

# Input costs and the sustainability of your business model

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August, 2023



Optimal Agricultural Business Systems (OABS)

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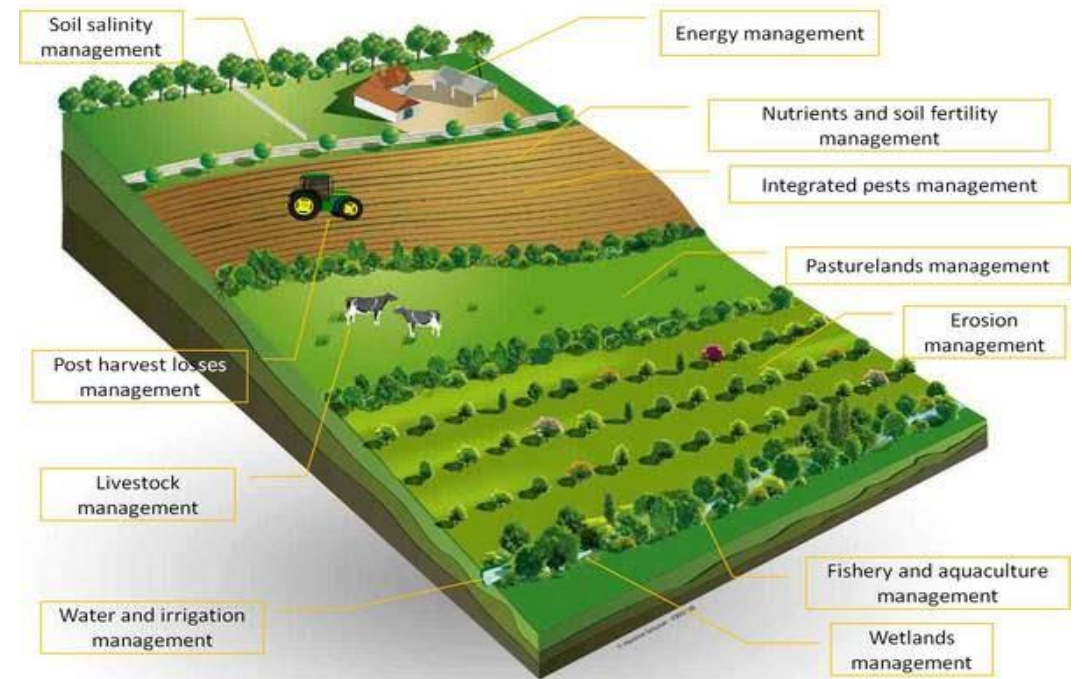
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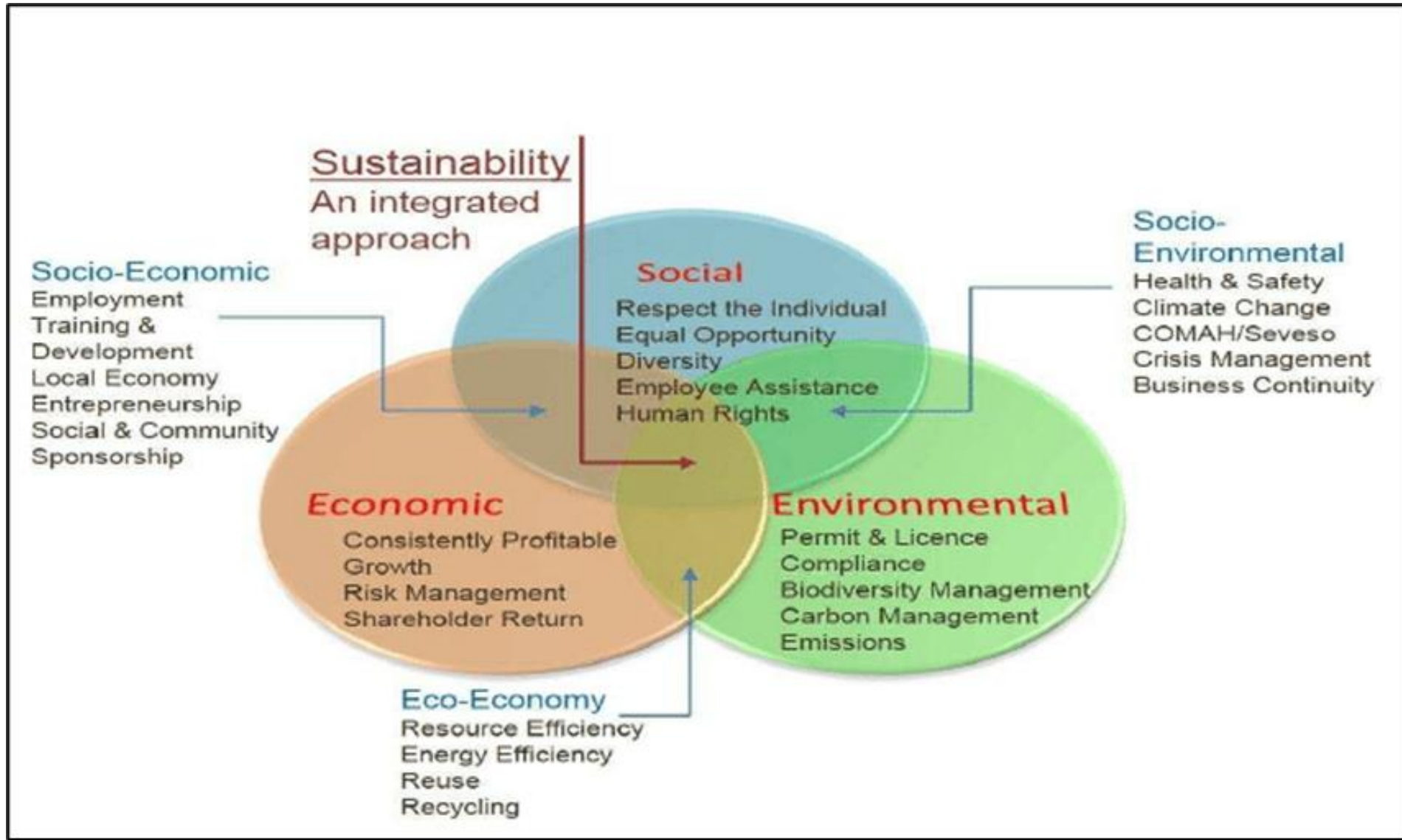


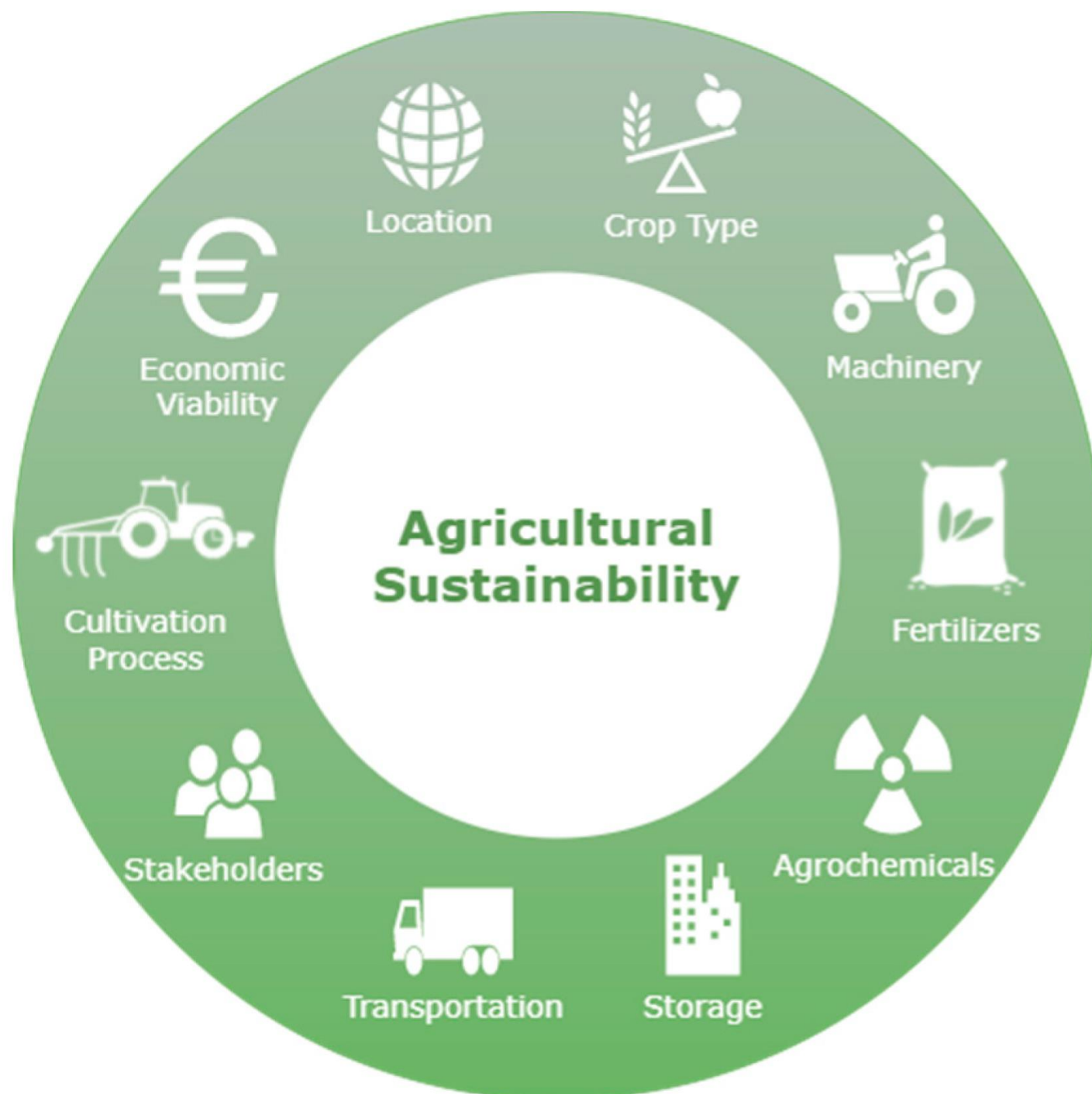
# What is an agri business model? What about sustainability?

- **Business models are simplified representations of the value proposition, value creation and delivery, and value capture elements and the interactions between these elements within an organisational unit.**
- **The principles of sustainability are the foundations of what this concept represents.** Therefore, sustainability is made up of three pillars: the economy, society, and the environment. These principles are also informally used as profit, people and planet.



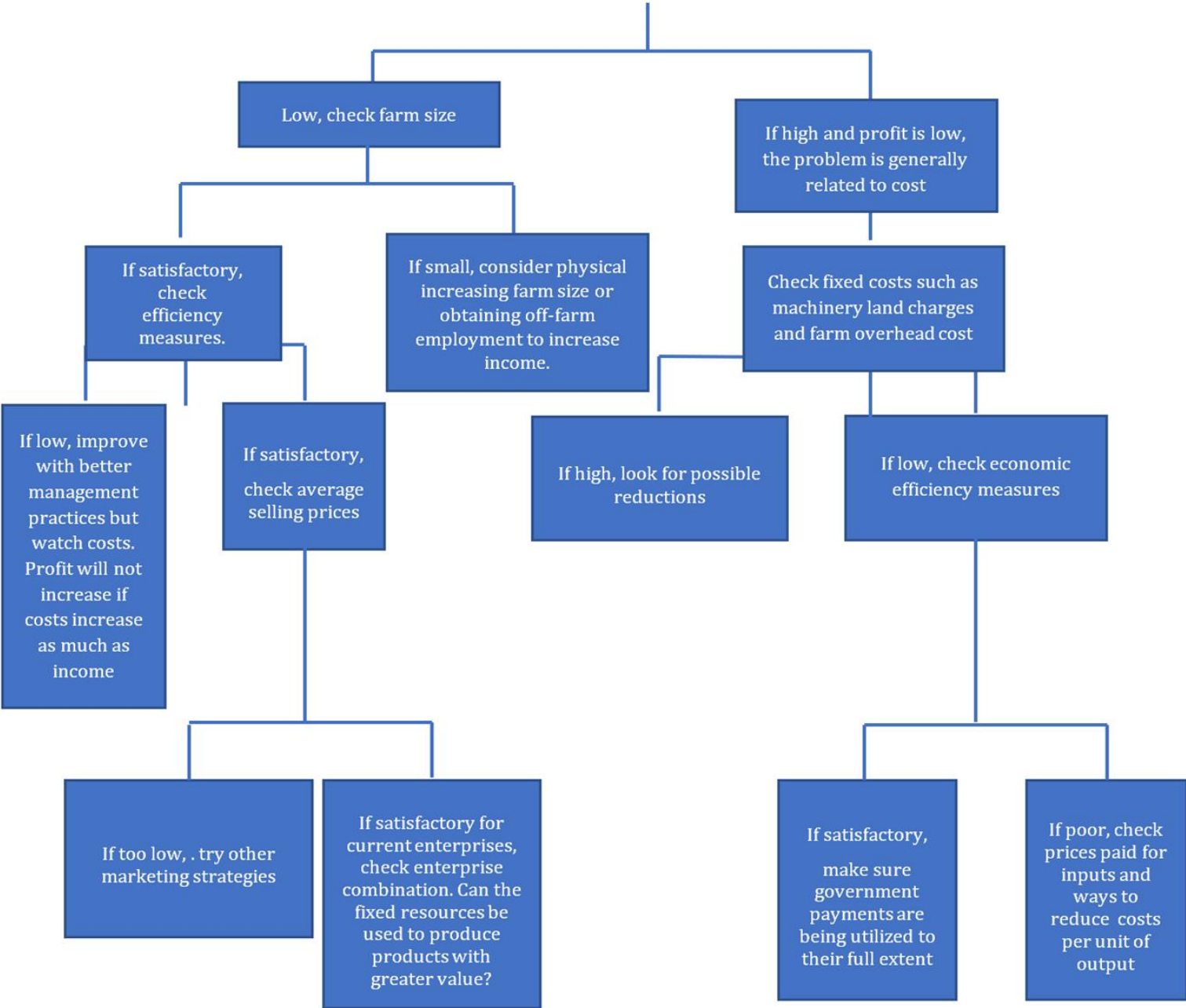
# Sustainability





Value of Farm Production

Diagnosing of a farm profitability problem



NETTO BOERDERYINKOMSTE / R100 KAPITAAL BELEGGING		
U PLAAS		GROEP- GEMIDDELD
VORIGE JAAR	HIERDIE JAAR	

NETTO BOERDERYINKOMSTE PER HEKTAAR		
U PLAAS		GROEP- GEMIDDELD
VORIGE JAAR	HIERDIE JAAR	

INDIEN LAAG

BESTUDEER BRUTO BOERDERYINKOMSTE PER HEKTAAR		
U PLAAS		GROEP- GEMIDDELD
VORIGE JAAR	HIERDIE JAAR	

INDIEN HOOG

INDIEN LAAG

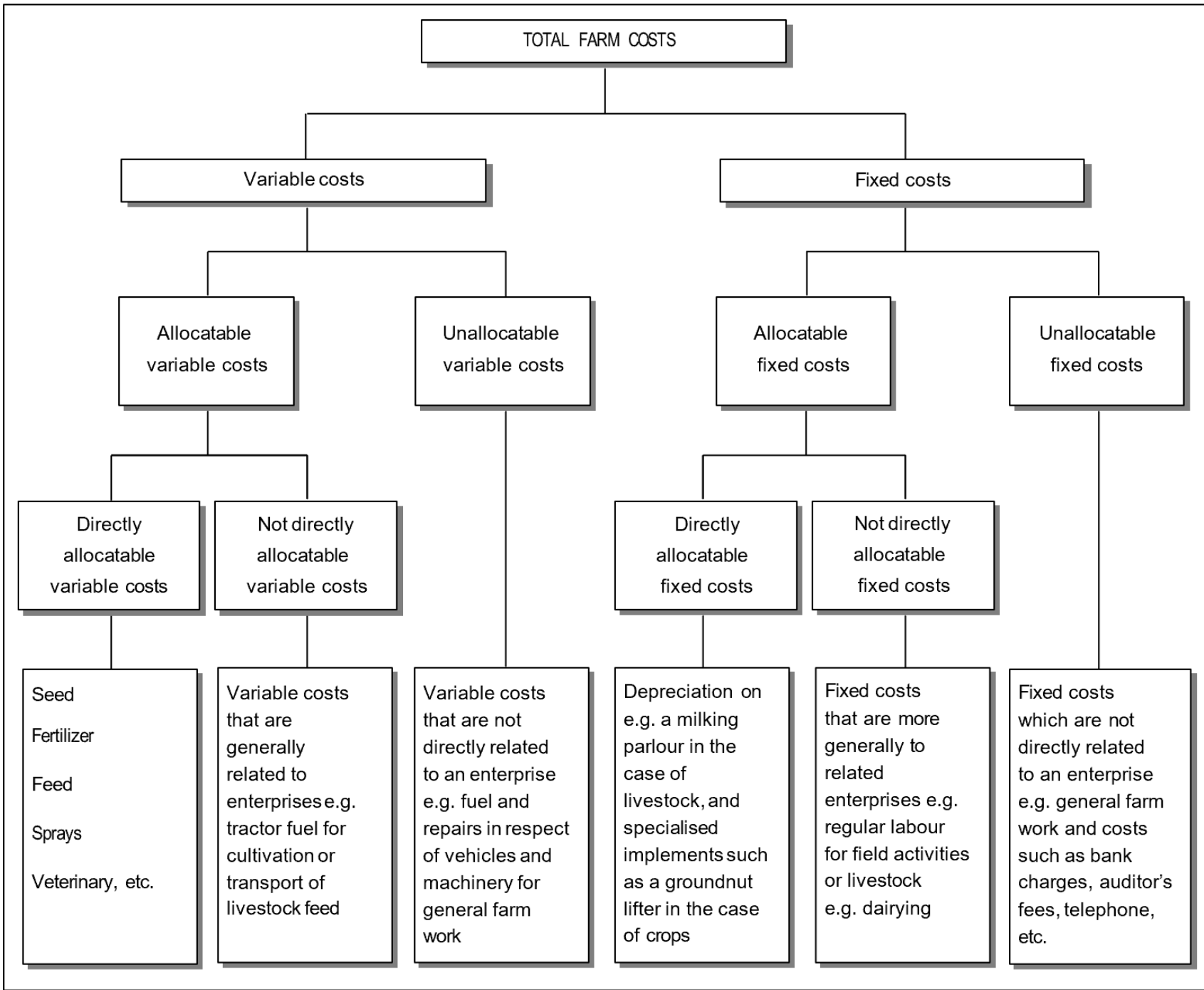
BESTUDEER PRODUKSIEKOSTES PER HEKTAAR		
U PLAAS		GROEP- GEMIDDELD
VORIGE JAAR	HIERDIE JAAR	

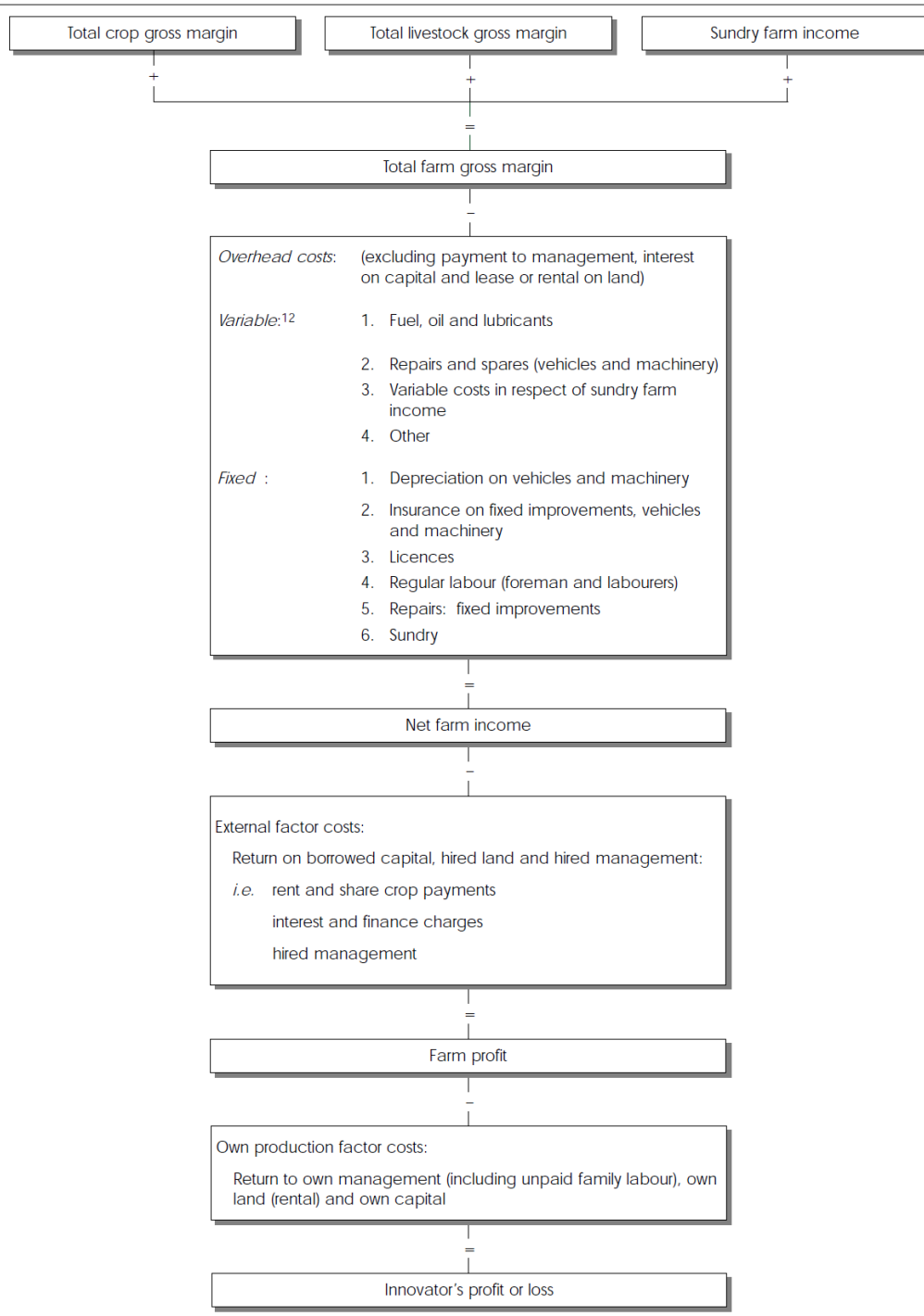
INDIEN HOOG

BESTUDEER INDIVIDUELE  
VERTAKKINGS SE BRUTO  
MARGES EN OPBRENGSTE

Vervolg op volgende bladsy...

BESTUDEER DIREK ALLOKEERBERE VERANDERLIKE KOSTES	U PLAAS		GROEP- GEMIDDELD
	VORIGE JAAR	HIERDIE JAAR	
SAAD / HA			
KUNSMUS / HA BEWERK			
SPUITSOWWE / HA BEWERK			
GEKOOPT VOER / G.V.E.			
VEEARTS EN MEDISYNE / G.V.E.			
BEMARKINGSKOSTE / G.V.E. of HA			
KONTRAK & VERVOER / G.V.E. of HA			
DIVERSE / G.V.E. of HA			
BESTUDEER VASTE- EN NIE- ALLOKEERBERE VERANDERLIKE KOSTES	U PLAAS		GROEP- GEMIDDELD
	VORIGE JAAR	HIERDIE JAAR	
VASTE VERBETERINGS / HA			
VOERTUIKOSTE / HA			
MASJINERIEKOSTE / HA			
ARBEIDSKOSTE / HA			
ELEKTRISITEITSKOSTE / HA			
DIVERSE KOSTE / HA			
RENTE / HA			

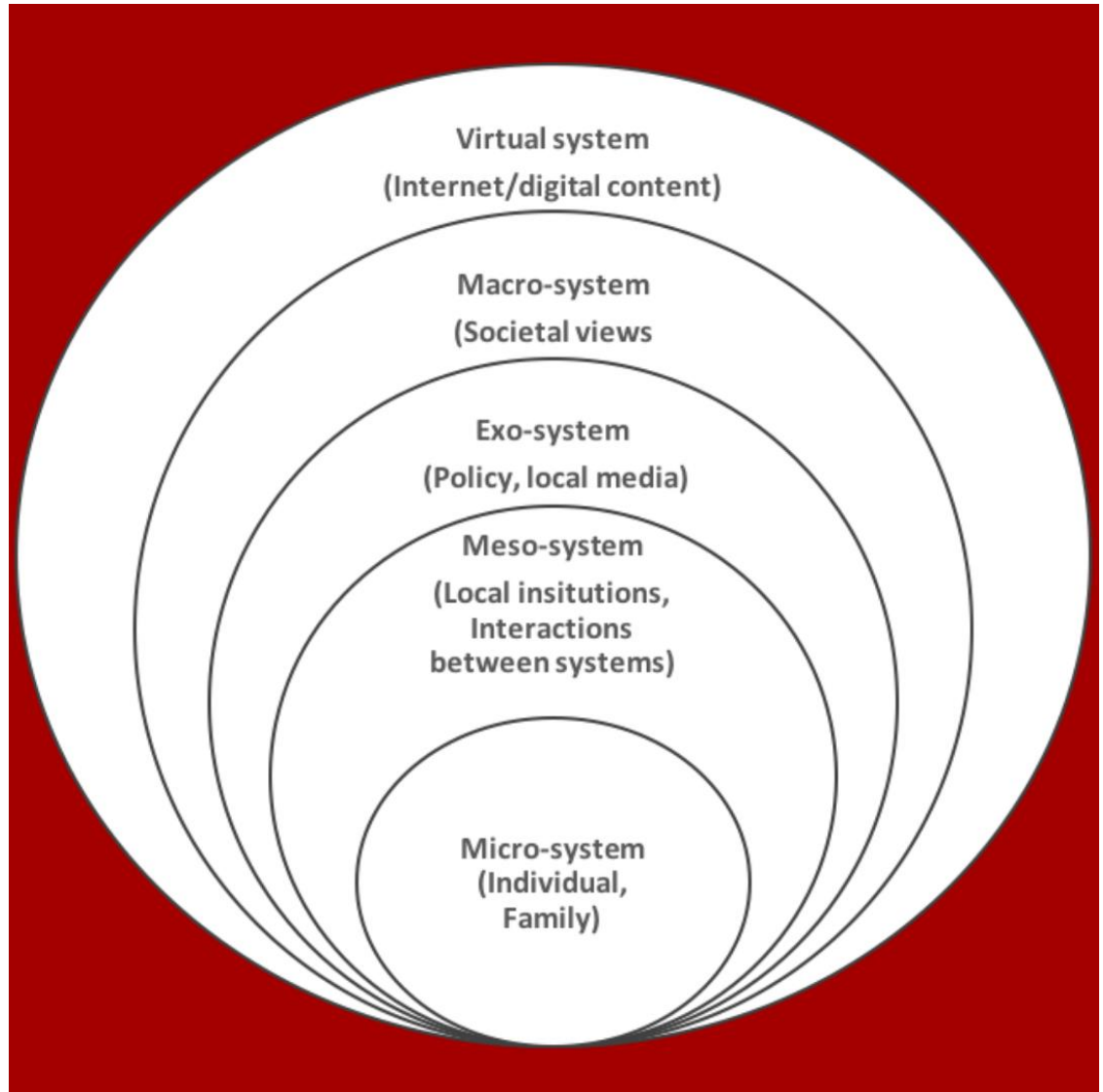


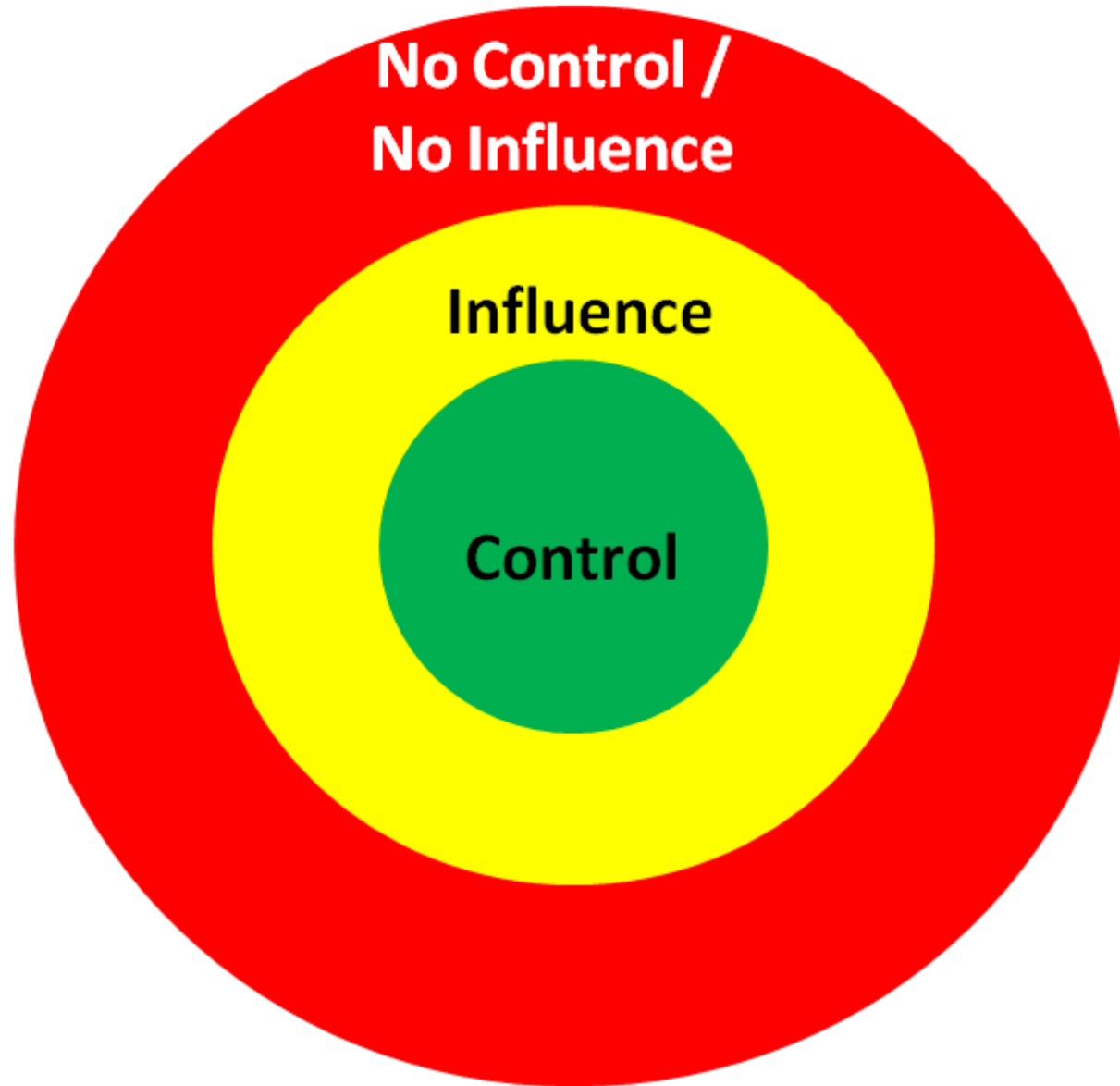


# Sphere of influence

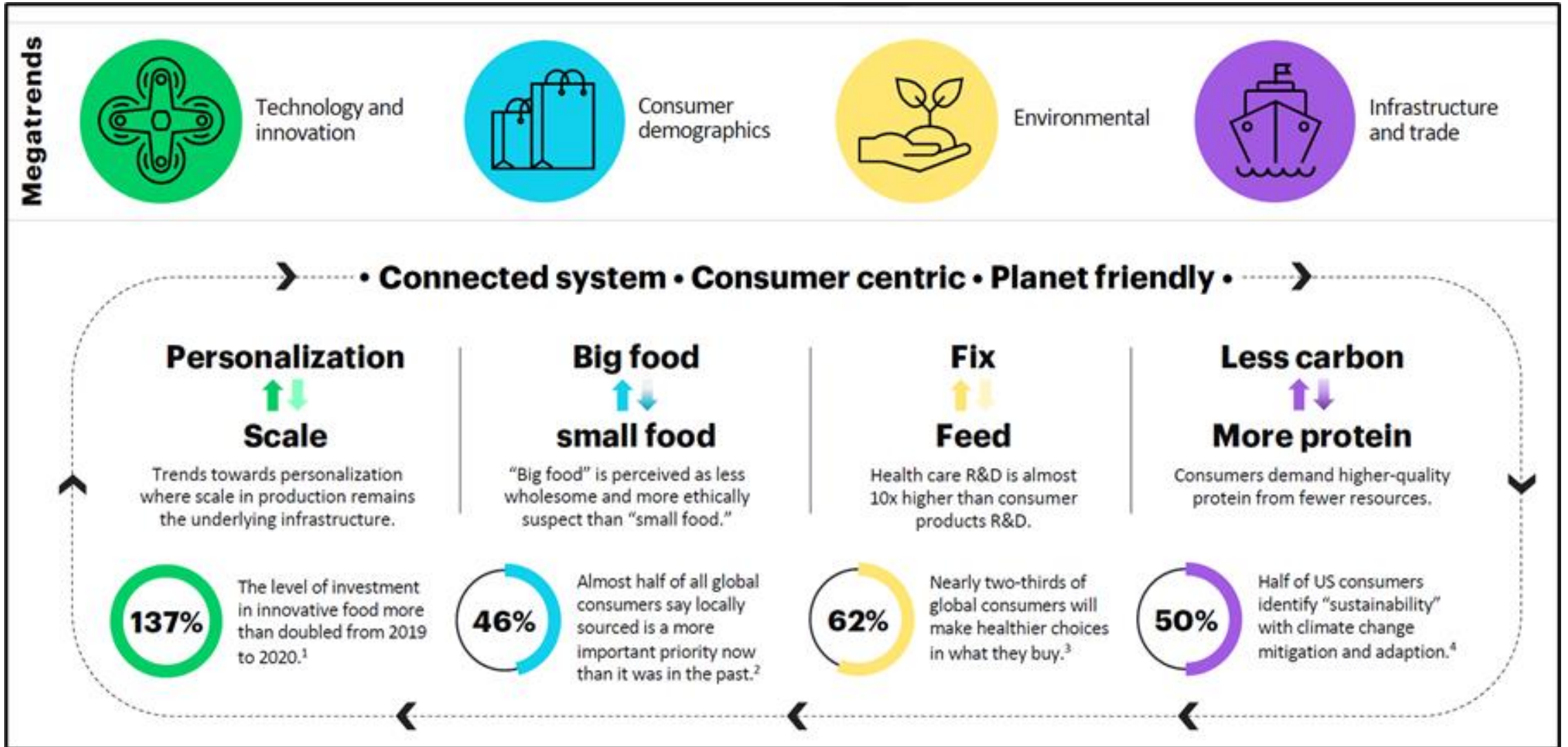
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- What can I do as an individual? What is within my control – e.g., efficiency, in general good management practices.
- What can I not do as an individual? Many things.
- What can my commodity organisation do? E.g., Research, Information, Market Access, Promotion etc.
- What should be done by organised agriculture (AgriSA, TLU, Provincial Agri's) E.g., influence policies impacting on agricultural
- What can we only do through Provincial Government? E.g., Drought / flood relieve
- What can we only do through National Government? E.g., trade agreements

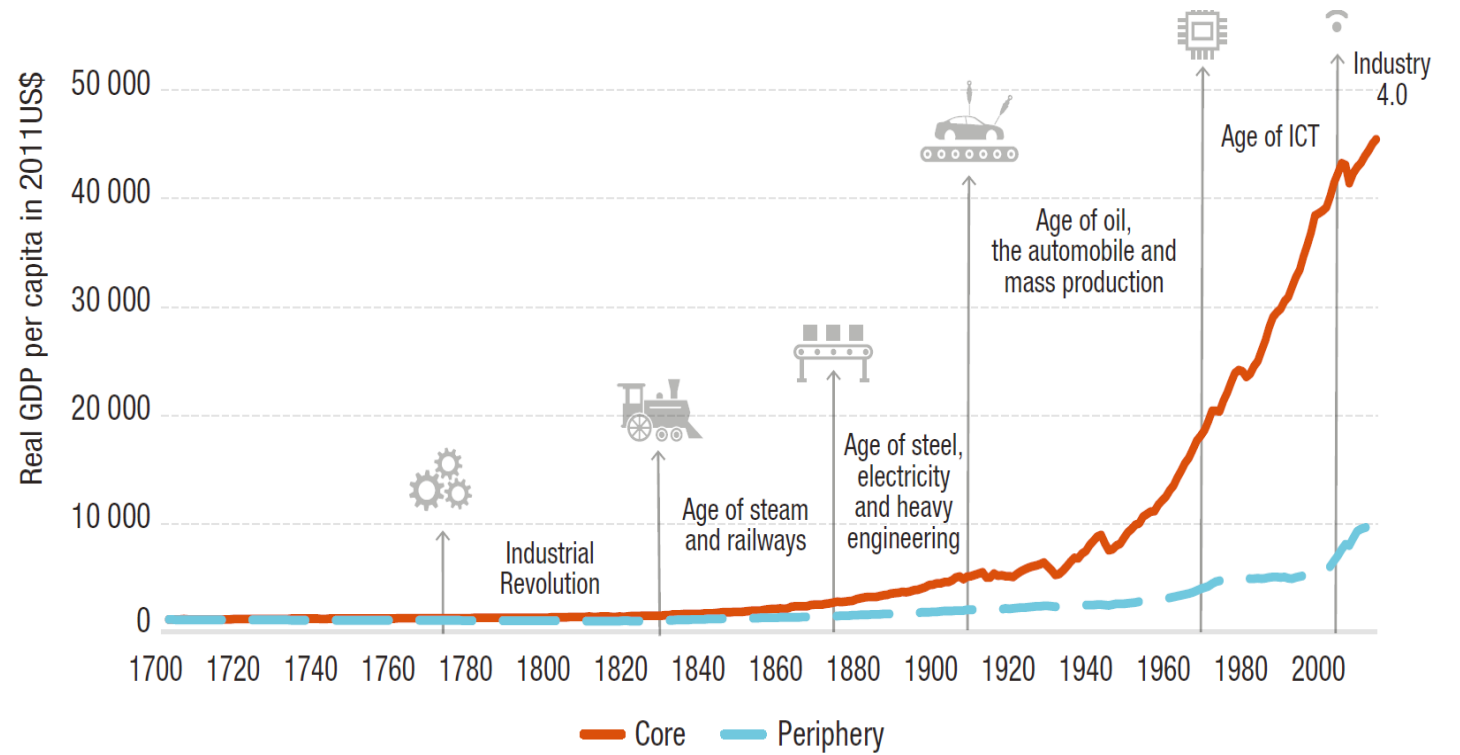




# Megatrends to guide business model thinking

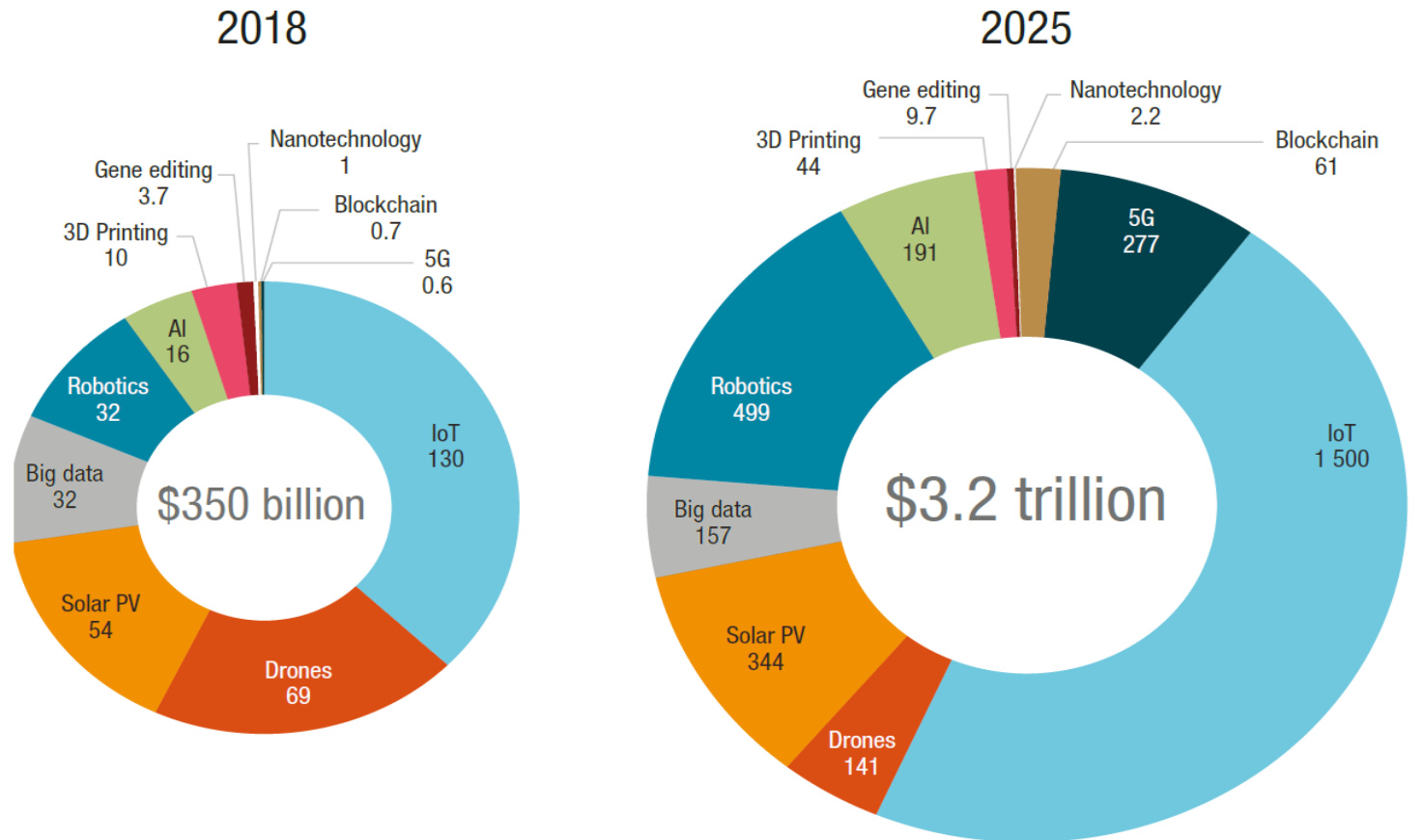


# TECHNOLOGICAL CHANGE AND INEQUALITY THROUGH THE AGES



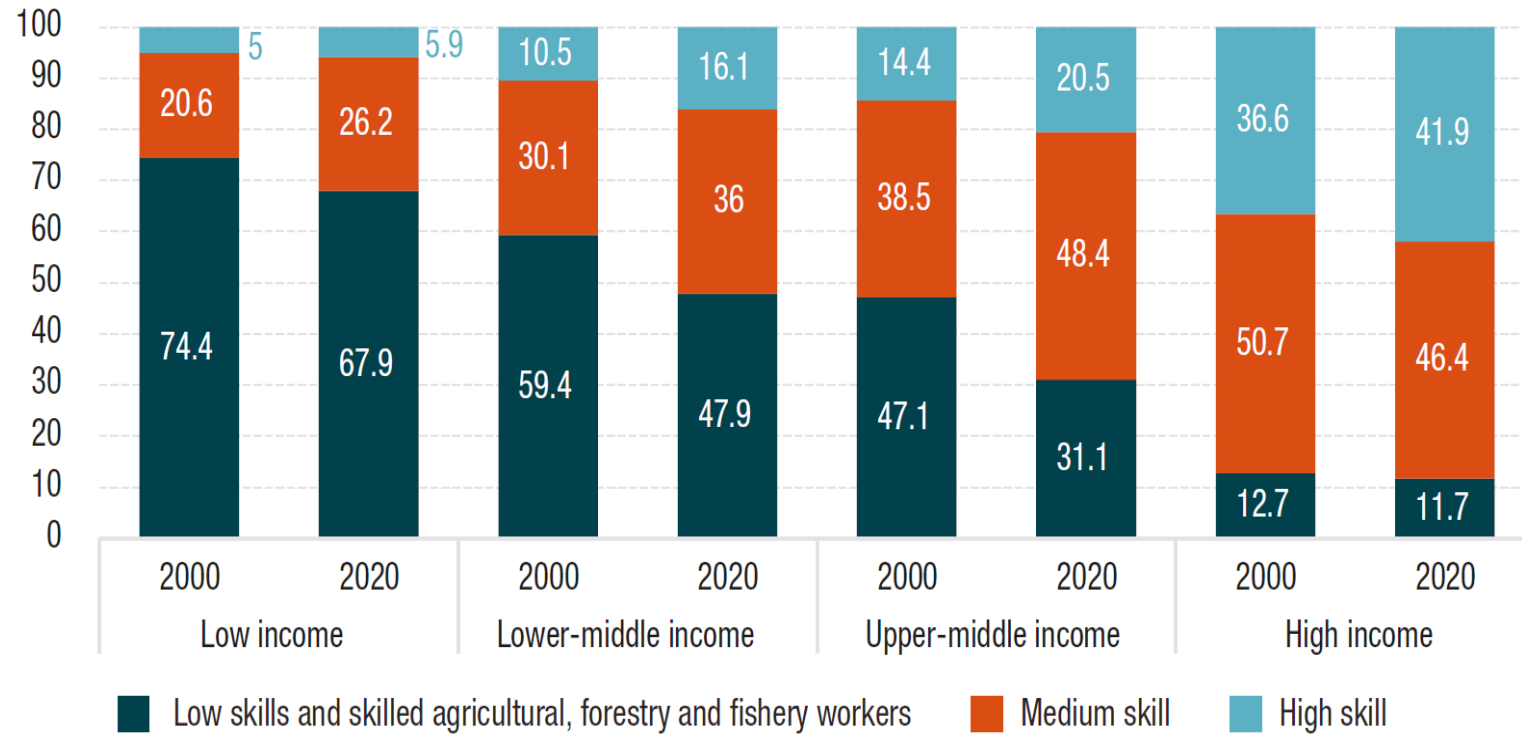
Source: UNCTAD (2021)

# MARKET SIZE ESTIMATES OF FRONTIER TECHNOLOGIES, \$BILLIONS



Source: UNCTAD (2021)

EMPLOYMENT  
BY SKILL LEVEL,  
COUNTRY  
INCOME  
GROUPING  
(PERCENTAGE  
OF TOTAL CIVIL  
EMPLOYMENT)

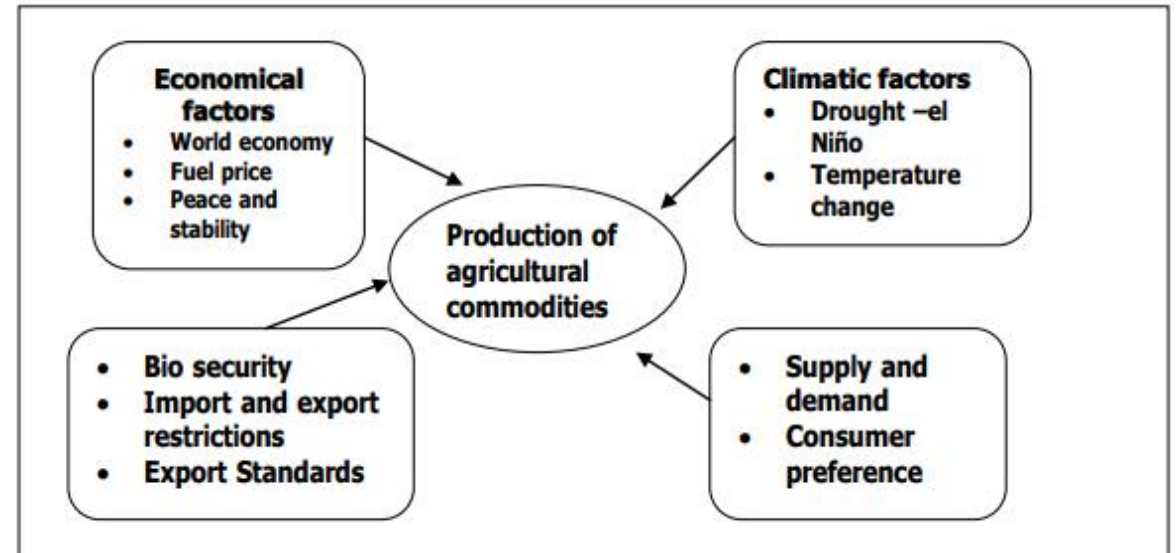


Source: UNCTAD based on data from ILOStat according to the ISCO-08.

# External impacts on cost

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- Geopolitical uncertainty (Ukraine war, China/US, North Korea – rocket man etc.)
- National & provincial policies (EIA processes, access to water rights, water pricing, electricity pricing and many more)
- Interest rates
- Exchange rate fluctuations
- Climate change
- Infrastructure deficiencies (roads, rail, harbour, electricity, water etc.)
- The Green economy (also create opportunity) and retail compliances



# So what can we do?

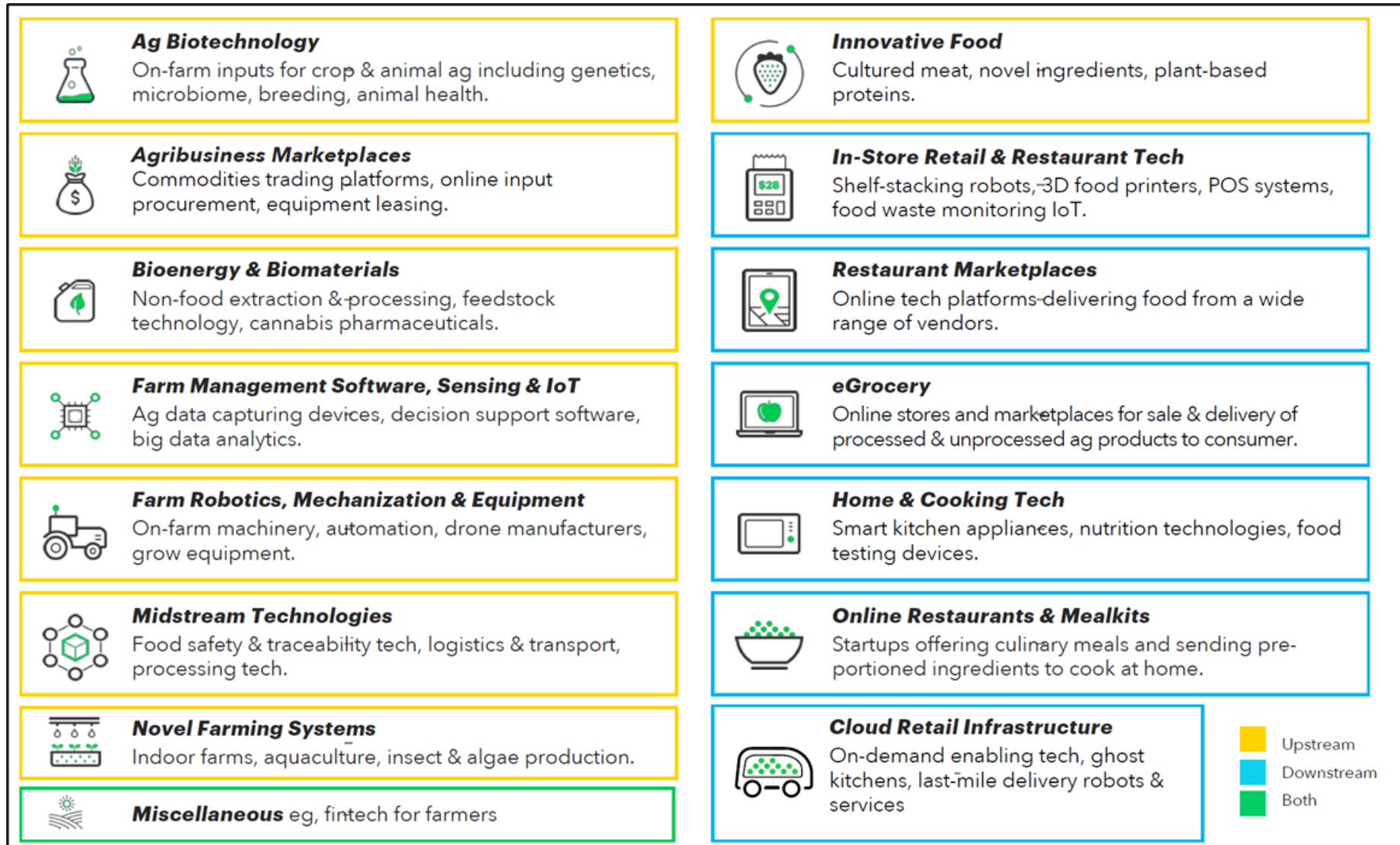
- The one thing that farmers can do is to increase efficiency – farming scientifically and use 4<sup>th</sup> generation technologies



Not only farmers – what can the industry do – industry business model

# AgriFoodTech category definitions: How to be and stay sustainable?

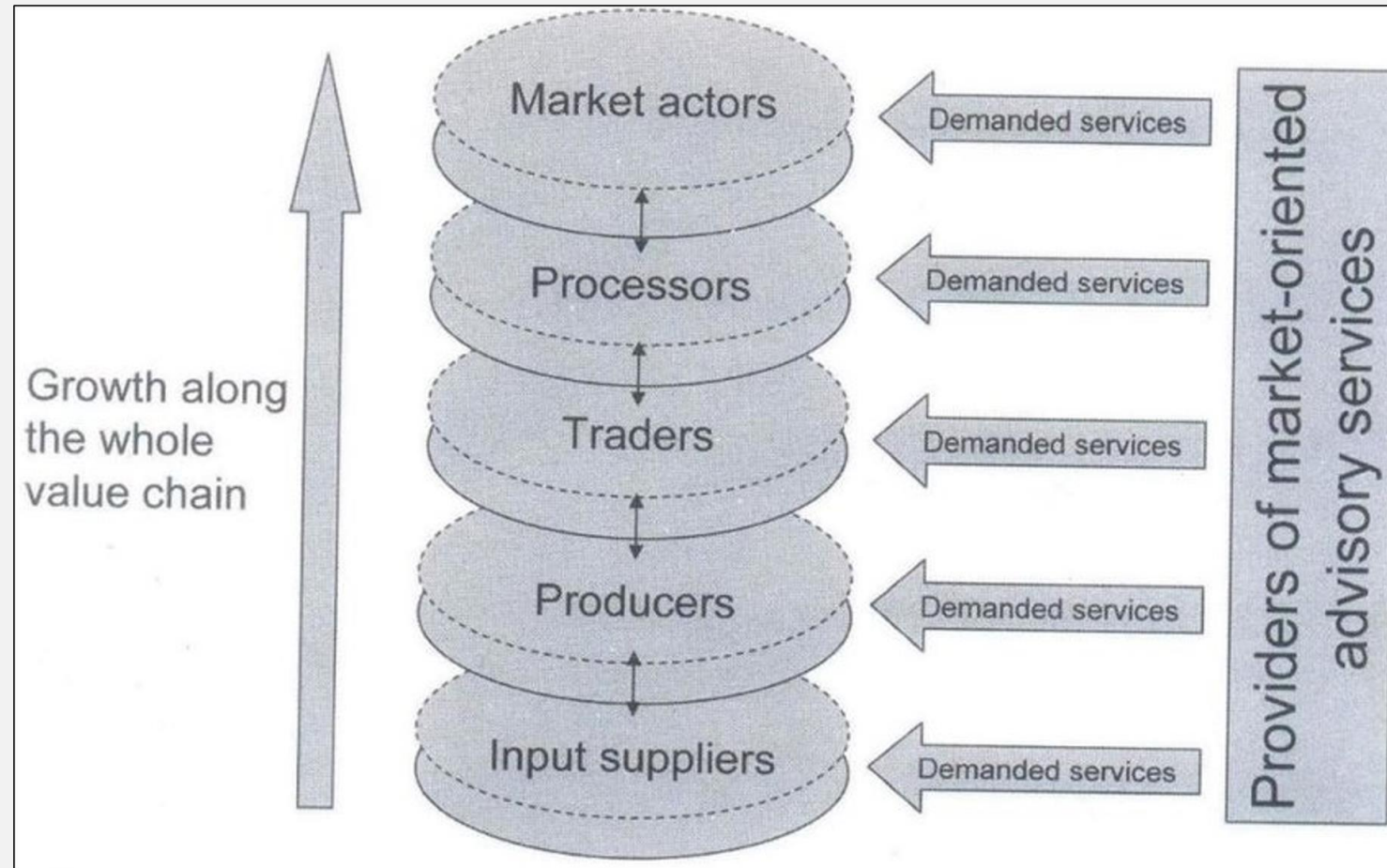
## Increase efficiency – also off-farm in the VC



Source: Agfunder (2021)

# VERTICAL ALLIANCES

- Advantages of partnerships between farmers and distribution channels (either input supplies or markets or both). They are also known by the term: 'buyer supplier relationships'. A vertical strategic alliance is a cooperative strategy focused on integrating extra functions of the value chain into your farming business - pursuing mutual benefits between VC actors.





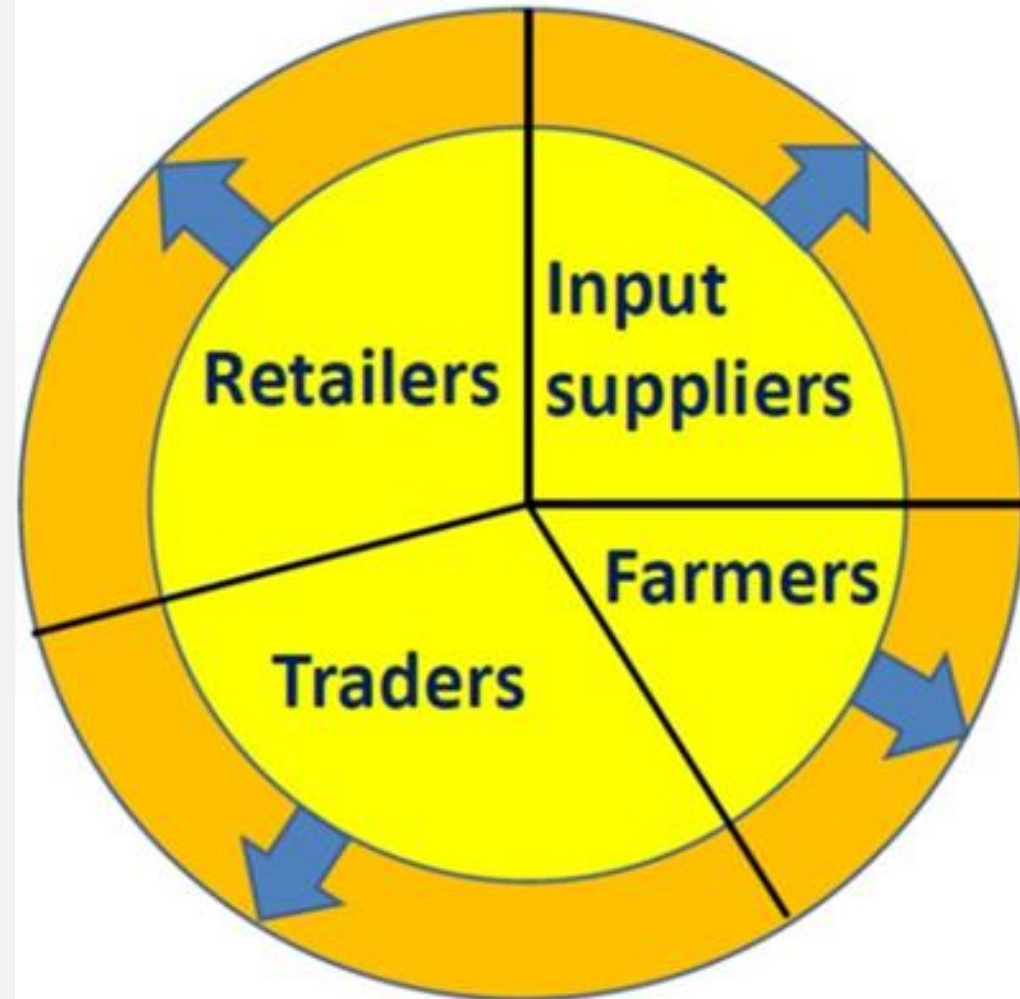
# ADAPTATIONS UNDER SHARED VALUE

- Businesses that adopt a shared-value lens **typically adopt new practices** and structural changes
- **Reconceive products and markets**
  - Identify new products and services to meet social needs or serve overlooked customer segments
- **Redefine productivity in the value chain**
  - New choices in production, marketing, and distribution; adopt equipment and technologies to save energy, conserve resources, and support employees
- **Build supportive industry clusters** at the industry locations
  - Enhancement in local procurement and reliance on less geographically dispersed supply chains


SUPPLY CHAIN STRATEGY OF  
GROWING INDIVIDUAL SLICES  
OF THE PIE



VALUE CHAIN STRATEGY OF  
COOPERATIVELY GROWING  
THE PIE



# CONTRASTING SUPPLY CHAIN THINKING AND VALUE CHAIN THINKING

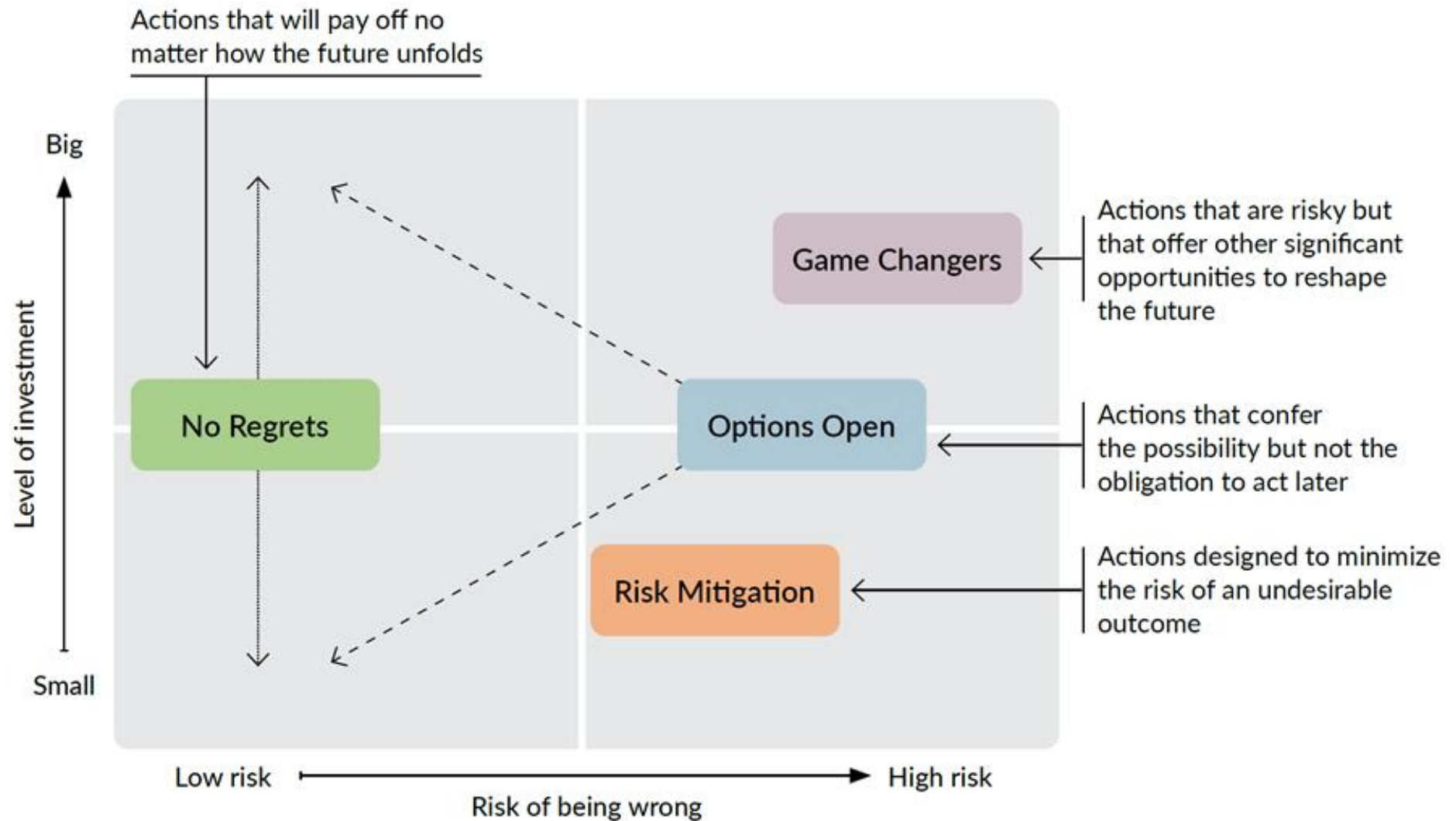
Supply Chain Thinking “Growing your slice”		Value Chain Thinking “Growing the pie”
Compete on price		<b>Compete on value</b>
Independence and self-interest		<b>Interdependence and mutual interest</b>
Flexible, transactional relationships		<b>Stable, collaborative relationships</b>
Short-term trading		<b>Long-term planning</b>
Suppliers chosen on quality and cost		<b>Suppliers selected for quality, skills, service and partnership</b>
Suppliers are price takers		<b>Prices negotiated</b>
Opportunism		<b>Commitment</b>
Limited information sharing		<b>Open communication</b>



### Management Lesson

Never start a project unless all resources are available

# Building blocks of a flexible business model



Source: World Bank (2020)

# Examples of no-regret strategies to reduce costs and to increase efficiency

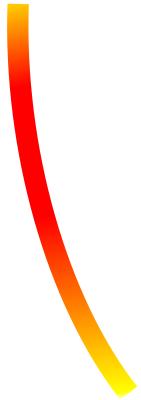
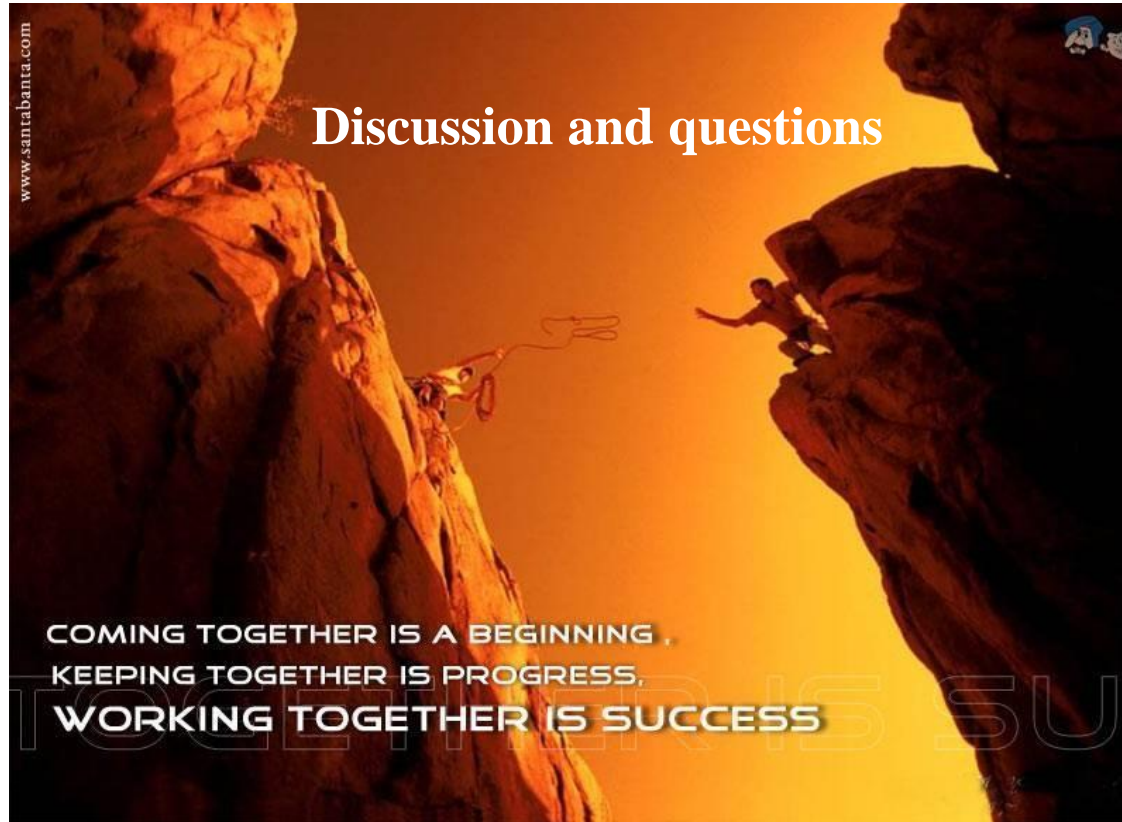
- Use the **best available plant material** the industry can offer – commodity organisation can play a role – research & information
- **Soil preparation** – don't take short cuts – it is a long-term investment
- **Maintain soil health** – drainage, mulching, compost, compost tea, etc – reduce cost of pesticides, irrigation water demand, energy
- **Use technology** for farm planning, vineyard management, recordkeeping, traceability etc – reduce cost of water, energy, chemicals, fertilizer and many others
- **Use IPM** - Barriers, screens, traps, mulches, biological control agents and beneficial insects etc.
- **Support your commodity organisations and farmers unions** to use their influence and or control on the things you cannot control or influence – take control of strategic services (e.g., Fruit Fly, Labourites, Research, Statistics and other information etc.
- And yes – **support your Provincial Department of Agriculture** on their activities that is relevant and meaningful.

## SHARED INDUSTRY VC VISION

- To work with other links in the value chain, VC actors should develop a **common “chain vision.”** This means that they see how their value chains work, as a network of specialized companies that need each other to make money.
- Farmers should acknowledge the position of **other links in the chain**, and respect that their interests are also legitimate.
- Different links in the chain should understand **the need for cooperation rather than fighting against each other.**
- They should understand that, though sellers and buyers will always have opposed interests – a high price and a low price, respectively – they have a **shared interest in satisfying the consumer.**
- When the **consumer is satisfied, the businesses of both the seller and the buyer will grow.** For a value chain to be successful, everyone in the chain must benefit and must feel that they are being treated fairly.

# CONCLUSIONS

- The Raisins Food value chain should be a **strategic business model** engaging all participants in the supply chain in mission and operational shared values
- Value chains explicitly acknowledge that **more equitable partnerships**—in which all involved parties **share in risk and financial gains**—are good for business and produce positive social and environmental benefits
- Food value chains address the **competitive need for responsiveness to and knowledge of the target customer**
- Communicating shared values to customers **differentiates products, expand market share, and builds loyalty**
- **Efficient Food Value Chains – many opportunities to reduce VC costs (e.g sharing information, infrastructure, logistics & other services)**



## UPGRADING VC'S

- **Process upgrading:** For farmers, process upgrading means increasing yields or reducing the costs of producing a given volume of a crop, for example decreasing the total costs involved in growing and harvesting. Process upgrading includes improved farming practices – **better planting techniques or planting materials, irrigation, better pest control or storage. It may also include better marketing and packaging.**
- **Functional upgrading:** Functional upgrading occurs when farmers perform more tasks in the chain, for example, processing, packaging or even sales. This can allow farmers to capture more economic rent, which means to earn more income.
- **Product upgrading:** moving into more complex or sophisticated and higher value products
- **Inter-chain upgrading:** applying skills gained in one link of a chain to a different chain
- **Meeting standards and certifications** (for example, organic and fair trade). This could be called product upgrading and is driven by market changes associated with changing consumer preferences.