

SUCCESS FACTORS OF AGRICULTURAL COMPANY

Helena Chládková

Received: April 11, 2013

Abstract

CHLÁDKOVÁ HELENA: *Success factors of agricultural company*. Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis, 2013, LXI, No. 4, pp. 935–940

This paper focuses on developing a proposal to eliminate weaknesses in medium-sized farm and thus improving its market position. To determine the position of company's products due to the competition, a BCG Matrix (Boston Consulting Group Matrix) was used. Financial Ratio Analysis was used to identify company's financial situation. With the help of the situational analysis of the company's internal environment, success factors, strengths and weaknesses were defined. Further the proposals were designed to remove the selected weaknesses. In the farm was identified the following strengths: quality of managers, long-term and stable customer-supplier relationships, selling commodities at optimum moisture content and purity, the use of subsidies and high milk yield cows. A weakness was mainly breeding pigs, missing website, company profitability and obsolete buildings. Amongst others was suggested to create website for the farm.

success factors, strengths, weaknesses, BCG matrix

On the way to success during the global financial crisis is an effort to increase competitiveness, which can be accomplished by the proper strategies, appropriate use of resources – financial, information and human and active use of performance measurement and management of the company. When performance measurement and management is necessary to reflect the influence of internal and external business environment.

The principle of success factors based on the view that each organization has specific internal environment and in relation to the external environment has its own specific potential success. The most important area of potential success are considered sales and marketing, employee needs, risks and hazards to the business and financial situation.

Terris Budětsko Agricultural Society was established on 13 11th 1995 as a company with limited liability. In 2004 the company was transformed into a limited liability company to a joint stock company.

The aim of this paper was to develop a proposal to eliminate weaknesses in Zemědělská společnost

TERRIS Budětsko, a.s., as well as to identify the factors for its success in the market. To meet the objectives it was necessary to identify and analyze the factors of the internal environment of the company. Based on the analysis of the internal environment were determined success factors and strengths and weaknesses.

During the recent period of time there have been many researchers from the Faculty of Business and Economics of the Mendel University in Brno, who focused on the analysis of the food company's internal environment, e.g. Bečvářová (2005); Duda (2007); Chládková (2006, 2007); Jánský (2005); Zrůst and Pyšný (2007); Svoboda (2006).

MATERIALS AND METHODS

Methodologies used in situation analysis of internal environment can differ according to the principles of classification and definition of internal environment factors they come from.

In this paper, methodology by Eschenbach (2000) was used. The first step of potentials' analysis was finding out and analyzing strengths and weaknesses. This analysis should be done especially in the

field of the product, research and development, purchasing, operations, logistics, marketing, human resources, management, and finance. The second step was the potentials' analysis, i.e. analysis of the success factors of an organisation within its industry. These factors were such product quality, product-line width, sales organisation, financial strength, marketing activities, etc. Success factors come from the analysis of the industry and competition. Based on these factors, a firm is compared with one or more strong competitors. For the comparative analysis, the following seven-point scale can be used: The strongest competitor serves as a reference measure (zero-line). If the compared factor is better (+1, +2, +3) than in the case of the strongest competitor, there exists a potential in the sense of competitive advantage formation. If factors reach negative values, these are weaknesses. The third step is determination of the key skills. Key skills can be understood as sets of knowledge, abilities, and competencies, which can be a source of competitive advantages of an organisation in different fields. Key skills, competencies, and products are those, which: Enable an organisation to access bigger or new markets, Increase the utility for customers or cut costs, Are unique, hard to be imitated by competition.

For the planning of the product portfolio was used BCG matrix (Fig. 1). The BCG matrix is a chart that had been created by Bruce Henderson for the Boston Consulting Group in 1970 to help corporations with analyzing their business units or product lines. This

helps the company allocate resources and is used as an analytical tool in brand marketing, product management, strategic management, and portfolio analysis.

The internal environment was evaluated with the using of the internal documents of Zemědělská společnost TERRIS Budětsko, a.s.

RESULTS

Agricultural Society Budětsko Terris develops independent economic activity on 1400 hectares of agricultural land. Most of the cultivated land is in the long-term lease. Company owns only 250 ha of land. Company operates traditional agricultural production, including pig and milk production. In crop production, focuses on the cultivation of wheat, malting barley, winter rape, poppy seeds and fodder crops. The company's management strives to get the most possible means from support programs and trying to respond to emerging support programs. The main source of corporate finance in crop production. Sales of commodities is agreed with the long-term business partners. Due to the high quality of the production company may require high redemption prices. The biggest area of cultivated crops occupy winter wheat (28.8%), oilseed rape (17.3%), spring barley (15.3%) and maize for silage (6.1%) in 2011. Company focuses in the field of animal production on cattle breeding and pigs.



1: The Boston Consulting Group (BCG) Matrix
Source: web-books.com

For the evaluation of product portfolio, I used the BCG matrix. Size of circles represents the approximate income that brings the particular product. Relative market share, market growth and inclusion in the corresponding quadrant were consulted with representatives of the company (Fig. 2).

Dogs are units with low market share in a mature, slow-growing industry. These units typically “break even”, generating barely enough cash to maintain the business's market share. Though owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from an accounting point of view such a unit is worthless, not generating cash for the company. They depress a profitable company's return on assets ratio, used by many investors to judge how well a company is being managed. Dogs, it is thought, should be sold off. As dogs can be marked the sale of piglets, milk and poppy.

Number 1 – sale of piglets. Company sells piglets in small amounts. Most of piglets are used for fattening and after reaching the required weight for sale.

Number 2 – Milk. Milk brings the highest revenue to the company, but profitability of milk production is at a low level. Market share is lower in compared to its competitors. The market has grown only slightly over recent years.

Number 3 – Poppy. Company cultivated poppies on larger acreage previously. But the market stagnated in 2009–2011, and so the company has reduced its acreage by half.

Question marks (also known as problem children) are growing rapidly and thus consume large amounts of cash, but because they have low market shares they do not generate much cash. The result is a large net cash consumption. A question mark has the potential to gain market share and become a star, and eventually a cash cow when the market growth slows. If the question mark does not succeed in becoming the market leader, then after perhaps years of cash consumption it will degenerate into a dog when the market growth declines. Question marks must be analyzed carefully in order to determine whether they are worth the investment required to grow market share. As question marks can be marked winter rye, pea on grain, fattening of cattle, the mustard on seed

Number 4 – winter rye. Winter rye is more suited to higher altitudes.

Number 5 – pea on grain. It is also grown as seed.

Number 6 – fattening of cattle. It has a small market share, but high market growth.

Number 7 – the mustard on seed. The mustard seed is grown as seed. The redemption price is relatively high, but the plant is susceptible to spring drought and needs increased chemical pest control.

Cash cows are units with high market share in a slow-growing industry. These units typically generate cash in excess of the amount of cash needed to maintain the business. They are regarded

as staid and boring, in a “mature” market, and every corporation would be thrilled to own as many as possible. They are to be “milked” continuously with as little investment as possible, since such investment would be wasted in an industry with low growth. As Cash cows can be marked fattening of pigs, winter barley, spring barley.

Number 8– fattening of pigs occupies the second place in revenue share of this company. In particular, due to the low redemption prices this production is unprofitable.

Number 9– winter barley has a very high market share in comparison with the largest competitor of the company.

Number 10– spring barley is located on the border with quadrant stars. On customer request, it is necessary to use certified seed.

Stars are units with a high market share in a fast-growing industry. The hope is that stars become the next cash cows. Sustaining the business unit's market leadership may require extra cash, but this is worthwhile if that's what it takes for the unit to remain a leader. When growth slows, if they have been able to maintain their category leadership stars become cash cows, else they become dogs due to low relative market share. As stars can be marked winter wheat and rape.

Number 11 – winter wheat provides a large part of sales. Its cultivation has long been a stabilizing factor of production.

Number 12 – rape is the crop that has high requirements for inputs of fertilizers and chemical protection, also depletes the soil, and therefore should be grown on the same fields once per four years.

Based on an analysis of the company's portfolio was advised to cancel rearing piglets and poppy cultivation and winter rye. On loose surfaces was recommended planting mustard seeds and peas.

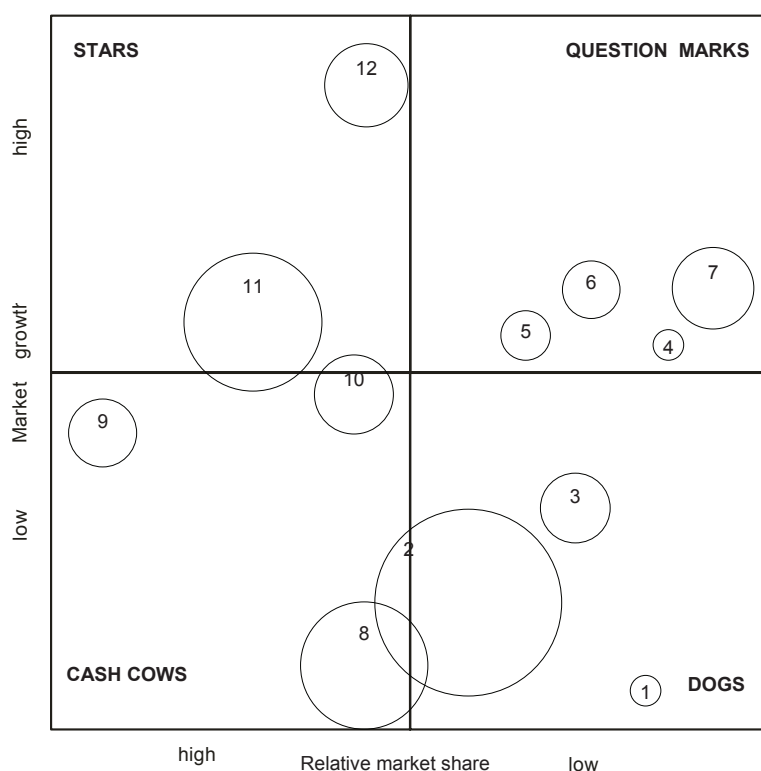
The indicators support this plan are documented in the Tab. I.

Profitability is the ability of the company to generate income for the use of capital. Gain can be used to further develop of the business, or for distribution to the owners of the company. Years 2009 and 2010 were marked by a crisis in agriculture and low purchase prices. Business in 2009 was unprofitable, so the indicators are negative (Tab. II).

The biggest competitors for the Agricultural Society Terris Budětsko is Ludmírov Agricultural cooperative, that operates in the same markets. Other competitors are UNIAGRIS Pěnčín, Inc. and ZS Bohuslavice.

To evaluate the potential success and to identify strengths and weaknesses of the company, was used the biggest competitor – Agricultural cooperative Ludmírov.

Fig. 3 documents the individual success factors of the company, including an assessment of their level. The curve of the success factors helps to identify strengths and weaknesses of the company.



2: BCG matrix of TERRIS Budětsko Agricultural Society

Source: (Zemědělská společnost TERRIS Budětsko, a.s., Chládková, 2011)

I: Economic outturn of selected SBU in 2009 and 2010 (in thousands of CZK)

Item	Crop production	Cattle	Pig breeding I*	Pig breeding II**
2009				
Operating costs	33 980	10 684	6 550	9
Operating income	36 544	8 804	5 194	0
Economic result	3 017	-1 995	-1 496	-9
2010				
Operating costs	27 814	10 268	6 184	13
Operating income	29 849	10 640	4 578	0
Economic result	1 885	217	-1 832	-13

* Pig breeding I. - in unit Ochoz, ** Pig breeding II. - in unit Přemyslovice

Source: (Zemědělská společnost TERRIS Budětsko, a. s., 2011)

II: Selected indicators of profitability (%)

Item	2007	2008	2009	2010
Profitability of the revenues	13.72	14.98	-0.35	0.47
Profitability of the total capital	9.91	11.81	-0.22	0.62
Profitability of the own capital	8.77	10.22	-0.19	0.26

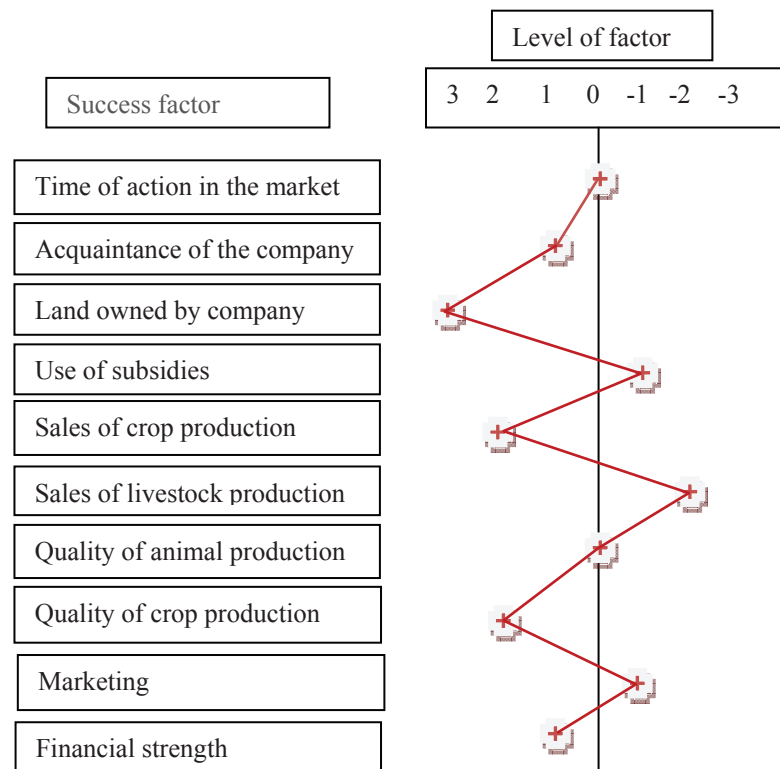
Source: (Zemědělská společnost TERRIS Budětsko, a. s., 2011)

Selected strengths of the company:

- The company management (experience, very good relationships with employees, customers and suppliers)
- Land owned by the company (The company has in its ownership 250 ha, which represents almost

18% of the cultivated land of company – average is around 6%)

- Long-term and stable customer-supplier relationships
- Sales of commodities with optimal humidity and purity
- The use of subsidies



3: Curve of critical success factors

Source: (Zemědělská společnost TERRIS Budětsko, a.s., 2011)

- High milk yield of cows
- Regular renewal machinery company
- Indebtedness company meets the recommended values.

Selected weaknesses of the company:

- Unprofitable breeding of pigs
- Insufficient Virtual storefront
- Low profitability
- Outdated buildings.

Selected proposals to eliminate weaknesses

Pig farming has been identified as a major weakness. Company was recommended breeding pigs aside in its entirety. But in case of cancellation breeding pigs, company would have to return the grant. It would be a sum of approximately 4 million crowns. Company also would have to pay compensation for dismissed employees in the amount of approximately 400 thousand CZK. Because company does not have sufficient financial capital, it would ask for a long-term loan. It was

recommended to the company that the area devoted to growing corn for pigs will be used for the cultivation of spring barley and winter wheat in food quality that would generate revenue of more than 3 million CZK, with using prices spring 2011.

Among further identified weaknesses was included the lack of a presentation web of the company. Company was advised to create your own website. This step is not expensive but it can lead to improved knowledge about company among the general public and potential business partners. According to the website hosting professional is the annual cost of hosting and domain calculated to be 1001 CZK when signing a contract for 2 years. Creating high-quality sites with content editing customer using content management system, can be purchased from 25000 CZK, according to the website Extraweb. The cost of the website will therefore move around 1000 crowns per year, in addition to one-time fee for creating pages.

The company should strive to improve the quality of plant production and revenues from it, but also should continue to increase its share of land ownership.

SUMMARY

Internal environment is understood as a set of elements and their mutual relations existing within an organisation (business). For its better understanding it is efficient to define a business(organisation) as a socially-technical system elements of which are people and material means interconnected by mutual communication and management linkages.

The primary task of management is to assure a sustaining viability and existence of an organisation based on the active and reactive balancing the external and the internal environment.

Critical success factors are those variables, whose characteristics contribute largely to market success, and which are essential if you wish to be successful in competition within your industry. Potentials for success are a business's strengths and at the same time critical success factors. What it amounts to is the sum of all preconditions specific to products and markets that make for success (especially capacities and key competences), which have to be present before the moment of realisation of success arrives. The development and maintenance of market positions - and hence the creation of new products and/or markets - are of the first importance here. Potentials for success are the feed forward that leads to operative success; they are necessary conditions for profit and liquidity. Find and select the right potentials of success should be the main task of the management of all enterprises.

The aim of this paper was to develop a proposal to eliminate weaknesses in Zemědělská společnost TERRIS Budětsko, a.s., as well as to identify the factors for its success in the market. Pig farming has been identified as a major weakness. Company was recommended breeding pigs aside in its entirety. Despite that the company will have to pay back grants and redundancy. Absence of a website was identified as another major weakness. Company was recommended to establish their own web pages. Quality of managers is a significant strength of the company and it is also an important factor in its success. Other factors that determine the success of the company are land owned by the company, quality of crop production, sales of crop production.

REFERENCES

- Annual reports of the Terris Budětsko Agricultural Society, Available from: https://is.mendelu.cz/auth/zp/zp_portal.pl?vedouci=2845;zp=31139 [cit. 22. 11. 2011].
- BEČVÁŘOVÁ, V., 2005: Vývoj ekonomické diferenciacie oborů v potravinářském průmyslu ČR. In: *Aktuálně problémy a perspektivy agrárního sektoru po vstupu do Evropské Unie*. Nitra: FEM SPU Nitra, s. 307–312. ISBN 80-8069-637-3.
- BÍLÝ, V., 2011: *Faktory úspěchu zemědělského podniku*. Bakalářská práce. Mendelova univerzita v Brně. 64 s.
- DUDA, J., 2007: Národní značka KLASA – faktor konkurenceschopnosti. In: *Firma a konkurenční prostředí 2007. Sekce 3: Management v novém prostředí*. Brno: MSD, spol. s r. o., s. 31–34. ISBN 978-80-86633-85-5.
- ESCHENBACH, R., 2000: *Controlling*. Praha: ASPI Publishing s. r. o., 812 s. ISBN 80-85963-86-8.
- CHLÁDKOVÁ, H., 2006: Characteristic of the internal environment of the DELTA Pekárny and its analysis. *Agricultural Economics*, 52, 2: 83–89. ISSN 0139-570X.
- CHLÁDKOVÁ, H., 2007: The competitive strength factors of the company. *Agricultural Economic*, 53, 7: 312–317. ISSN 0139-570X.
- JÁNSKÝ, J., 2005: Analysis of current situation in sales of selected organic products in the Czech Republic. *Agricultural Economics*, 51, 7: 309–313. ISSN 0139-570X.
- PORTER, M., 1995: *Konkurenční výhoda – Jak vytvořit a udržet si nadprůměrný výkon*. Praha: Victoria Publishing, 626 s. ISBN 80-85605-12-0.
- POŠVÁŘ, Z., CHLÁDKOVÁ, H., 2009: *Management*. 1. vyd. Brno: Mendelova zemědělská a lesnická univerzita v Brně, 261 s. ISBN 978-80-7375-347-4. *Strategic Portfolio Planning Approaches*. Available from: <http://www.web-books.com/eLibrary/ON/B0/B64/015MB64.html> [cit. 22. 11. 2012].
- SVOBODA, E., 2006: Strategické řízení podnikatelských subjektů k získání jejich konkurenční výhody. In: *Agroregion 2006 Zvyšování konkurenceschopnosti v zemědělství*. České Budějovice: JČU v Českých Budějovicích, s. 210–214. ISBN 80-7040-871-5.
- VEBER, J. a kol., 2009: *Management: základy, moderní manažerské přístupy, výkonnost a prosperita*. 2. aktualiz. vyd. Praha: Management Press, 734 s. ISBN 978-80-7261-200-0.
- ZRŮST, J., PYŠNÝ, T., 2007: Strukturální analýzy uvnitř vybraného odvětví. In: *MendelNET 2007. Sborník příspěvků z konference studentů doktorského studia*. Brno: Petr Novák – Gimli, s. 1–7. ISBN 978-80-903966-6-1.

Address

Ing. Helena Chládková, Ph.D., Department of Management, Mendel University in Brno, Zemědělská 1, 613 00 Brno, Czech Republic, e-mail: chlad@mendelu.cz