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New challenge for competitiveness of an agro-food company: to gain global competitive advantage

Abstract. As globalization continues its rapid pace, business managers must have tools and expertise to discover new ways to obtain gains from trade and new ways to reduce the costs of trade. It is necessary to adopt original approaches, capabilities, and strategies to succeed in world markets. Developing international knowledge is the foremost management challenge in the emerging global market place. The aim of this paper is to introduce the 'Star Analysis' as a method for applying this knowledge to obtain international competitive advantage. The results have been developed by the research project MSM 6215648904 'The Czech Economy in the Process of Integration and Globalisation, and the Development of Agricultural Sector and the Sector of Services under the New Conditions of the Integrated European Market' of Mendel University in Brno, Faculty of Regional Development and International Studies.

Key words: globalization, competitiveness, competitive advantage, star analysis, agro-food sector.

Introduction

'The global market place is the World Cup. It definitely is not one big level playing field. Many top teams vie for supremacy, with the best talent scattered around the world. Teams from many countries bring different traditions and diverse playing styles. Every football team brings a different mix of athletic skills and their competitive strategies vary widely. No competitor can count on home-field advantages. Success requires sufficient endurance and versatility to overcome many teams. Winning requires beating multiple challengers from across the globe' [Spulber 2007, p. 1].

Although the world market offers many opportunities, participating in the global economy does not guarantee success for a country's (company's) economy. It depends on the country's (company's) creativity, capabilities, and resources.

A global business can be built on its home country's geographic advantages and overcome its disadvantages through the creative use of international trade. Regardless of his specialization, a manager must take into account the economic and geographic differences between countries as well as the historical, cultural and social divergence that distinguishes the individual states. A global manager also needs to know how the geographic differences influence the global market; his transactions have to be adjusted for some differences in the level of income, processing, products and good governance between countries and costs of crossing borders.

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Global competitive strategy

The aim of this paper is to identify presumptions for gaining global competitive advantage with special focus on the agro-food sector. The ‘Star Analysis’ offers a possible approach to determination of opportunities and competitive challenges in a global and at the same time globalized market.

Globalization describes a process of increasing economic integration and can be defined as the process of converting separate national economies into an integrated world economy. A distinctive character of the globalization period which marks the difference to earlier periods of economic integration has two features: (i) deepening of economic integration and (ii) an enlargement of the number of countries taking part in the economic integration [Smělíková, 2006].

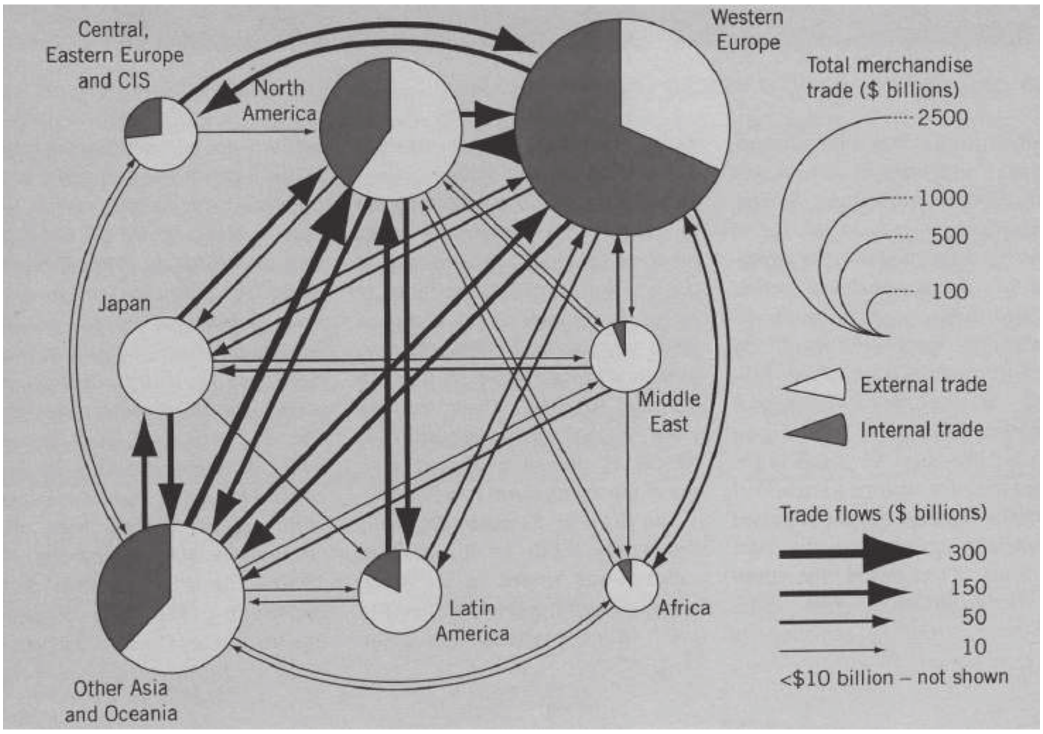

Fig. 1. The world trade network

Source: [Mackinnon & Cumbers 2007].

One of the patterns of an increased global economic integration is its uneven geographical presence. In fact, the world trade has become highly regionalized in recent years, in the sense that for many countries the most important trading partners are neighbouring states. For example, Dicken [2003] notes that for the world’s most significant trading region, Western Europe, more than two-thirds of trade take place internally between European states. Similarly, for Asia, as the second largest trading region, half of its trade is internal, while for North America, as another major trading region, the figure is 40 %. The connections between these three world regions are also stronger than connections to other parts of the world (Figure 1). Trading connections involving Africa, the Middle East, Eastern Europe and former Soviet Union are far fewer in comparison.

According to Spulber [2007] a country's ability to add value depends on many underlying geographic differences between countries. These include climate, availability of agricultural land, endowments of exhaustible natural resources, such as petroleum, natural gas, and metals, access to renewable resources, such as forests and fisheries, human capital. Differences in the human capital of a country's labour force play an important role, although work force skills can be improved through education and training, etc.

Managers face significant challenges in designing their own global competitive strategy. To obtain the necessary information, they can perform a 'Star Analysis' (Figure 2) examining the major international geographic factors driving the international business. Spulber [2007] distinguishes the following five factors:

- features of company's home country, they affect its competitive performance
- features of supplier countries, they determine the company's competitive potential
- features of customer countries, they influence demand for the company's products
- features of partner countries, they have an impact on the company's productive efficiency and attraction to customers
- features of competitors' countries, they determine the competitive advantage in international business.

The above mentioned five major factors provide a global business strategy context for a country (company). A manager should know, when the features of its home country empower or restrict its strategic choices and when the company exceed its home country. It is the manager's responsibility to determine the impact of the features of supplier countries on the choice of the place, where the firm procures goods and services or carries out manufacturing. Also, a manager should be fully aware of how the firm's relationships with its customers might be affected by the features of target countries. The company needs to comprehend how the features of the partner countries can be beneficial to extending its manufacturing and distribution capabilities. In the end, competitive strategy requires a company's knowledge of their competitors' countries context. In other words, this analysis offers a general framework for gathering and processing data about global markets; it helps to analyse international economic features and it develops information in order to use it for designing a competitive strategy.

Five important strategic prescriptions are the result of the 'Star Analysis':

- surmount demand and supply restrictions through international transactions and make the best of the strengths of your company's home country
- find the best inputs for your firm's strategy through choosing the right supplier countries
- choose customer countries in order to maximize net gains from trade
- target partner countries to find the best demand-side and supply-side settings
- wait until competitors configure the best combination of their home, customer, partner, and supplier country locations.

This analysis is essentially dynamic, as the national economies are in a constant state of fluctuation. Not only changes in the home country are important, but a company must also monitor changes in its supplier markets as well as customer markets. Opportunities for transactions that connect countries are changing constantly too. These opportunities appear, as the trade costs fall with globalization. The company should observe new opportunities by monitoring changes in relative prices and wages between pairs of countries. The categories in the 'Star Analysis' are equal to the needs of a manager whose duty is to formulate a global strategy and design a global business organization. The manager may recognize some critical changes in the business environment and determine what types of responses are needed.

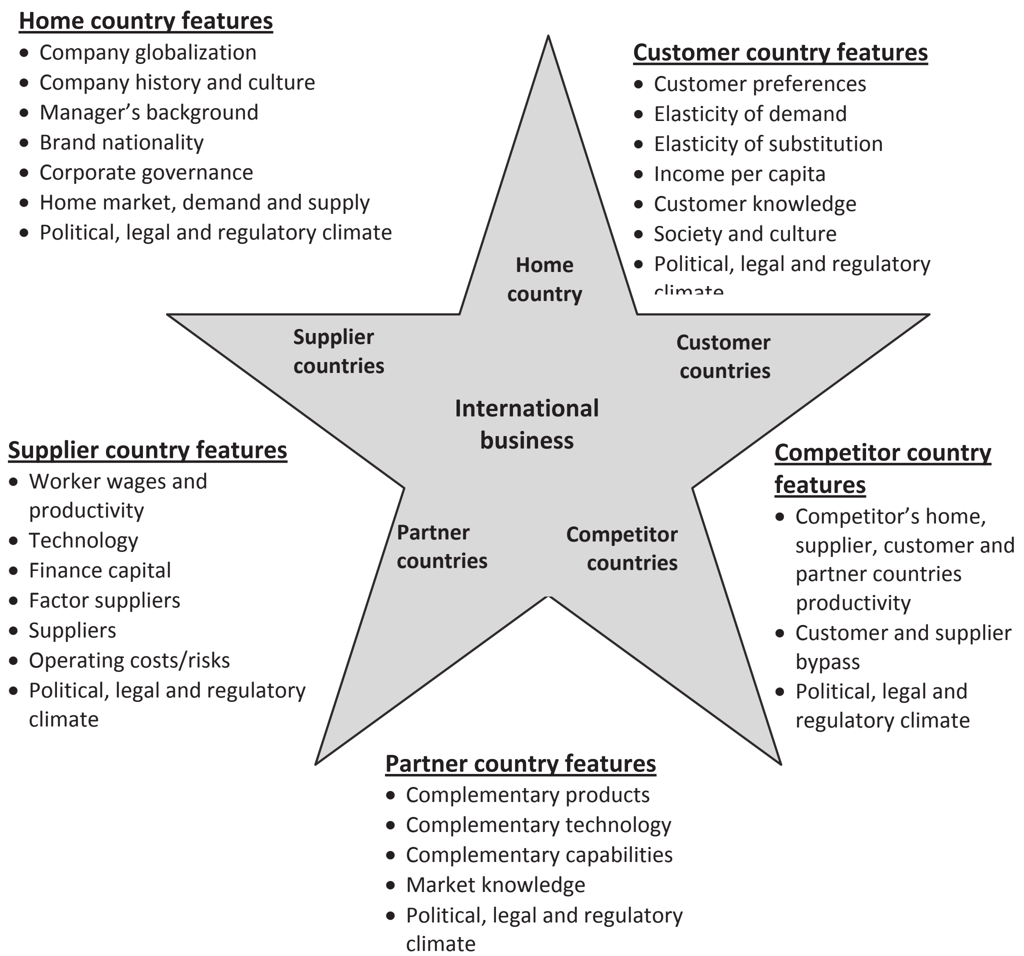

Fig. 2. The global business strategy 'Star Analysis' for global competitive advantage

Source: according to Spulbar [2007, p. 38], processed by author.

Economic differences between countries depend on underlying differences in population characteristics: size, density, level of education, and health. Alternatively, economic variations in income and wealth influence demographic trends, such as the population growth, the quality of health care and choices of education. It is necessary for an international business manager to be familiar with all demographic information in detail. Each country's population has a different set of statistics, and these are the key elements that drive strategic decisions. Each country differs in its set of statistics, and these sets are the key elements for carrying strategic decisions.

Agriculture and contemporary agribusiness concept

'Agriculture has become a part of considerably wide-ranging complex that determines not only the conditions of its success in selling products in the future food markets but also the nature and dimension of agriculture production firms in specific areas' [Bečvářová 2005, p. 285].

The last decades has witnessed considerable changes in the agrarian sector across the whole world. The increased integration of markets and the rapid growth has acted as a major stimulus to trade between and within regions and has resulted in major shifts in geographical and commodity distribution.

In fact, the food and agribusiness system is the largest economic sector[2] in the world economy, representing 50% of global assets, 50% of the global labour force and 50% of global consumer expenditures [Darkwah 2007]. Even in the developed countries, with agriculture being a relatively small part of the whole economy, the agribusiness sector generates significant economic activities.

Darkwah [2007] indicates five typical traits of the contemporary agricultural enterprises' economic climate and the competitive environment that could be characterised by:

- global competition
- adoption of new technology and industrialisation of primary production, processing and distribution
- precision farming with more relevant information and the necessity of using R&D results
- persistent changes in the demand for food products with a high product differentiation
- systems or food production chains and world food distribution nets increasing consolidation at all levels of agribusiness and bringing about market power exhibit and control.

Aside from the above mentioned characteristics, we have to take into account also some specific patterns of agro-food sector which hang closely together with the nature of the final product (e.g. perishability of production) or result from random factors such as weather, diseases and other biological risks (qualitative and quantitative variability of agriculture inputs supply), as well as time delays between subsequent production

[2] According to the contemporary situation, the agribusiness can be defined as a sequence of interrelated subsectors made up of genetic and seedstock firms, input suppliers, agricultural producers, merchants or first handlers, processors, retailers and consumers.

stages. Because of the fact, that some of agricultural commodities underlie the process of conservation or transformation before final sale, the success of primary agricultural companies is influenced also by the other stages of the value chain [Bečvářová 2005].

From the above point of view, the commercial fortune of the food industry become the crucial precondition in the agro-food chain by increasing agricultural enterprises competitiveness, although their connections to consumers are not enormously immediate.

As far as the primary agricultural production is concerned, changes have affected the technology, the economic climate, the institutional structure and notably the way of doing business. New concepts of how to successfully survive in the changing economic environment are determined by a close knowledge of the international agribusiness development and its influence on all industries that have interest in food production.

The food production and distribution industries are undergoing a significant change that transforms not only the firms participating in those industries, but also the structure, interrelationships and economic aspects up and downstream the agro-food chains. Food retailers and final processors behave as 'spokespersons' of consumer influence on demand for food, not only from the point of view of food security, quality and availability, but also in the price formation and other policy conditions within the overall framework of the agro-food chain.

In fact, food processors and retailers use their market power to maximize their profit through the high share in the consumer price of food. On the contrary, the agricultural companies dispose of minimal market power and face a strong competition from the final links within the agro-food chains.

'Considerations of size and scale as well as who is to manage, control and finance farming and agribusiness operations lead to a conclusion that a mono(bi)poly prevails in processing stages and retail trade rather than an originally pure competition in primary agricultural production' [Bečvářová 2005, p. 288]. The industry is becoming more globalised, integrated, more industrialised, more specialised and more managerially intense.

Conclusions

The fact that business today is international is indisputable. During the last decade, there has been a rapid growth in both international trade and foreign direct investments. Many markets have become really global. Globalization, industrialisation and consolidation are the most actual features in the agro-food sector as well as in the whole world market. Fast technological progress, new methods of trade and distribution have been affecting the individual stages within the agro-food chains, from primary agricultural input producers through production of agricultural products, processing phase and finally distribution and retail stages.

Food and agribusiness firms are confronted with a great competition in the agro-food global markets. The trend will be towards greater interdependence, when the main aspect of competitiveness will not be the only ability to be responsive to changing customer needs and business environmental challenges, but also to cost decreasing, product efficiency and delivery reliability. As a result, production costs of the diverse products will probably become lower in a more coordinated system. It indicates that successful negotiations, a perfect information knowledge, linkages between suppliers and customers or a choice of proper partners will be highly important for the market position and the financial performance. These developments will create a need for stable partnerships (vertical coordination, vertical integration etc.)

This paper has identified presumptions for gaining a global competitive advantage with special focus on the agro-food sector. Presented 'Star Analysis' offers a possible approach to determination of opportunities and competitive challenges in the global market. Depending on the company's capabilities, a manager chooses the best match between the company skills and market opportunities. Then it is required to apply the best strategy or combination of strategies to gain competitive advantage.

Global strategies prove the difficulty and the intricacy of strategy making in an international environment. Manoeuvring has much more options than choosing only low-cost or high-product quality strategy. A global manager has a lot of alternatives when selecting a particular technology, concrete product features, business transactions and methods. These strategic alternatives are strengthened by geographic aspects. A global manager chooses partner countries, customer countries, and supplier countries in order to be effective in implementing the firm's strategy.

The 'Star Analysis' provides a method for analyzing the global business environment. It systematically integrates country-level data with competitor analysis. The different country profiles of the company and its competitors provide ways for creating a global competitive strategy.

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