philippines as confirmed by Perilla and Abarquez that there is no better time than today for small and medium agribusiness enterprises. Besides the government policies and measures, SMA's strengths and overriding strategies make SMA enterprises a promising future.

However, as stated, there are several weaknesses of SMA enterprises including weak financial management, difficulty in raising working capital, inadequate investment in plants and equipments, weak market information especially about prospective markets and suppliers, weak technology by using obsolete technology resulting in low productivity, and lack of human resource development programs which lead to low level of management skills in the aspects of poor financial and marketing managements, poor production management and poor decision making procedure, no bargaining power in credit acquisition, and especially in price negotiation. The levels of these weaknesses in details which may be

classified by different categories of the products should be further studied. The relevant and concrete measures and the total investment to overcome these weaknesses should be figured out. Private and social cost-benefit analyses as well as the effects and impacts of the measures and investment must be carried out to convince the policy makers.

One of the most important weaknesses of SMA enterprises is the extremely less proportion of the total number of SMA enterprises who receive investment promotion privileges compared to the large agribusiness firms. The comparative studies of the contribution of SMA enterprises and the large firms to the economy in every aspect should be investigated in comparing with the cost socially and privately. And the last weakness is that SMA enterprises have less economies of scale compared with the large enterprises. The strategies and measures to reduce the production cost as well as the optimum size of SMA must be analysed in details.

The issue of the competition between SMA enterprises and the large agribusiness firms is shown clearly by the case study of wholesale markets for fresh vegetables in Japan by Fujishima (1997). The study found that SMA enterprises have been retreating under severe competition. Important questions arise " Does the severity of competition between SMA and the large agribusiness firms exist in all agribusiness products? How do we overcome this problem if it exists ?

Reference

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