
SHAPING COMPETITIVE ADVANTAGE FOR AGROECOLOGIC PRODUCTS

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Abstract:

A competitive advantage exists when the company is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself. In order to develop a competitive advantage, the company must have resources and capabilities that are superior to those of its competitors. Resources such as patents and trademarks, proprietary know-how, reputation of the firm, brand name, are the firm specific assets useful for creating a cost or differentiation advantage and that few competitors can acquire easily.

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JEL Classification: M21, O13

When a company sustains profits that exceed the average for its industry, the company is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.

Michael Porter identified two basic types of competitive advantage:

- ❖ **cost advantage**
- ❖ **differentiation advantage**

Capabilities refer to the firm's ability to utilize its resources effectively. An example of a capability is the ability to bring a product to market faster than competitors. Such capabilities are embedded in the routines of the organization and are not easily documented as procedures and thus are difficult for competitors to replicate.

The company's resources and capabilities together form its distinctive competencies. These competencies enable innovation, efficiency, quality and customer responsiveness, all of which can be leveraged to create a cost advantage or a differentiation advantage.

Regarding all of these, the following questions appear: it is possible to obtain competitive advantage in agriculture's sector? Or it is possible to create competitive advantage for agroecologic products?

In the industrialized countries the market for agro ecologic products is increasing steadily. Concerning the most important markets in the European Union, the USA and Japan, annual rates of increase between 5% and 20% are being predicted for the future. Agro ecologic products have become an important factor on the international food markets.

Reasons for the **increasing acceptance of agro ecologic products on the market** are as follows:

- the consumers' increasing awareness of environmental and health issues
- the introduction of **legal guidelines** for production, commercialization and import of ecologic products
- the increasing availability of high-quality ecologic products
- The increasing involvement of supermarkets in the sales of organically grown food.

However, in many industrialized countries agro ecologic products occupy only small niche markets. Their share of the total turnover in food marketing amounts to approximately 1-4%.

What are the problems concerning the marketing of agro ecologic products from Developing Countries?

Quite often the special requirements of the target markets for agro ecologic products (what products, what quantities, what qualities) are being analyzed insufficiently because of lack of opportunities to acquire information.

There are big difficulties in **finding and selecting suitable importers** to establish a reliable and stable relationship in marketing.

In contrast to the conventional goods market, the ecologic market lacks information on world market prices, which can serve as a basis when negotiating prices. Investigations with importers are problematic. One rarely gets from them concrete information about the prices paid, especially because pricing in view of the diverse qualities and quantities is no simple matter anyway. Also the **production costs**, which should serve as one reference point for price negotiations, are in many cases not known in detail. Marketing problems all too frequently arise after the conversion period when ecologic products are ready for marketing.

The hotly discussed pricing issue in regard to agro ecologic products comes down to one question in the end: how much is the customer prepared to pay for these products? Opinions diverge on this issue. The health food sector is often accused of appealing to only a select clientele by setting its prices too high. The detractors of this policy argue that lower prices would attract a wider range of customers to ecologic products.

Customers who shop in health food store are used to high prices, yet demand for some products could still be dramatically increased if prices for certain basic products were brought below specific threshold levels (e.g. for milk and coffee).

Certainly there is some price elasticity here: lowering prices would increase demand. Some products, such as organic bananas are still much more expensive than conventional products. In such cases, too, price reduction would lead to notable market expansion. Experience has also shown, however, that a small group of committed will buy ecologic products whatever the price.

In conventional food outlets, customers are clearly more aware of price, since in the same shop they can compare ecologic and conventional prices directly. In these stores, therefore, the premium for ecologic products should not exceed the price of conventional products by more than 10%-30% in most cases.

In calculating realistic prices, the export company should take two aspects into consideration:

- ✓ **market conditions (demand/competition)**
- ✓ **operating costs in producing the product**

Generally the emerging country exporter is confronted with the reality of having to accept the given market price. In such cases the exporter must work backward from this market price in order to establish the profit margin that will remain for him after expenses.

The price is made up in according with standard INCOTERMS, that is, the usual terms of delivery in international trade.

The producer's selling price must be calculated in such a way that the quantities sold cover costs and still allow for some profit.

Price can be oriented to market conditions and operating costs. Cost-oriented pricing can be based on either a full-cost or variable principle.

According to the full-cost principle, all costs including the profit are contained in the price calculation. The selling price is determined by adding a markup to the costs. This method is very widespread in the trade. Problems can arise from the fact that this method leaves market prices out of consideration and can set prices too high.

Products that are new on the market will have a good chance only if their price level does not exceed that of comparable products. If market prices are not in line with the producer's costs, it may nevertheless be possible to analyze areas where costs can be cut or rationalization introduced (with no negative effect on quality).

Policymakers in Romania will need to make a series of important decisions in order to prepare the country for accession to the European Union and adoption of the Uncommon Agricultural Policy (CAP) in 2007.

To prepare for implementation of the CAP, Romania will need to create a competitive market with private and public institutions capable of meeting Common Market requirements and establishing institutions capable of administering the CAP that are compatible with those of the European Union.

Increasing Competitiveness

Agriculture policy in Romania has traditionally emphasized increasing production. As the country moves toward EU accession, this approach needs to be

replaced with one that emphasizes increasing the sector's competitiveness. Yields in both crop and livestock production are low in Romania, and the country's agricultural labor productivity is by far the lowest in the region. **Efficiency** can be increased only by adopting policies that facilitate the structural reorganization of agriculture by allowing inefficient farms to close down (through effective early retirement schemes, for example) and removing obstacles to the expansion of new and more efficient farming units (by removing the bias against land leasing, for example).

Adoption of the new policy framework and support system cannot wait until 2007. Instead, measures should be taken now, in order to facilitate the sector's ability to adjust to the challenge of producing for the highly competitive EU market. **Steps the government** could consider taking include the following:

- Quickly complete the most important pending transition tasks, such as privatizing land
- and creating functioning land markets.
- Consolidate the small-scale farming sector by creating nonagricultural rural job opportunities that will reduce the agricultural work force and raise labor productivity.
- Make more effective use of budgetary support to agriculture by refocusing support programs on enhancing efficiency rather than providing price support and export subsidies.
- Integrate the various instruments of government intervention into a more consistent and
- predictable framework, by, among other things, providing a reliable orientation for farmers until the CAP goes into effect.
- Create the institutions required to implement appropriate support policies after EU accession.
- Clearly separate rural social measures (such as measures that reduce social tensions and
- provide social protection in rural areas) from major instruments aimed at improving efficiency and competitiveness.

Facilitating Structural Adjustment to Increase Competitiveness for agroecologic products:

- Reducing income disparities

Half of all holdings in Romania are less than 1 hectare. Without exit of many of these farms, Romania's agriculture sector will not become competitive. Inefficient farms need to be induced to close down, and obstacles need to be removed that prevent new and efficient farms from expanding.

- Consolidating the farming sector and reducing excess agricultural labor

Creating a more efficient and competitive farming sector is probably the most important task Romania faces in preparing for EU accession. This complex task will require actions on several fronts:

- ❖ completing farm restructuring and farm privatization

- ❖ consolidating small farms
- ❖ reducing rural poverty
- ❖ increase productivity on small- and medium-size farms

- Accelerating reforms in agro-processing, input supply, and marketing

Policymakers face two main tasks in the agro-processing sector: they need to facilitate the consolidation of privatized agro-processing industries, and they need to promote and attract Foreign Direct Investment (FDI) into the sector. The government should study the experience of other European countries—especially Ireland—in encouraging FDI. No special measures are needed to attract foreign investment into the food retail or restaurant business, but it is imperative to attract FDI for modernizing and upgrading privatized agro-processing firms.

The government should also develop policies that encourage domestic investment in small and medium-size processing plants in rural areas. Food processing is an ideal complement to the agricultural activities of the rural population, and it can be set up in villages with little effort or investment. In addition to augmenting the income of entrepreneur families, this activity would create local jobs.

These policies should be part of a forward- looking rural development strategy that no longer relies on simply providing subsidies for the purchase of agricultural machinery and equipment.

Most small farms in Romania are subsistence farms that have only marginal contacts with markets. Most of the contacts that do occur are with local markets or in the form of direct sales from the farm. These firms have almost no direct relations with large retailing systems. To benefit from the revolution in retailing, these farms need to be integrated into vertical supply chains.

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