

# AGRIBUSINESS

## PRINCIPLES *of* MANAGEMENT



DAVID VAN FLEET • ELLA VAN FLEET • GEORGE SEPERICH



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DAVID D. VAN FLEET  
ELLA W. VAN FLEET  
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**Agribusiness: Principles of Management**

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Library of Congress Control Number: 2012951193

ISBN-13: 978-1-111-54486-7

ISBN-10: 1-111-54486-7

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Clifton Park, NY 12065-2919  
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## DEDICATION

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Our spouses and children have always been fundamental to our professional and personal lives. They give meaning to our lives, and so we dedicate this book to them: Dirk and Marijke Van Fleet and Barbara and Ilya Seperich

This book is also dedicated to our students from over the years, as they have helped shape this endeavor.

In addition, we would be remiss if we did not dedicate this book to future students joined through the passage of time by this text. You are the future of this discipline – students today, leaders tomorrow.



# BRIEF CONTENTS

## PART ONE MANAGEMENT IN AGRIBUSINESS: AN INTRODUCTION

- 2 CHAPTER 1 Agribusiness
- 21 CHAPTER 2 Management Today
- 44 CHAPTER 3 Managerial Roles and Skills

## PART TWO THE ENVIRONMENT OF AGRIBUSINESS MANAGEMENT

- 66 CHAPTER 4 Organizational Environments
- 88 CHAPTER 5 The Competitive Environment
- 110 CHAPTER 6 The Global Environment
- 130 CHAPTER 7 The Ethical and Social Environment

## PART THREE PLANNING AND DECISION MAKING IN AGRIBUSINESS

- 156 CHAPTER 8 Basic Managerial Planning
- 177 CHAPTER 9 Strategy and Strategic Planning
- 199 CHAPTER 10 Planning Tools and Techniques
- 217 CHAPTER 11 Managerial Problem Solving and Decision Making

## PART FOUR ORGANIZING IN AGRIBUSINESS

- 238 CHAPTER 12 Organizing Concepts
- 258 CHAPTER 13 Organization Design

- 281 CHAPTER 14 Organization Change and Innovation
- 303 CHAPTER 15 Staffing and Human Resources

## PART FIVE LEADING IN AGRIBUSINESS

- 328 CHAPTER 16 Individual and Interpersonal Processes
- 349 CHAPTER 17 Leadership
- 371 CHAPTER 18 Employee Motivation
- 392 CHAPTER 19 Groups and Teams
- 411 CHAPTER 20 Managerial Communication

## PART SIX CONTROLLING IN AGRIBUSINESS

- 432 CHAPTER 21 Organizational Control
- 451 CHAPTER 22 Managing Quality
- 470 CHAPTER 23 Operations and Technology Management
- 491 CHAPTER 24 Information Systems

- 511 APPENDIX A A Cursory List of Agribusiness Firms /Businesses
- 513 APPENDIX B Control Techniques and Methods
- 525 GLOSSARY Manager's Vocabulary
- 539 INDEX





# CONTENTS

vi	BRIEF CONTENTS
vii	CONTENTS
xii	PREFACE
	WHY OFFER A MANAGEMENT BOOK FOR AGRIBUSINESS? • XII
	LOGICAL CHAPTER ORGANIZATION • XII
	FEATURES OF THE BOOK • XIII
xv	ABOUT THE AUTHORS
xvi	ACKNOWLEDGMENTS
xvii	HOW TO USE THIS BOOK

## PART ONE MANAGEMENT IN AGRIBUSINESS: AN INTRODUCTION

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2	CHAPTER 1	<b>Agribusiness</b>	The Changing Face of Agribusiness in the United States • 4 Agribusiness as an Opportunity • 6 What Is Agribusiness? • 6 The Development of Agribusiness • 9 Differences Between Agribusiness and Business • 11 Agribusiness Today • 14 The Basic Management Model • 15
21	CHAPTER 2	<b>Management Today</b>	The Manager's Job • 23 The Evolution of Management • 29 Contemporary Management Theory • 35
44	CHAPTER 3	<b>Managerial Roles and Skills</b>	The Challenges of Managers Today and Tomorrow • 47 An Integrative Framework • 48 Managerial Roles: Essential Activities • 50 Managerial Skills and Knowledge: Essential Competencies • 55 Developing Managerial Skills and Acquiring Managerial Knowledge • 58

## PART TWO THE ENVIRONMENT OF AGRIBUSINESS MANAGEMENT



Corbis

- 66 CHAPTER 4 **Organizational Environments**  
 The Nature of Organizational Environments • 68  
 The General Environment of Organizations • 69  
 The Task Environment of Organizations • 72  
 The Internal Environment: Corporate Culture • 76  
 Organization-Environment Relationships • 78
- 88 CHAPTER 5 **The Competitive Environment**  
 The Changing Environment of Managers • 91  
 Economic Challenges of Managers • 92  
 Competitive Challenges of Managers • 95  
 The Workforce Diversity Challenge of Managers • 98  
 Other Workplace Challenges of Managers • 103  
 Legal and Social Challenges of Managers • 104
- 110 CHAPTER 6 **The Global Environment**  
 The Influence of the Global Environment • 112  
 The International Economy • 118  
 Challenges of International Management • 120  
 Managing in the International Economy • 124
- 130 CHAPTER 7 **The Ethical and Social Environment**  
 The Nature of Ethics • 133  
 Managerial Ethics • 134  
 Managing Ethics • 138  
 The Nature of Social Responsibility • 138  
 Approaches to Social Responsibility • 144  
 The Government and Social Responsibility • 145  
 Managing Social Responsibility • 146

## PART THREE PLANNING AND DECISION MAKING IN AGRIBUSINESS



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- 156 CHAPTER 8 **Basic Managerial Planning**  
 Planning in Organizations • 159  
 The Nature of Organizational Goals • 160  
 Kinds of Planning • 165  
 Time Frames for Planning • 167  
 Contingency Planning • 169  
 Managing the Planning Process • 170

- 177 CHAPTER 9 **Strategy and Strategic Planning**  
 The Nature of Strategic Planning • 180  
 Environmental Analysis • 181  
 Corporate Strategy • 185  
 Business Strategy • 188  
 Functional Strategies • 191  
 Strategy Implementation and Control • 193
- 199 CHAPTER 10 **Planning Tools and Techniques**  
 Organizational Planning Techniques • 202  
 Project Planning Techniques • 207  
 Personal Planning Techniques • 210
- 217 CHAPTER 11 **Managerial Problem Solving and Decision Making**  
 The Nature of Problem Solving and Decision Making • 220  
 The Problem-Solving and Decision-Making Process • 221  
 Managerial Problems: Types and Conditions • 225  
 Approaches to Decision Making • 228  
 Tools for Improving Problem Solving and Decision Making • 230

## PART FOUR ORGANIZING IN AGRIBUSINESS

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- 238 CHAPTER 12 **Organizing Concepts**  
 The Nature of Organizing • 241  
 Designing Jobs • 242  
 Grouping Jobs • 244  
 Authority And Responsibility • 247  
 Group Effectiveness • 249  
 Line and Staff Positions • 252
- 258 CHAPTER 13 **Organization Design**  
 The Role of Organization Charts • 261  
 Early Approaches to Organization Design • 262  
 Contingency Factors Affecting Organization Design • 263  
 Contemporary Organization Design Alternatives • 267  
 Corporate Culture • 274
- 281 CHAPTER 14 **Organization Change and Innovation**  
 The Nature of Organization Change • 284  
 Managing Organization Change • 287  
 Areas of Organization Change • 289  
 Organization Development • 291  
 Organization Revitalization • 292  
 Innovation in Organizations • 293

303 CHAPTER 15 Staffing and Human Resources

- The Nature of Staffing • 305
- Human Resource Planning • 307
- Selecting Human Resources • 308
- Training and Development • 313
- Performance Appraisal • 314
- Compensation and Benefits • 317
- Labor Relations • 319
- Human Resource Records • 320

PART FIVE LEADING IN AGRIBUSINESS

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328 CHAPTER 16 Individual and Interpersonal Processes

- Individuals and Organizations • 331
- The Nature of Individual Differences • 332
- Performance-Based Differences and Work • 337
- Stress at Work • 337
- Interpersonal Processes at Work • 342

349 CHAPTER 17 Leadership

- The Nature of Leadership • 351
- Power and Leadership • 353
- Leadership Traits • 355
- Leadership Behaviors • 356
- Situational Approaches • 358
- Other Contemporary Perspectives • 364
- Leadership Development • 365

371 CHAPTER 18 Employee Motivation

- The Nature of Human Motivation • 374
- Important Human Needs • 375
- Complex Models of Employee Motivation • 377
- Reinforcement Processes • 381
- Reward Systems and Motivation • 383
- An Integrated View • 384

392 CHAPTER 19 Groups and Teams

- The Interpersonal Character of Organizations • 395
- The Nature of Groups • 395
- The Psychological Character of Groups • 397
- Important Group Dimensions • 399
- Managing Groups and Teams in Organizations • 402
- Group Decision Making • 404

411 CHAPTER 20 Managerial Communication

- The Nature of Communication • 414
- The Communication Process • 415



- Barriers to and Skills for Effective Communication • 417
- Forms of Interpersonal Communication • 420
- Managerial Communication • 423
- Informal Communication: The Grapevine • 425

## PART SIX CONTROLLING IN AGRIBUSINESS



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- 432 CHAPTER 21 **Organizational Control**
  - The Nature of Control • 435
  - Approaches to Control • 437
  - Establishing a Control System • 439
  - Effective Control • 441
  - Managing Control • 443
  - Responsibility for Control • 444
  - Food Safety • 445
- 451 CHAPTER 22 **Managing Quality**
  - The Nature of Quality and Productivity • 454
  - The Importance of Quality • 460
  - Improving Quality: Strategic Initiatives • 461
  - Improving Quality: Operational Techniques • 464
- 470 CHAPTER 23 **Operations and Technology Management**
  - The Nature of Operations Management • 473
  - Planning for Operations • 475
  - Managing Operations • 477
  - Operations Control • 479
  - Operations Control Techniques • 482
  - Technology Management • 483
- 491 CHAPTER 24 **Information Systems**
  - The Nature of Information • 493
  - Information and Information Systems • 495
  - Types of Information Systems • 497
  - Managing Information Systems • 501
  - Organizations and Information Systems • 503
  - Internet and Social Media • 505



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- 511 APPENDIX A **A Cursory List of Agribusiness Firms /Businesses**
- 513 APPENDIX B **Control Techniques and Methods**
  - The Nature of Control Techniques • 513
  - Budgets • 514
  - Financial Analysis • 517
  - Other Control Techniques • 520
- 525 GLOSSARY **Manager's Vocabulary**
- 539 INDEX



# PREFACE

*Agribusiness: Principles of Management*, 1st edition, is a general “business management” book written especially for students in agribusiness courses. The book includes coverage of all segments of the agribusiness food chain, including agricultural producers, processors, distributors, and farmers and ranchers. It consists of management material generally found in conventional introductory management textbooks, but most of the examples focus explicitly on the agribusiness industry. This coverage also enables the book to be used in traditional AACSB-accredited business schools as they offer specialized sections for agribusiness students.

The authors appreciate the increasing need for managers who can harness resources to move a perishable product around the globe to sustain another equally perishable entity on our planet—people. Understanding how to do that is what agribusiness management is all about. Individuals who comprehend both the principles of business and the nuances of agribusiness will be in even greater demand in the future.

## Why Offer a Management Book for Agribusiness?

Effective agribusinesses must employ the same concepts of management that other segments of the economy use. While traditional management books tend to focus on large corporations of no specific type and with little regard for product perishability, most of our examples focus explicitly on the agribusiness industry. Rather than trying to cover all business topics such as marketing, finance, and accounting, our content focuses on management. It is based on current management literature and accepted management practice. With a

writing style that is quite readable—friendly in tone without heavy research discussion—it is applicable for entry- or higher-level courses in agribusiness and traditional business programs.

*Agribusiness: Principles of Management*, 1st edition, is built around three major concepts that respond to market needs and emerging trends. First, it views agribusiness as a technology-oriented industry that includes production, processing, distribution, sales, and all manner of related businesses. Second, it recognizes that agribusiness organizations range in size from small, family-owned farms or businesses to some of the largest corporations in the world. Third, it reflects the changing face of agribusiness—the fact that most people who work in agribusiness do not work on farms or ranches but instead are in, or will work in, the many other agribusiness organizations.

The continued growth of agribusiness programs and the growing collaboration with traditional business schools suggests the need for a book tailored specifically to that market. Increasingly, faculty members trained in business rather than agriculture or agricultural economics are teaching agribusiness courses. These faculty members may be more accustomed to, and therefore more receptive to, texts that are like traditional business texts rather than agricultural texts with a business emphasis. As a result, agribusiness books are emerging in business areas such as accounting, finance, risk analysis, marketing, and communication.

## Logical Chapter Organization

*Agribusiness: Principles of Management*, 1st edition, consists of 24 chapters divided into six major parts, plus two appendices. The first three chapters

(Part One) are introductions to agribusiness and to the field of management in general. Part Two (Chapters 4 to 7) introduces readers to the environment in which managers must operate, including the organizational, competitive, global, and ethical and social environments. Part Three (Chapters 8 to 11) discusses planning and decision making, one of the four primary functions of a manager. Part Four (Chapters 12 to 15) covers organizing, which is another primary function of a manager. Included are designing jobs, organizing the company, recognizing changes that call for reorganizing, and staffing and compensating employees. Part Five (Chapters 16 to 20) includes five chapters on leadership, motivation, groups and teams, and managerial communication. Part Six (Chapters 21 to 24) focuses on control, including establishing a control system, maintaining quality management, operations control techniques, and types of information systems.

Appendix 1 is a list of large, mostly well-known agribusiness organizations that learners may not have heretofore considered as agribusinesses. Appendix 2, Control Techniques and Methods, provides additional material for instructors to supplement the basic management material with budgeting, financial statements, ratios, financial analyses, and other control techniques.

## Features of the Book

### An Engaging Style & Approach

As authors, our job is to read and interpret research, then write so that the material flows smoothly and logically from one point to another throughout the book. We use straightforward language and a logical sequencing of material, along with vignettes, cases, and examples from both small and large businesses to make the material clear, understandable, and interesting. More specifically, in our writing we try to adhere to the following criteria.

- **Readable**—To assure readability, we present the material in a friendly, straightforward, easy-to-read style without heavy research discussion, unnecessary jargon, or detailed summaries of research findings.
- **Interesting**—Undisguised vignettes, cases, and the use of numerous examples from both small and large businesses, plus the inclusion of little-known “Food For Thought” facts make the book more interesting and understandable to the reader.
- **Realistic**—We try to make the learning job easier and more enjoyable by incorporating realistic material. Content is tied to organizations from all over the globe and all aspects of life, including small agribusiness examples that are frequently carried forward to several chapters. Examples for one smaller agribusiness, **Summer Farms**, are shaded to call special attention as we follow that company throughout the book.
- **Accurate**—The book is firmly grounded in both recent and historical research as well as accepted management practices.
- **Current**—Being on the cutting edge means having the most up-to-date material. While we use classic references to material, the research-based material is timely to enhance its utility to readers.
- **Appealing**—Color, photographs, graphics, and tables enhance the learning experience and make the book more appealing to learners.

### Pedagogical Features That Keep Students Involved

*Agribusiness: Principles of Management*, 1st edition, is a comprehensive introduction to management because it does not attempt to cover other business topics, such as marketing, finance, and accounting in depth. It employs several pedagogical features to facilitate learning and the application of knowledge and skills, to improve students’ critical thinking skills, and to develop a managerial vocabulary:

- **Learning Objectives**—Each chapter begins with a set of learning objectives to serve as a guide to studying and reviewing the chapter.
- **Manager’s Vocabulary**—Key terms in each chapter contribute to a complete manager’s vocabulary that is important in the real world of management, beyond this management course. These vocabulary words are combined and alphabetized in the *Glossary*.
- **Opening Vignettes**—Each chapter begins with a short, real-world agribusiness story that illustrates some of the concepts featured in the chapter.
- **Examples**—References to both small and large businesses, especially the agribusiness sector, make the book come alive.

- **A Focus on Agribusiness Boxes**—Short, real-world examples of key points or important lists help keep the material in each chapter interesting, relevant, and easier to remember.
- **Food for Thought**—Several “little-known fun facts” related to the chapter material are interspersed throughout the book to stimulate thinking and discussion.
- **Closing Case Studies**—Each chapter closes with a case designed to focus on main points of the chapter and to initiate class discussion.
- **End-of-Chapter Questions**—For review and reinforcement purposes, each chapter contains three sets of questions: straightforward review questions, analysis questions that require more careful thought about the content of the chapter, and completion questions built around the *Manager’s Vocabulary*.
- **Research References**—Both recent and historical research as well as general business literature document the material in each chapter.
- **Additional Features**—In addition to the above features, color identifies key elements of each chapter, and tables, charts, and photographs bring a strong visual aspect to the learning process.

### Additional Resources for the Instructor

The **Instructor Resource CD-ROM to Accompany Agribusiness: Principles of Management, 1st edition**  
ISBN-13: 978-1-1115-4487-4

For instructors, this CD-ROM offers invaluable assistance allowing you access to all of your resources—anywhere and at any time!

- The *Instructor’s Manual* suggests answers to the review, analysis, and fill-in-the-blank questions as well as the Closing Case questions that

appear at the end of each chapter. The *Instructor’s Manual* also suggests additional activities or questions.

- The *Computerized Testbank in ExamView®* makes generating tests and quizzes a snap. With hundreds of questions you can create customized assessments for your students with a click of a button. Also, you can add your own unique test questions!
- Customizable instructor support slide presentations in *PowerPoint®* format focus on key points in each chapter. Use for in-class lectures, as handouts, and for student reviews.

### The Management Model in the Text

As pointed out in the first chapter, the basic management model in this book indicates the following about managers:

1. Managers perform a variety of roles requiring several different skills as they strive to effectively and efficiently accomplish the goals of their organizations.
2. Managers must develop an understanding of the complex environments in which they function.
3. Managers develop strategies and plans to achieve organizational objectives.
4. Managers use those strategies and plans to help shape the organization.
5. Managers must understand people, so they need to develop skills in leadership, motivation, communication, and teamwork.
6. Managers have to measure performance and adjust operations to adapt to changing conditions.

Readers should use this model as a sort of “road map” as they go through the text.





# ABOUT THE AUTHORS

Currently available texts in agribusiness typically are not authored by management scholars. The principal author of *Agribusiness: Principles of Management*, 1st edition, is an established management scholar and previous management textbook author. His coauthors contribute their own experiences in teaching, business, and agribusiness.

Photo courtesy of David D. Van Fleet



**Dr. David D. Van Fleet**, a Fellow of the Academy of Management, is an experienced book author who has also published numerous journal articles. A Professor of Management in the Morrison School of Agribusiness and Resource Management at Arizona State University, he teaches and conducts research on agribusiness. He is author or coauthor of the following titles: *Contemporary Management*, *Organizational Behavior*, *Behavior in Organizations*, *Military Leadership*, *The Violence Volcano: Reducing the Threat of Workplace Violence*, and *Workplace Survival: Dealing with Bad Bosses, Bad Workers, Bad Jobs*.

Photo courtesy of Ella W. Van Fleet



**Dr. Ella W. Van Fleet**, Founder and President of Professional Business Associates, is an experienced author with an impressive background including more than 35 years of experience in teaching, training, managing, and consulting, plus three interdisciplinary degrees in Business and Higher Education. She has firsthand knowledge of agribusiness, having grown up on a dairy farm. In addition to several professional journal articles, she is coauthor of two books, including *The Violence Volcano: Reducing the Threat of Workplace Violence* and *Workplace Survival: Dealing with Bad Bosses, Bad Workers, Bad Jobs*.

Photo courtesy of George J. Seperich



**Dr. George J. Seperich** is a Professor in the Morrison School of Agribusiness and Resource Management at Arizona State University. His academic interests include identifying necessary conditions for agribusiness economic development at the state level, corporate strategy and the development of management, and marketing agribusiness case studies as teaching tools and developing agribusiness as an academic discipline in Mexico. He is author or coauthor of six books and several editions, including, *Introduction to Agribusiness Marketing*, *Cases in Agribusiness Management*, *Food Science and Technology*, and *Managing Power and People*.



# ACKNOWLEDGMENTS

The authors express their appreciation to the reviewers of the manuscript for the valuable ideas and feedback:

**Thorsten Egelkraut**

Assistant Professor  
Agricultural and Resource Economics  
Oregon State University  
Corvallis, OR

**Sierra Howry, PhD**

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Angelo State University  
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**Rick Mathias**

Lecturer, Food Marketing  
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Pomona, CA

**James Sterns**

Associate Professor, Food and Resource  
Economics Department  
University of Florida  
Gainesville, FL

The authors would also like to thank those who had input into this book, either as a resource for course content or consultant:

**Ricky W. Griffin**

Texas A&M University

**Tim O. Peterson**

North Dakota State University

For their help and hard work in bringing this book to fruition we also thank:

**Marah Bellegarde**

Delmar Cengage Learning

**Sherry Dickinson**

Delmar Cengage Learning

**Christina Gifford**

Delmar Cengage Learning

**Scott Royael**

Delmar Cengage Learning

**Julie Vitale**

ID8TripleSSS Media Development, LLC

**Marion Waldman**

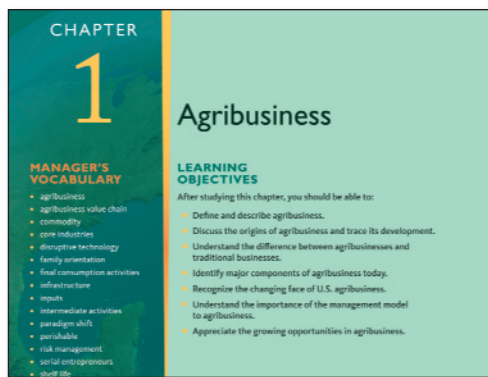
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We would be remiss if we didn't also acknowledge our families. Our spouses and children are fundamental in our professional and personal lives. They give meaning to our lives and so we dedicate this book to them.



# HOW TO USE THIS BOOK

How to Use This Book, *Agribusiness: Principles of Management, 1st edition*, provides a variety of features to aid your learning, including focusing your attention, building your vocabulary, introducing and reinforcing concepts, making your reading easy and interesting, and reviewing the material.

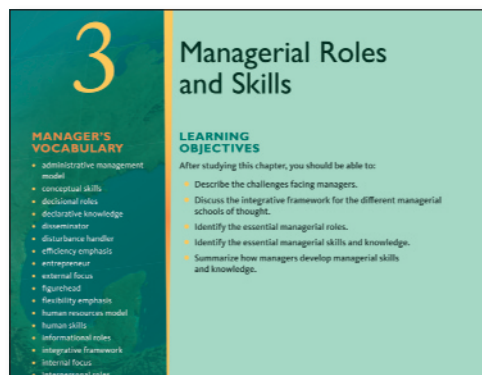


## LEARNING OBJECTIVES

Consider these objectives before you begin reading a chapter to help you focus your study. When you have completed the chapter, review these objectives to ensure that you understand the key points of the chapter.

## MANAGER'S VOCABULARY

These key terms are the critical vocabulary words you will need to learn. Use this listing as part of your study and review.



## OPENING VIGNETTE

Read the vignette to set the stage for the concepts that follow in the chapter.



set of countries in the Middle East, including Saudi Arabia, Iraq, Iran, and Kuwait, controls a very large percentage of the world's total known reserves of crude oil. Access to this single natural resource has given these oil-producing countries enormous clout in the international economy.

#### FOOD FOR THOUGHT 6.4

More than a dozen nations receive most of their water from rivers that cross borders of hostile upstream neighbors.

**Infrastructure.** A third important attribute of the economic environment of relevance to international management is infrastructure. A country's infrastructure includes its schools, hospitals, power plants, railroads, highways, ports, communication systems, air fields, commercial distribution systems, and so forth. The United States has a highly developed infrastructure. For example, we have modern communication, electrical-generating, and educational systems; roads and bridges are well developed; and most people have access to medical

Income distributions are frequently measured by the GINI Index, which measures the degree of inequality in the distribution of family income in a country (0 = total equality, 1 = total inequality). Extremely high inequality can lead to unrest and social disorder in a country. On the other hand, some degree of inequality is inevitable and perhaps even desirable as it may serve to motivate individuals to acquire skills, start business ventures, and work hard to acquire a greater share of the country's income.

Knowledge of a country's consumer purchasing power and its income distribution can help an organization in international operations involving that country. Approaching countries with large but poor populations (like Danone did with Senegal in the opening case of this chapter) would be quite different from approaching one with a very unequal distribution of income with a small but highly affluent market.

#### Political/Legal Challenges of International Management

A second set of challenges facing international managers is the political-legal environment in which they will do business. Four important aspects of the political-legal environment of international management are government stability, incentives for multinational firms, corruption, international trade and

## FOOD FOR THOUGHT

These informative boxes contain agribusiness-related facts that are intended to break the more serious text with information that is simply interesting, intriguing, or fun. Read and use them as a basis for conversation with your colleagues and fellow learners.

## A FOCUS ON AGRIBUSINESS

As you continue through the chapter, read these interesting mini-cases to reinforce the chapter content.

#### A FOCUS ON AGRIBUSINESS Motivation in Agribusiness

In an effort to improve conditions in the production and marketing of lamb, a cooperative was formed. Called American Lamb Producers, Inc. (ALPI), it was set up as an investor-owned firm with most of the stock controlled by lamb producers. It was a rather dismal failure. Among the reasons for that failure were conflict among employees, poor coordination, and lack of employee motivation. If employees aren't motivated, little gets accomplished.

Dhanuka Agritech is well aware of the importance of motivation. The company strives to

understand its employees and their needs. Using a vigorous feedback system to develop a satisfied workforce, it constantly evaluates parameters to monitor employee motivation and commitment.

Keeping a workforce motivated is even more important in hard times to avoid experiencing "Zombie Turnover"—a condition where demotivated employees want to quit but cannot because of family or labor market conditions. They become "zombies"—they come to work, but they are not really there."

in the next chapter) and reward systems are based on skills and performance. High-involvement management holds tremendous promise as a way of tapping the enormous potential in diverse organizations.

#### Reinforcement Processes

A final question about motivation concerns how and why behaviors stay the same or change. Consider the case of two new workers: one starts out as an average performer and continually gets better; the other starts out as a top performer but later slacks off or even becomes a poor performer.<sup>29</sup> What has happened? The answer probably involves reinforcement processes.

The idea of **reinforcement** suggests that future behavior is shaped by the consequences of current behavior. If their current behavior leads to rewards, individuals are likely to engage in the same behaviors again. But if current behavior does not lead to a reward, or if it leads to unpleasant outcomes, individuals are more likely to follow different behavior patterns in the future.

Much of what we know about reinforcement can be traced to psychologists who have studied human learning processes,<sup>30</sup> but more and more people have come to see how clearly the concept relates to organizational settings.<sup>31</sup> The following sections describe kinds of reinforcement and schedules that managers can use to provide them.

#### Kinds of Reinforcement

As shown in Figure 18.8, there are four basic kinds of reinforcement: positive reinforcement, avoidance, extinction, and punishment.<sup>32</sup>

**Positive reinforcement** is a reward, or desirable outcome, that is given after a particular behavior.<sup>33</sup> For instance, suppose that a supervisor notices a worker doing an extraordinarily good job. He stops and tells the worker what a good job he is doing and then recommends to his boss that the worker should get a small pay raise. The praise and the pay raise are positive reinforcements and as a consequence the worker is likely to continue to work hard.

**Avoidance or negative reinforcement** also increases the likelihood that someone will repeat a desirable behavior, but it uses a different perspective. In this case, the employee is allowed to avoid an unpleasant situation because of good performance. If a company has a policy that employees who are late for work get penalized and if all employees come to work on time, no penalties are imposed. As long as the threat continues, employees will be motivated to be on time every day.

**Extinction** is used to weaken behavior, especially behavior that has previously been reinforced. Consider the manager of a small office who in the past allowed employees to come by whenever they wanted to "shoot the breeze." Now the office staff has grown so large that she must curtail this practice. Rather than close her door, respond in as the past, or correct the employee for interrupting, the

7. The process of categorizing people on the basis of a single attribute is \_\_\_\_\_.
8. The set of work-related behaviors that a firm expects people to display are called \_\_\_\_\_.
9. The condition that occurs when an individual is subjected to unusual situations, difficult demands, or extreme pressures is called \_\_\_\_\_.
10. The extent to which the contributions made by an individual match the inducements offered by the organization is known as \_\_\_\_\_.

#### CHAPTER 16 CASE STUDY A TALE OF TWO BEERS

Carlos Brito transformed a Brazilian beer maker, Brahma, into one of the largest brewers in the world. This 50-year-old Brazilian with an MBA from Stanford merged Brahma with the maker of Stella Artois into InBev NV, a Brazilian-Belgium hybrid brewer. It was InBev that made a \$2 billion bid for Anheuser-Busch of St. Louis, an iconic American brand. The company is Anheuser-Busch-InBev, or AB-InBev NV, based in Belgium. Normally, individuals involved in such high-profile deals have a winking attitude. This does not describe Mr. Brito, or as he prefers to be addressed, "Brito."

He instilled a no-frills culture at InBev in which executives gave up individual secretaries and company cars. It was this frugal environment that allowed InBev to purchase Anheuser-Busch. Why did he instill this culture at AB-InBev and how did he get other executives to buy into this concept? His answer is simple: Think like your customer. Or in Mr. Brito's own words: "If you are doing anything that you think a consumer would not be willing to pay a premium for—think twice before doing it." He uses his own frugality as an example: "I came to work by train. I tell the guys, 'Being efficient is what our consumers would do.' When I travel with my family, I don't go for five-course meals, five-star hotels."

"I also have to be humble and admit that we have learned a lot (through acquisitions)," he continues. "Our marketing and 'people' tool kit evolved a lot. Now we want to start growing the right brands."

Mr. Brito's challenge is to revive Budweiser—that American icon. It labeled itself the "king of beer" and after many years began to believe it. But even kings must pass away, so Budweiser is now the number two selling beer in the United States after Bud Light. This is the equivalent of Diet Coke outselling Classic Coke. They are produced by the same brewer, but Budweiser is the original beer and its market share has been slipping for 21 years. When InBev took over Anheuser-Busch, it came forward the directive of Mr. Brito, recognizing individual differences. InBev eliminated 1,000 jobs, redesigned the company's pay system, and reduced expenses. Business travelers on the road slept two to a room. Salesmen worked from a central office and used telephones rather than travel. All of these activities saved \$1.6 billion and ... Budweiser raised its prices. Only a beer with a premium image can do what Budweiser accomplished under Mr. Brito. Again in his words, "Brand people have been able to convince people to pay more for beer."

But operational efficiency alone is not going to win market share. Corporate frugality does not eliminate the occasional "big bet." In fact, Mr. Brito would say it is because of its frugal and efficient culture that it can make the "big bet." The "big bet" was a heavy investment in the World Cup (August 2002). AB-InBev increased its spending on sales and marketing by 50 percent. In the words of the company, "Budweiser activated the FIFA World Cup asset for the seventh time."

Sales of Budweiser at the games outpaced soft drinks, sports drinks, and bottled water combined. But it was not South African sales that mattered to AB-InBev—it was the television exposure in the company's three largest markets: Europe, Brazil, and the United States. Sales were up 2.1 percent in the quarter. This may not seem like a huge difference, but in the terrible economic environment of 2002 it was a huge victory. This was a "measured big bet." But it, it was a calculated move by Mr. Brito, not an impulsive one.

While a quiet, frugal Brazilian is working hard to revive an iconic American beer brand through operational efficiency, the oldest brewer in the United States continues to grow the old fashioned

## CHAPTER CASE STUDIES

These end-of-chapter case studies are designed to enhance your comprehension of the chapter concepts. Work through each case study and answer the questions that follow.

#### CHAPTER ACTIVITIES

##### REVIEW QUESTIONS

1. What are the three levels of strategy? Do all firms have all three levels? Why or why not?
2. What are the five critical environmental forces that organizations must consider when developing strategies? How do organizations position themselves relative to those forces?
3. Identify three grand strategies that organizations might choose to pursue.
4. What are the three problems of management and the three strategic business alternatives described in the adaptation model?
5. What are the six basic functional strategies most organizations develop?

##### ANALYSIS QUESTIONS

1. Apply the concepts of corporate, business, and functional strategies to your university or college.
2. Which of the five environmental forces are more likely to exist together than others? Identify other examples of organizations that each of the five forces are likely to affect.
3. What are the risks involved in selling dogs quickly? Why would anyone want to buy a dog?
4. Identify examples beyond those noted in the chapter to illustrate defenders, prospectors, and analyzers.
5. What are the critical issues in implementing a new strategy within an organization?

##### FILL IN THE BLANKS

1. The advantages or disadvantages that a firm holds relative to its competitors are known as \_\_\_\_\_.
2. Strategies that chart the course for the basic functional areas within an organization (marketing, finance, production, etc.) are known as \_\_\_\_\_ strategies.
3. Those aspects of the organization that let the organization compete effectively are known as organizational \_\_\_\_\_.
4. The VRIO framework consists of asking for each strength whether it is \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
5. Those aspects of the organization that prevent or deter it from competing effectively are known as organizational \_\_\_\_\_.
6. Those aspects of the organization's environment that, if not countered in some way, would impede the organization's progress to achieve its plans are known as organizational \_\_\_\_\_.
7. When managers want to shrink operations, cut back in some areas, or eliminate unprofitable operations altogether, the organization uses a \_\_\_\_\_ strategy.
8. The changing of a product's sales volume over the lifetime of the product is known as the \_\_\_\_\_.



PART

1

# MANAGEMENT IN AGRIBUSINESS: AN INTRODUCTION

## CHAPTER 1

- Agribusiness

## CHAPTER 2

- Management Today

## CHAPTER 3

- Managerial Roles and Skills

## CHAPTER

# 1

### MANAGER'S VOCABULARY

- agribusiness
- agribusiness value chain
- commodity
- core industries
- disruptive technology
- family orientation
- final consumption activities
- infrastructure
- inputs
- intermediate activities
- paradigm shift
- perishable
- risk management
- serial entrepreneurs
- shelf life
- support industries

# Agribusiness

### LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Define and describe agribusiness.
- Discuss the origins of agribusiness and trace its development.
- Understand the difference between agribusinesses and traditional businesses.
- Identify major components of agribusiness today.
- Recognize the changing face of U.S. agribusiness.
- Understand the importance of the management model to agribusiness.
- Appreciate the growing opportunities in agribusiness.

## McDonald's Story Is No Crock

**Y**es, Virginia, there was a McDonald—two of them, in fact. In 1937, two brothers, Richard (Dick) and Maurice (Mac) McDonald, began their carhop drive-in business in San Bernardino, CA. They did not even serve hamburgers, only hot dogs. They were not even on the cutting edge of drive-in development. (This honor went to the Pig Stand, a carhop drive-in restaurant, located in Hollywood at the corner of Sunset and Vermont Streets.) Dick and Mac were simply looking for their market “niche” and trying to capitalize on America’s growing love affair with the automobile.



**FIGURE 1.1** McDonald's restaurants are easy to spot with their Golden Arches.

© iStockphoto/Ivana Star

hop to self-service windows where customers placed their orders and had them filled. Rather than wait for a carhop to take the order and bring it to the car, the customer could leave the car and pick up the order. They called it the “Speedy Service System.”

They also raised the price to 15 cents per hamburger. Initially, they lost customers but after only six months they regained all the business they lost and more. Their customers adapted to the new concept. Dick and Mac went from following trends to inventing one of their own.

Business was great—so great that they needed new equipment to keep up with the demand. They ordered new grilling equipment and new mixers to make their famous milk shakes. The shakes were made with four multi-mixers. They became the best customer of the multi-mixer manufacturer located in Chicago.

Dick and Mac’s success attracted attention. Their dairy product supplier, the Carnation Corporation, even offered financial support to help expand the franchise. However, Dick and Mac were not very good at franchising and, in fact, were happy with their level of success.

In 1954 their multi-mixer salesman, Ray A. Kroc, of Oak Park, IL, called Dick McDonald and flew to California to see the business first-hand. He sat in his rented car and watched as lines formed in front of each service window before the restaurant opened at noon. He asked Dick McDonald when this rush of customers would end and was told sometime late at night. Ray Kroc said, “These guys have got something. How about if I open some of these places?”

The McDonald’s were not interested in taking on a national business; they did not like the hassle of franchising. So, Ray Kroc became the franchising agent with the license to take the company national. He opened his first restaurant, which he named “McDonald’s,” on April 15, 1955, in Des Plaines, IL. He also

They eventually built a larger restaurant in San Bernardino. They expanded their menu, increased the number of carhops to 25, and serviced 125 cars in their parking lot. By 1948 they had achieved a level of success neither brother dreamed possible. They were rich and “bored.” Dick McDonald said, “The money was pouring in, and there wasn’t much for us to do.”

Around 1948, they opened a new restaurant, the Diner, where every item on the menu cost 10 cents ... drinks, fries, and hamburgers. For maximum efficiency, they organized their kitchen like an assembly line and changed their “concept” from car-

established the McDonald's Corporation. But he felt he was constrained by the relationship with Dick and Maurice. In 1961, he asked the McDonald brothers to name their price and to sell him the company outright. Their price was \$2.7 million for the company and the name.

The McDonald's Corporation has become a business legend, and its restaurants have become a symbol of American presence in other countries (Figure 1.1). In fact, McDonald's ubiquity led to the development of the "Big Mac Index." This index by *The Economist* magazine is used as a substitute for the classical economics measure, purchasing power parity. In place of a "basket" of staples, the Big Mac hamburger is used to identify economic anomalies. For instance, a Big Mac in China costs (2009) \$1.83 (12.5 yuan) considerably less than the cost in the United States \$3.57 (2009). To economists this means the Chinese yuan is under-valued compared with the U.S. dollar.

In agribusiness, as in other forms of business, success is measured differently by different people. All businesses must define their comfort levels with success and risk. A journey from business's simple beginnings and principles to an economic measurement from a fast-food stand to an international icon—this is the story of a unique and often overlooked agribusiness. Thanks to Ray Kroc, the McDonald's story is no "crock."<sup>1</sup>

## INTRODUCTION

The McDonald brothers, Dick and Mac, started a simple business and employed common business principles, but with a product that has agricultural roots, mostly wheat and swine or cattle. As such, their story is certainly a business story, but more importantly, it is an agribusiness story. "So what's the difference?" you ask. The purpose of this chapter is to explain the difference and demonstrate the breadth and scope of a unique global industry, agribusiness. The vignettes, examples, and case studies employed in this book will demonstrate both the uniqueness of agribusiness and its simultaneous common attributes with traditional businesses. To fully understand the growth and the challenges of agribusiness, throughout this book we will also refer frequently to much smaller businesses, especially **Summer Farms**, which is introduced in this chapter.

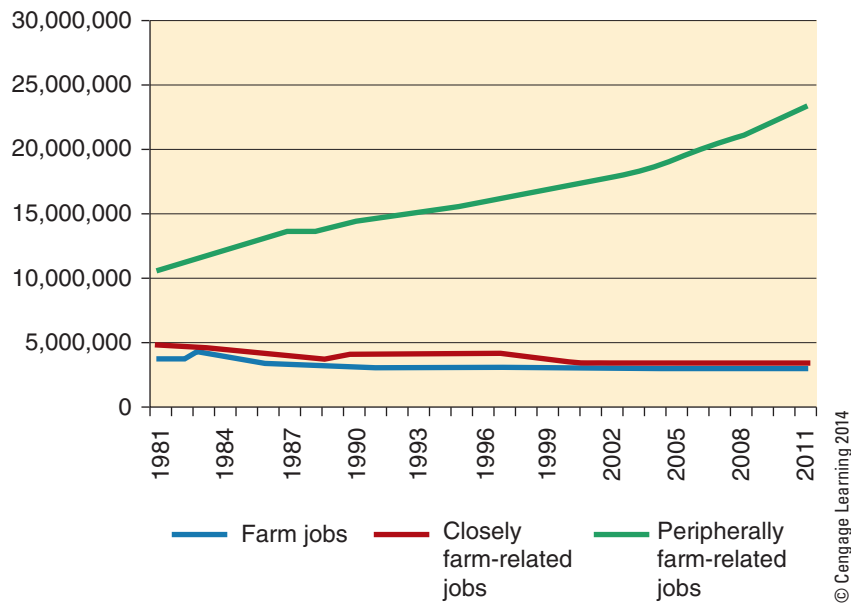
## The Changing Face of Agribusiness in the United States

The growth from raising crops for personal consumption to becoming part of the agribusiness industry has been a common story in the United States, as is the shrinking of farm employment and the growth

of non-farm agribusinesses. As shown in Figure 1.2, farm and closely related employment has fallen and leveled off, while peripherally farm-related employment (e.g., food processing and distribution) has risen dramatically. So in today's economic structure agribusiness jobs are predominantly non-farm jobs.

Family farming and ranching operations still exist. These enterprises are agribusinesses, but the face





**FIGURE 1.2** Based on information from the United States Department of Agriculture Economic Research Service Farm and farm-related employment.

of agribusiness is changing. According to the U.S. Department of Agriculture, 98 percent of U.S. farms are family operations; however, it is a mistake to confuse the term “family” with a given size of operation. When we compare contributions to agricultural production at the national level, “family” designates the type of ownership, not size of operation. Even large farms can be family operations. Of course, some large farms also may be non-family farms, where the operator or persons related to the operator do not own a majority of the business. As Table 1.1 indicates, the total number of U.S. farms varies substantially with and inversely to both total sales and percent contribution to agricultural production.

In farming as in other forms of business, consolidation of operations is also occurring. Although most of the 2.1 million U.S. farms are “small,” approximately

47,600 farms have annual sales of \$1 million or more. About 11 percent or 5,200 farms have sales equal to or exceeding \$5 million, and 64 percent of these farms are family owned. Seventy-one percent of these family farms specialize in beef, high-value crops, or dairy, where they capture economies of scale. For example, dairy production costs decrease with increases in herd size. Total costs per hundredweight for operations with 1,000 cows or more are less than half of the costs of farms with fewer than 50 cows.<sup>2</sup>

Even the criterion of ownership can be deceptive since 277,500 farm operators rented 62 million acres of farmland to others to farm. And there is also an age factor, since 28 percent of farm operators are at least 65 years old. Family operations are also “home” operations, in that the operators live on the premises, regardless of the farm’s size.<sup>3</sup>

**TABLE 1.1** Farm Contribution to Agricultural Production\*

SIZE OF FARM OPERATION	SALES IN THOUSANDS OF DOLLARS	PERCENT OF TOTAL U.S. FARMS	PERCENT OF TOTAL U.S. AGRICULTURAL PRODUCTION
Small Farms	<\$100	86.6	9.8
Medium Farms	\$100–\$250	5.1	6.6
Large Farms	\$250–\$500	4.3	12.2
Very Large Farms and Non-Family Farms	>\$500	7.4	71.4

\* Based on Robert A. Hoppe and David E. Banker, “Small Farms = Family, Retirement, Residential/Lifestyle, and Low Sale,” *Structure and Finances of U.S. Farms: Family Farm Report*, U.S. Department of Agriculture, Economic Research Service, Economic Information Bulletin, No. 66, July 2010.



These figures should surprise no one. Farming and ranching agribusinesses follow the same developmental pattern as all businesses and agribusinesses. They begin as personal, potentially family, efforts. This family-control potential is enhanced or modified by the interest shown by the children—not all children want to go into the family business. If the agribusiness survives and grows, it can remain in family hands or undergo a metamorphosis into a professionally managed company, or both. If family control is retained the business can become a large private company (e.g., Cargill) or evolve into a large, publicly traded firm, such as Archer Daniels Midland. Size matters, but it is not an indication of ownership status.

## Agribusiness as an Opportunity

Agribusiness is an industry with tremendous potential for growth and development as well as monumental and consequential issues it must address.<sup>4</sup> The Chinese symbol that represents both crisis and opportunity could well serve as the logo for agribusiness.

For centuries, agricultural productivity came from the application of two resources: land and labor. More recently a substantial proportion of increased productivity in agriculture output in the United States has come from the use of another resource: capital, primarily in the form of technological change including biotechnology, improved animal husbandry, and improvements in machinery and chemicals.<sup>5</sup> Future improvements will come from the application of a fourth resource: management.

Agribusiness is an industry that is becoming chronically short of smart, clever, and concerned individuals. Thus, individuals who understand the principles of business and the nuances of agribusiness are in greater need than ever before. The industry needs individuals who can harness resources to move a perishable product around the globe to sustain another equally perishable entity on our planet: people. Understanding how to do that is what management is all about.

## What Is Agribusiness?

**Agribusiness** involves the production, distribution, and consumption of food, clothing, and even shelter. It includes all economic activity in the food and fiber system, which encompasses the input supply

industries, agricultural production, and post-harvest, value-added activities such as commodity processing, food manufacturing, and food distribution.<sup>6</sup>

Agribusiness is one of the largest industries on this planet. It accounts for nearly one-fifth of the U.S. gross national product and employs close to one-fourth of the U.S. labor force.<sup>7</sup> Most people understand and see its parts, but relatively few see the industry in its entirety. It was this lack of understanding of the tremendous scope of this industry that led to the ground-breaking book, *A Concept of Agribusiness*, in 1957.<sup>8</sup> The book debuted the term “agribusiness.”

Today, a half-century later, agribusiness firms ranging from large multinational corporations to emerging food manufacturing and input supply firms present a strong demand for more and better employees trained in both management and agricultural sciences. Students who have mastered economic and business concepts along with agricultural sciences do extremely well in finding rewarding careers following graduation. It is this labor demand and the resulting career opportunities that led to the writing of the book that you are now reading.

Through one of its subsets—agriculture—agribusiness is older than business. For centuries the two entities, agribusiness and agriculture, were considered separate; only in the mid-twentieth century were their commonalities uncovered. Despite its uniqueness, the agribusiness industry uses standard business terms for many of its transactions. This use is a reflection of a very different heritage.

### FOOD FOR THOUGHT 1.1

Agriculture is the nation's largest employer, with more than 21 million people involved in some phase.

## The Core Industries

Knowing the origin of the term *agribusiness* is helpful but does not explain what an agribusiness is. We assume that everyone knows what “business” is, yet many students are surprised by the length of the term's definition in any good standard collegiate dictionary.

Agribusiness involves (1) **inputs**—seeds, fertilizer, financing, equipment—that are used in

## A FOCUS ON AGRIBUSINESS

### Summer Farms

Joshua and Katherine Summer left the cold New England climate in 1956 and moved westward to a small community where they purchased mostly forested acreage. They grew vegetables and raised chickens to feed their family, sold their meager excess production to buy the things they did not produce, and sold timber from their acreage to acquire and clear more land. Over the years the Summer family also grew, providing more family members to pitch in during the growing and harvesting seasons, enabling them to produce even more than the family needed for their own personal consumption. Throughout these early years they thought of themselves as a small family farm that provided most of their food supply, but already they were also functioning as a small agribusiness by selling their farm produce and natural resources to purchase other family needs and to expand their production.

The growing demand plus the increasing interest of family members motivated the Summer family to plant more crops. A few years later Joshua and Katherine began to turn over most of the farm work and a lot of the business decisions to the children who maintained an interest in staying on the farm. They adopted the name “Summer Farms” and began to more formally organize the expansion of the business to include additional crops and the subsequent division of responsibilities for their different crops or fields, which they referred to as their “farms” (plural). Various ideas for expansion have since been considered, including organic produce and meat, hay and cotton, and raising poultry or livestock. Some have been successful and some have not.

The founders have officially retired, and their aging children are now facing some sensitive

decisions about the long-term future of this family business. They had hoped to turn the management over to their children (the founders’ grandchildren), but today more and more grandchildren are getting college degrees and leaving the farm, often to work in large agribusiness corporations. Some of the grandchildren who chose to stay out of the family business are enjoying success as attorneys or as executives in large agribusinesses, paving their way to enjoy the old homestead as “gentleman farmers” or “hobby farmers.” So, to keep the agribusiness property in the family rather than see it gobbled up by a large “agricorporation,” the parents may need to consider this new type of ownership succession instead of “writing off” the grandchildren permanently.

Today, Summer Farms is too small to provide the large quantities of farm products needed by a large corporation like McDonald’s. However, this family-owned business may someday become part of a giant corporation that does count McDonald’s as one of its customers.

It is important to note that Summer Farms was never a “hobby farm,” which is a small farm not intended as a primary source of income. Hobby farms provide some recreational land for the owner and/or the owner’s children, or in some cases to provide a hobby or, at most, a sideline income. Some hobby farms are even run at an ongoing loss for financially secure owners who can afford this country-home lifestyle choice instead of a business.

*NOTE: Throughout this book, look for the color shading shown here when **Summer Farms** is used as an example to represent smaller agribusinesses.*

**TABLE 1.2** Agribusiness Industries

CORE INDUSTRIES			SUPPORT INDUSTRIES
INPUT INDUSTRIES	AGRICULTURAL PRODUCTION INDUSTRIES	VALUE-ADDED INDUSTRIES	
Seed	Farms	Commodity processing	Banking
Chemical	Ranches	Food manufacturing	Transportation
Water	Forest products	Food distribution	Government
Machinery	Aquaculture		Insurance
			Equipment supply/service
			Industry associations
			Education

SOURCE: Adapted from G. Seperich, *2000–2001 Arizona Agribusiness Directory* (Mesa, AZ: Arizona State University East and The Agri-Business Council of Arizona).

production; (2) **intermediate activities**—grading, storage, processing, packaging, distribution, pricing, marketing; and (3) **final consumption activities**—restaurants, groceries. The input supply industries, production agriculture, and value-added activities are considered the agribusiness **core industries**. Similarly, these core industries use the material and services of certain ancillary industries which are considered agribusiness **support industries**. Table 1.2 contains examples of both core and support industries.<sup>9</sup>

Farming and ranching are part of the core of agribusiness, representing its production process stage. So, while they are part of agribusiness, they are not the end; in fact, they are not even the beginning.<sup>10</sup>

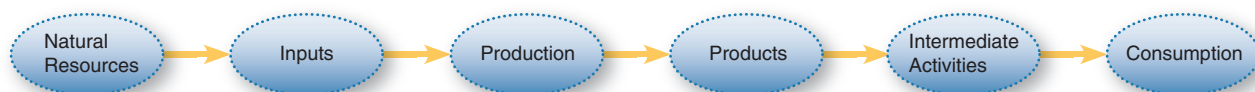
### The Chain of Agribusiness— The Value Chain

The linkages between the agribusiness industry activities are frequently referred to as the **chain of agribusiness** (Figure 1.3). This chain can be further refined as the **agribusiness value chain**.<sup>11</sup> It begins with raw materials and commodities of relatively low value; then each step in the chain modifies the material or commodity and adds value to the product derived from its step. For example, growers

harvest raw fruits or vegetables that are transported in bulk to processors or wholesalers, where they are modified or repackaged and transported to grocery chains in processed form or in smaller batches, and finally to local grocers who display and sell the products in quantities more suitable for consumers to purchase.

It should be noted also that both food and non-food products are involved, and the distinction between them is not always clear. Cotton may seem like a non-food product, it is also considered a food product as it can be used in the manufacture of some human foods and in cottonseed oil used for cooking. Similarly, corn for human consumption is a food, but corn grown for livestock consumption is regarded as a non-food product.

Another way of looking at the term *agribusiness* is much simpler. Agribusiness involves all the value chain activities usually associated with a business or industry with the additional provision that most of the materials, commodities, and end products are **perishable**. The perishable nature of a product, along with variability in such factors as color, texture, size, and shape, is the distinguishing characteristic of agribusiness products and industries from other businesses. This aspect of the agribusiness industry

**FIGURE 1.3** The chain of agribusiness or value chain of agribusiness.

is also a key factor in all business decisions. For this reason the story of McDonald's is an agribusiness story. Its entire business system involved a highly perishable commodity: food—hamburgers, French fries, shakes, etc.

Appendix A provides a partial list of agribusiness firms based on the U.S. Department of Agriculture's identification.

## The Development of Agribusiness

Agribusiness is thoroughly entwined in all of the cultures and countries of our planet regardless of economic orientation. Only the human enterprise, hunter-gatherer, is older than agriculture/agribusiness. Few cultures are based on the “hunter-gatherer” model today; its last bastion is the “wild” fishery industry. The fact that an adjective, “wild,” had to be added to that industry's description indicates that it, too, is now subject to “farming,” as in salmon, shrimp, or catfish farming.

### The Early Influence of Agriculture

It is difficult to discuss the development of agribusiness without involving the development and maturation of agriculture. The Egyptians and Mayans built great cities and pyramids because agriculture afforded them the time and food to initiate these huge “human resource” rich projects. Hunter-gatherer societies left no such monuments; they did not possess the resources, though they may have had the time. The switch from a hunter-gatherer culture to an agricultural-based culture was one of the great “leaps” in technology made by the human species. Agriculture was among the first of the “disruptive” technologies that fostered a paradigm shift.

### The Early Shift Toward Controlling Nature

A **disruptive technology** radically transforms markets, creates wholly new markets, or destroys existing markets. The **paradigm shift** involved a very different way of existence—a radical change in thinking from the accepted point of view to a new one. It shifted from following nature to controlling nature, or at least attempting to control it. Agricultural development was more than “just” growing a crop. It necessitated developing a rule of law, land ownership, acquiring possessions beyond

transportable implements and weapons, needing large families (cheap labor), using astronomy to understand the seasons rather than serving as a primitive “Global Positioning System (GPS)” which the hunter-gatherers used, recognizing the need for leadership hierarchies or management, establishing towns, and using subsidiary or support tradespeople to assist the primary crop production activity.<sup>12</sup>

## The Mutually Supportive Relationship Between Agriculture and Local Communities

This book does not dwell on the development of agriculture, but it is important to understand the contribution of agriculture to the development of “civilization.” The clue to the emergence of agribusiness is contained in the list of developments originating from agriculture—crop production and tradespeople. The support industries were critical to agricultural development. The early agriculturalists were self-reliant. If a tool was broken they repaired it or made a new one. However, as more individuals became involved in crop production and centers of crop production developed, it was natural that some individuals became recognized as support people rather than agriculturalists.

This handy complementarity among the “town” people and the people of the soil served to presage the development of agribusiness. It is a benchmark of our species that towns and farms grew in conjunction with each other. Each needed the other to survive and thrive. Each defined the potential of the other. Each limited the potential of the other. What was needed was the appearance of another disruptive technology to expand this potential.

In the 1700s, virtually all households farmed. If they produced more food than needed to feed the family, it was sold or bartered to obtain items not readily produced on the farm, for example, kerosene for home lanterns or plows for the fields. Poor transportation required that communities be relatively self-sufficient. During the 1700s and 1800s, all farms and businesses were small with limited production technology, no professional managers, little access to capital, and no large-scale distribution networks. Limited transportation and communication infrastructures restricted them to local markets. *The whole value chain was essentially carried out on each farm.*

This *status quo* was sufficient because *all* markets were local with little need to go beyond the local