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# What is agribusiness?

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# **INTRODUCTION TO AGRIBUSINESS**

**CHAPTER-I**

# 1. FROM FARMING TO AGRIBUSINESS

- What do you imagine when you hear the word ‘agriculture’? Farmers producing animals and crops or seed, weed, and feed or cows, sows, and plows.
- Agriculture is changing from mere farming to a technology oriented industry comprising of production, agriscience, and agribusiness.
- In Afghanistan, this change is planned to happen.

## 2. DEFINITIONS OF AGRIBUSINESS

- The term ‘agribusiness’ was coined by two Harvard Economists, Johan Davis and Ray Goldberg in 1957.
- They defined agribusiness as *"the sum total of all operations involved in the manufacture and distribution of farm supplies; production operations on the farm; and the storage, processing and distribution of farm commodities and items made from them."*
- Agribusiness actually includes all enterprises derived ‘from’ and ‘around’ agricultural production.

- Ewell Roy (1980) defined agribusiness as the “*the coordinating science of supplying agricultural production inputs, and subsequently producing, processing and distribution food and fiber.*”
- Agribusiness is concisely defined as “*a generic term that refers to the various businesses involved in food and fiber production (including farming), seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing, and retail sales.*”
- The definition of agribusiness also includes agro-services and international trade.

# 3. AGRIBUSINESS IS SCIENCE OR ART?

- As a field of study, agribusiness is *both an art and a science* of managing an agricultural business enterprise.
- **As an Art:** agribusiness puts together the various skills of an individual or organization, in running a profitable venture.
- **As a Science:** risk-taking is backed up by an objective gathering and analysis of data and information. Agribusiness consists of a body of knowledge, which is borrowed from various disciplines.

# 4. IS FARMING AN AGRIBUSINESS?

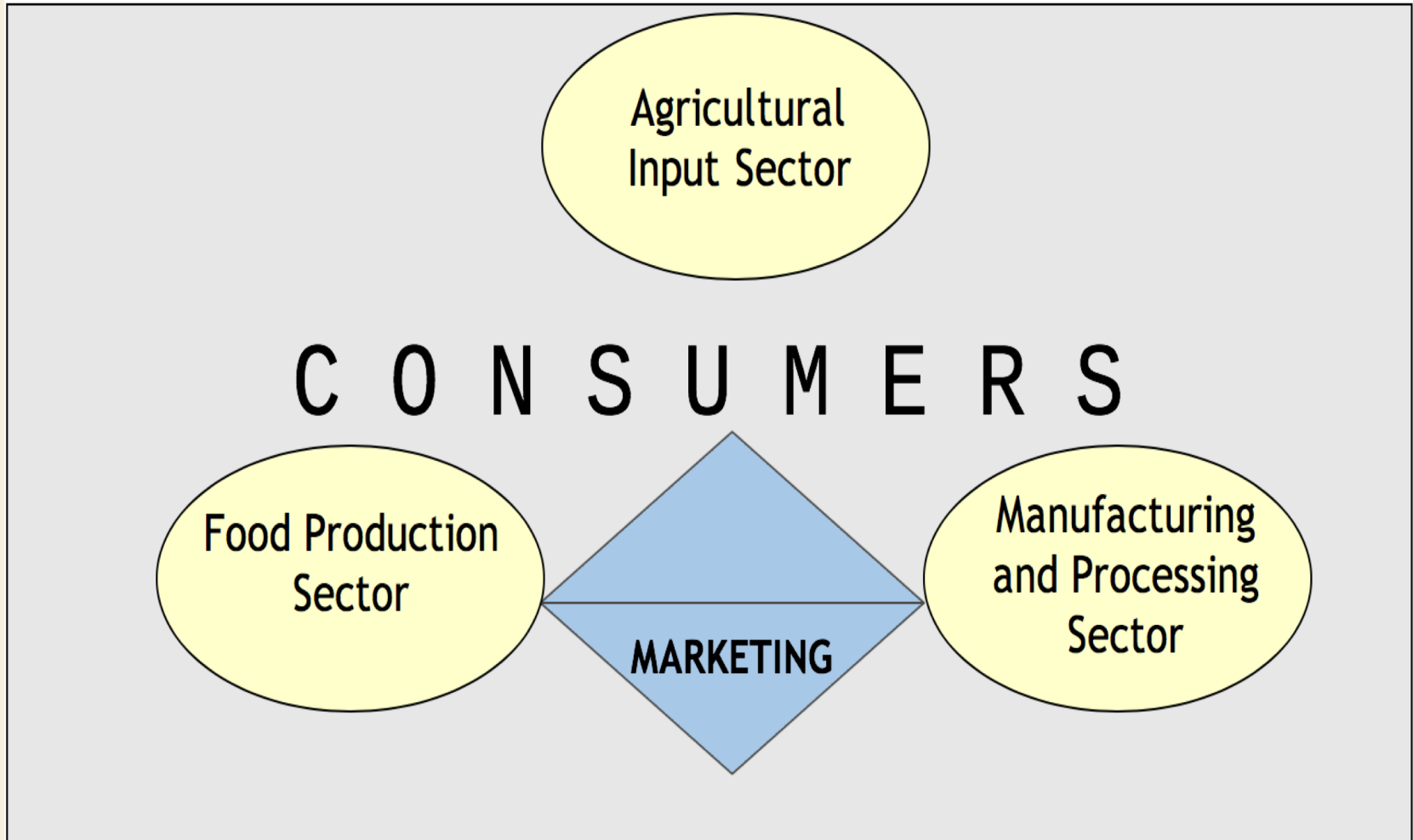
- Some people exclude farming of food and fiber from the definition of agribusiness.
- A farmer (production agriculturalist) must make decisions, develop plans, and solve problems, all of which require business-related skills.
- A typical farmer manages interest, taxes, repair, and replace of equipment, fertilizers, wages, fuel, electricity, and many other items.
- Farm management deals with business aspects of farming.
- Hence, farming is also an important agribusiness.

# **5. AGRIBUSINESS MANAGEMENT**

- Management is a built-in function of agribusiness.
- Management is essentially a decision-making process based on information and experience, in order to achieve desired goals and objectives.
- Agribusiness management therefore is a dynamic decision-making process revolving around an agricultural business enterprise.
- The term ‘agribusiness management’ refers to the management of any firm involved in the food and fiber production and marketing system.



# 6. AGRIBUSINESS IS COMPRISED OF THREE SUB-SECTORS



# 7. THE SYSTEM OF AGRIBUSINESS

Agribusiness as a system consists of **five sub-systems**:

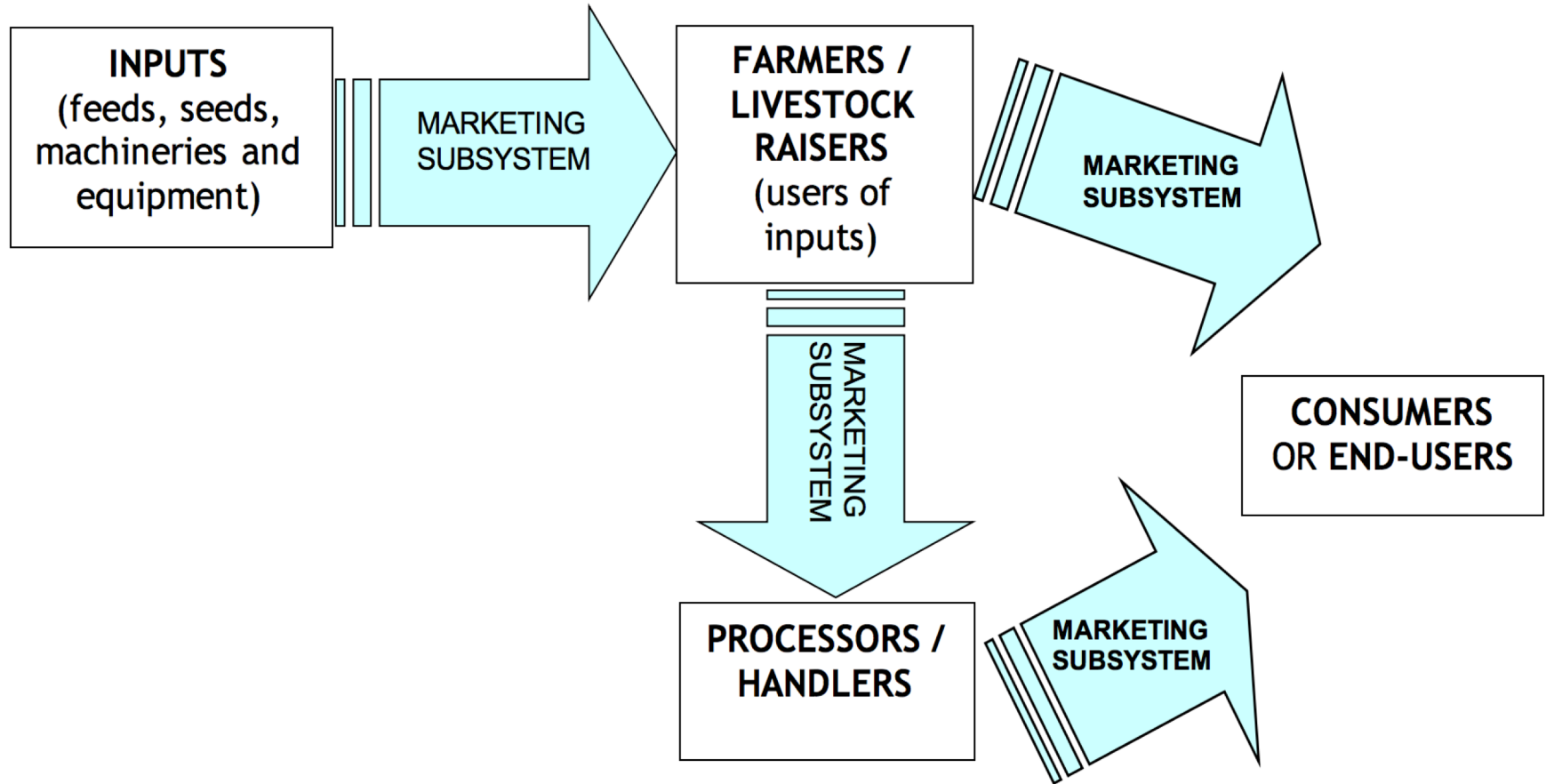
- 1) **The Inputs Subsystem:** This is the first subsystem from which all other agribusiness subsystems emanate. Here, all inputs (e.g. fertilizers, seeds, machineries, etc.) are manufactured, imported or distributed.
- 2) **The Production Subsystem:** Inputs are directly used for the production of an agricultural commodity as end-product in itself or as a raw material for the production of other products.

- 3) The Processing Subsystem:** The commodities from the production subsystem are transformed into various products. The levels of transformation depend upon the level of processing, which can be as simple as washing and grading to as complex as chemical alteration.
- 4) The Marketing Subsystem:** This subsystem is concerned with the transfer of goods from source to end-user. It includes all handling procedures and infrastructures that move the commodities from one point to another. The marketing subsystem may take the following routes: (1) transfer of agricultural inputs from manufacturers to farm input users; (2) transfer of commodities from production site to processing site; (3) transfer of commodities from processing site to end-consumers.

**5) The Support Subsystem:** consists of all the key players that provide services, however, optional, but crucial to the success of an agribusiness venture. These services are provided by institutions such as government agencies, commercial associations, credit and financing, research organizations and cooperatives.

- The government plays an important role in providing a policy environment that is favorable to agribusiness enterprises such as policies on prices, imports, exports and general trading.
- All the subsystems are strongly interrelated, and the coordination among them is a necessary for success of agribusiness.

# A SCHEMATIC PRESENTATION OF THE WORKING OF AGRIBUSINESS SYSTEM



# **8. THE CORE INDUSTRIES OF AGRIBUSINESS**

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

# EXAMPLE OF CORE AND SUPPORTING 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:** Agribusiness: Principles of Management (Book)

# 9. THE FOOD SYSTEM

- *A food system* encompasses the ecosystems and all of the activities required for the production, processing, transportation and consumption of food, including the inputs needed and outputs generated by each of these activities.
- The *food production and marketing system* encompasses all the economic activities that support farm production and the conversion of raw farm products to consumable goods.
- The nature of food and agricultural systems vary widely across the globe.



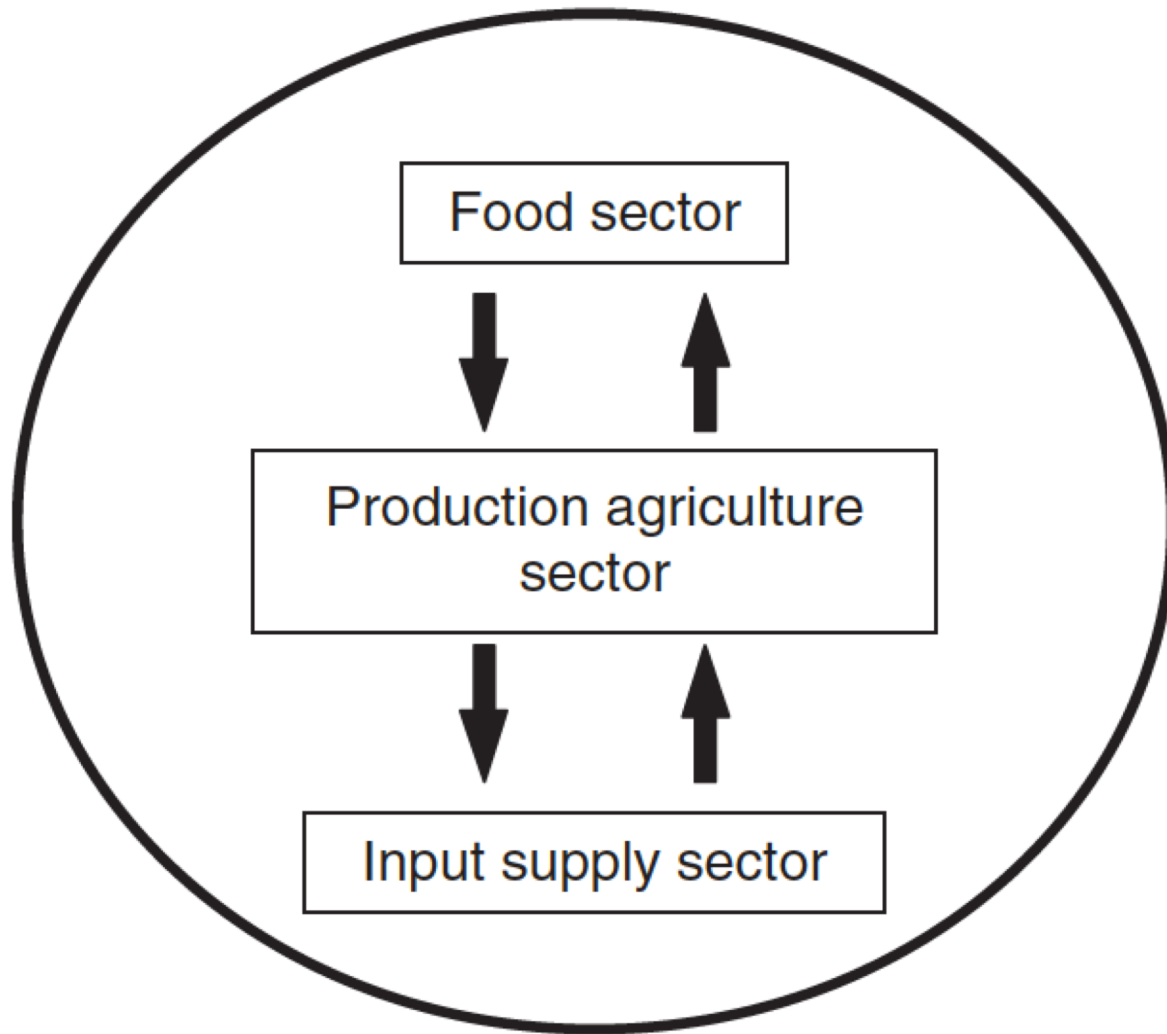
- Within the food system, value chains are composed of the full range of farms and enterprises, and their value-adding activities, which produce agricultural raw materials and transform them into food products that are sold to final consumers.
- Transformation of the food system is the result of the demand “pull” factors of urbanization and dietary changes, and the supply “push” factors of farming intensification and factor market development.
- A primary requirement for being a successful agribusiness manager is a solid understanding of this food production and marketing system.

# 10. STAGES IN TRANSFORMATION OF FOOD SYSTEM

- **The first stage** occurs in rural areas and is usually focused on cereals with small-scale, fragmented off-farm components.
- **The second stage** involves a proliferation in rural areas of small-scale off-farm enterprises linked to the supply chain, along with product diversification.
- **In the third stage**, these off-farm activities migrate to local towns, while activities in rural areas become more diversified and eventually more capital-intensive and mechanized, with a reduction in off-farm operations except for immediate handling.

# 11. THREE PRIMARY SECTORS OF THE FOOD SYSTEM

1. **Food sector:** this is the sector in which food processing, marketing, and distribution occurs.
2. **Production agriculture sector:** here the purchased inputs, natural resources, and managerial talent are combined to produce crop and livestock products.
3. **Input supply sector:** this sector is responsible for providing the thousands of different inputs — both products and services — to production agriculture.



## **A Simplified Presentation of the Food System.**

**Source:** Agribusiness Management (Book)

# **12. NEW DEVELOPMENT AND TRENDS IN AGRIBUSINESS**

1. Trade barriers
2. Food safety specifications
3. Good agricultural practices (social and environmental sustainability)
4. Genetically Modified Organisms (biotechnology)
5. Organic products
6. Evolution of imports and exports for agricultural and food products
7. Productivity evolution
8. Comparative costs
9. Changing demographics and population growth
10. Changing demands in diet, wardrobes, etc.
11. Changing technological and regulatory settings
12. Increasing international competition