

Agricultural Transformation towards Value Creation

Today's agriculture is transforming to increasingly following the manufacturing industry in the formation of more tightly aligned value or supply chains. One of the prime arguments for the value chain formation is the reward from responding to increased specificity in consumer demand. In Malaysia, it is generally observed that consumers increasingly demand for higher value and higher proteins foods, and food away from home. The importance of rice as a staple food has decreased steadily. The substitution of calories obtained from non-staple for staple food sources has been substantial. Consumers also demand new food products, new packaging, more convenience, new delivery systems, and safer and more nutritious foods. They also expect quality control and products with specific characteristics to be available when desired. Thus the agricultural sector, in order to create more value, should not producing generic products in open markets, but differentiated products to gain profit margins and move-up the value chain.

Other fundamental drivers of more tightly aligned value chain in the agricultural production-distribution system include advances in technology such as ICT, biotechnology and logistical technology; changes in government policies in simultaneously reducing subsidies and protection from international competition and to increase regulation with respect to consumer concerns; and the shift in resources essential to compete in global markets. More resources are geared to more sophisticated research and development, increased importance of knowledge and information, and more efficient distribution channel.

The fundamental concept of a value chain is to explicitly specify the value creating activities in the production-distribution process, and to provide an explicit structure for the linkages among these activities or process. The basic principle is to produce or provide a product that has sufficient value for customers or end-users that they will pay for that product. Thus the first task in specifying a value chain is to identify the processes or activities that are necessary to create the attributes or products that will be demanded by the end-users or consumers. Other tasks include the specification of the product flow features of the chain, financial flow across the participants and processes, information flow across the chain, incentive system that are in place to reward performance and share risk, and chain governance/coordination system.

In order to succeed in the value chain formation, core competencies are essential in managing value chain. Among others, they are market flexibility to meet changing consumer demand, cost control and efficiency as well as optimization of the logistics and distribution system. However, there are barriers that must be overcome if the value chains are to be successful. These include the willingness to adopt a collaborative versus competitive business approach, equitable sharing of the risk and rewards in the chain, and a policy environment that does not constraint chain formation. Evaluation of these dimensions in value chain

formation and management will be helpful in assessing the opportunities for success of value chain in various segments of the agricultural industry.

Recent events, both in Malaysia and elsewhere, have emphasised beyond doubt the importance of an integrated agriculture and food chain approach to the production – from the farm to the consumer. This ‘plough-to-plate’ approach, in the case of food, requires an improved understanding of the essential links in the food chain and their relationship. It highlights the need to gain a much better understanding of ‘value chain management’ for improving efficiencies; quality assurance; adding-value and profitability. It recognises that a particular chain can only be as effective at its weakest link – whether that prevails on-farm; or perhaps at the abattoir; processor or retailer stages.

It has been generally agreed that the agriculture value chain is increasingly market-led, with the end consumer being one of the main drivers for change. Demographic factors seem to be significant variables that led to the changes. Responding to the consumer will be a key issue. Understanding the changes in food consumption and demand patterns will probably provide one of the best bases for adding value to the chain to meet the consumer needs and for appropriate policy formulation. The future food choices will have implications for the organizational structure of the agricultural industry and for the economic well-being of farmers, food processors, retailers and other participants in the agricultural production and marketing system.

Thus significant investment in today’s agricultural sector will only be meaningful if the new relationships in the value chain are recognised and responded to in Malaysia, as elsewhere. This investment will be encouraged, and must be increasingly driven, by a new agriculture concept which is technology oriented, business driven, and sustainability. It is also increasingly important to understand the changing role for the new agriculture in such a commercial and increasingly sophisticated market place.