Kigali Conference on Agribusiness Development in Africa

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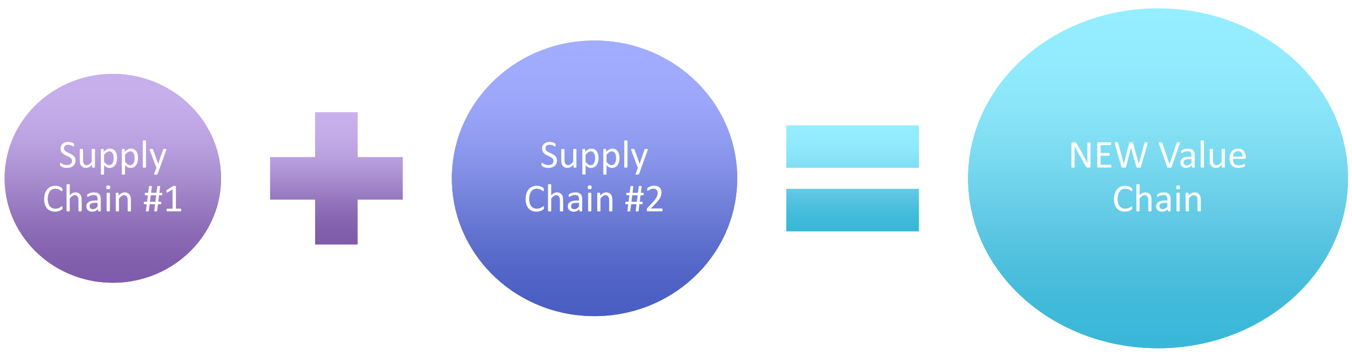
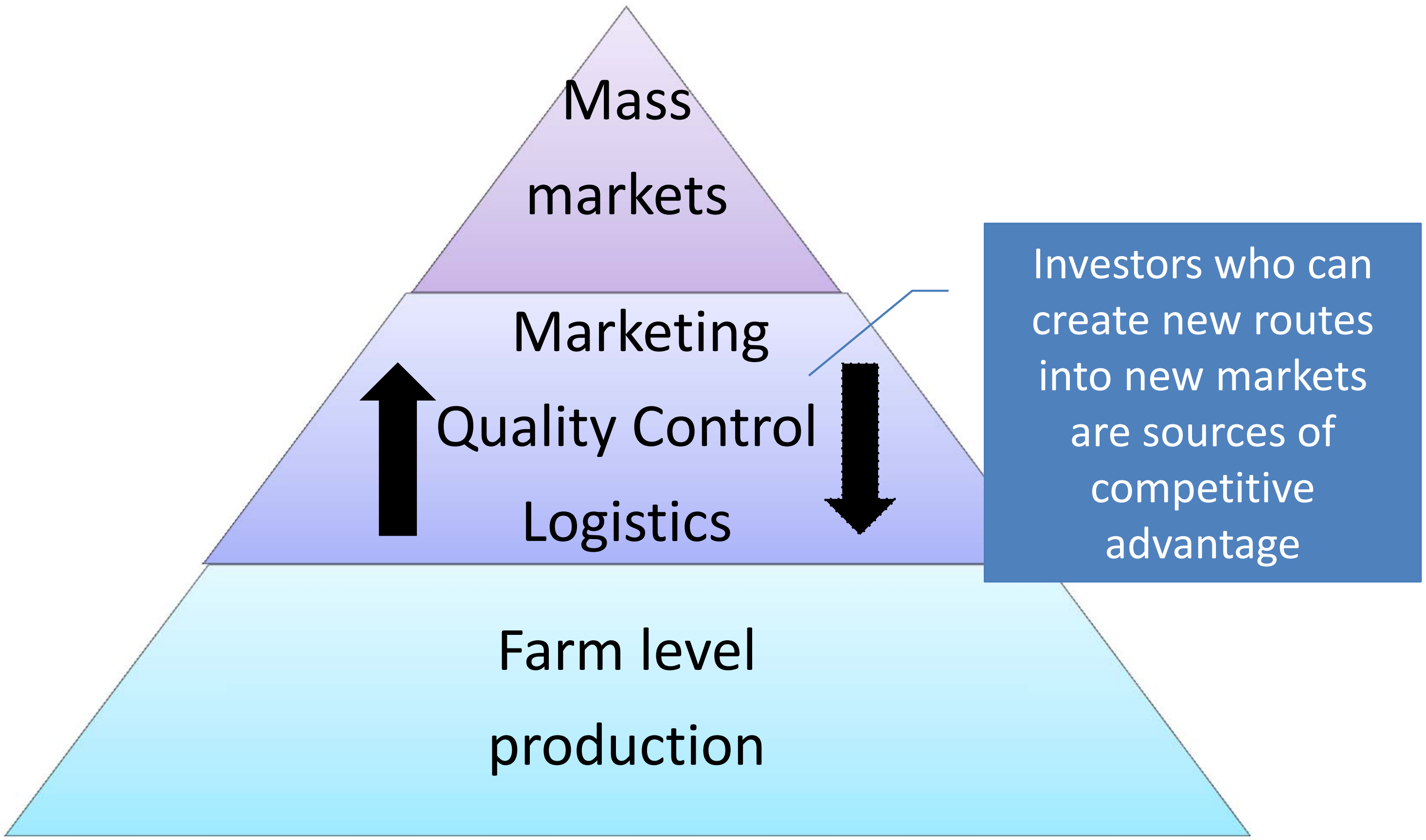
Proposition #1 : Industrial organization matters a great deal in agribusiness



Proposition #2 : Selecting the right supply chain partners and investors matters a great deal, as well.



Proposition # 3 : Restructuring an agribusiness sector is much easier when a capable facilitator becomes involved

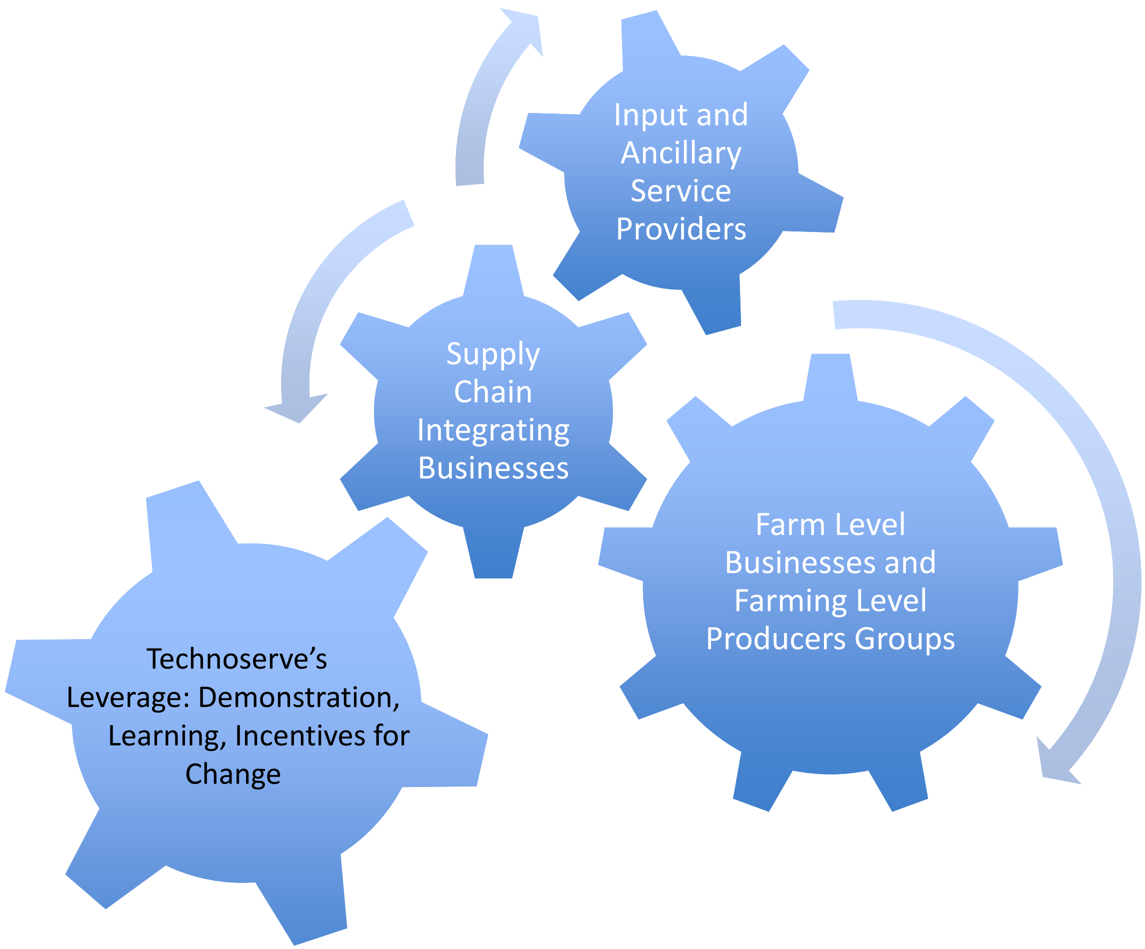
Common Features

- Transition from one dominant business model to many
- Increased supply seems to have stimulated domestic demand, e.g. poultry demand is increasing at 1 kg /person/yr.
- Supply chain paradigm frames actions/investments
- Industry leaders test new business models
- Emerging market for corporate control reduces capital cost.
- Parallel informal and formal markets protect farmers.
- Clearly defined competitive target in both cases is imports
- National organizations emerge to deal with policy agenda
- Competition among three regions → national market integration

Different Features

- Different natural resource endowments
- Different agricultural policy foundations and different government structures
- **Different drivers behind business model innovation**
- Different mixes of competition/ cooperation within the business system
- Technology plays a different role
- Different constraints to growth
- Different sources of risk capital
- Different modes of engaging small scale farmers

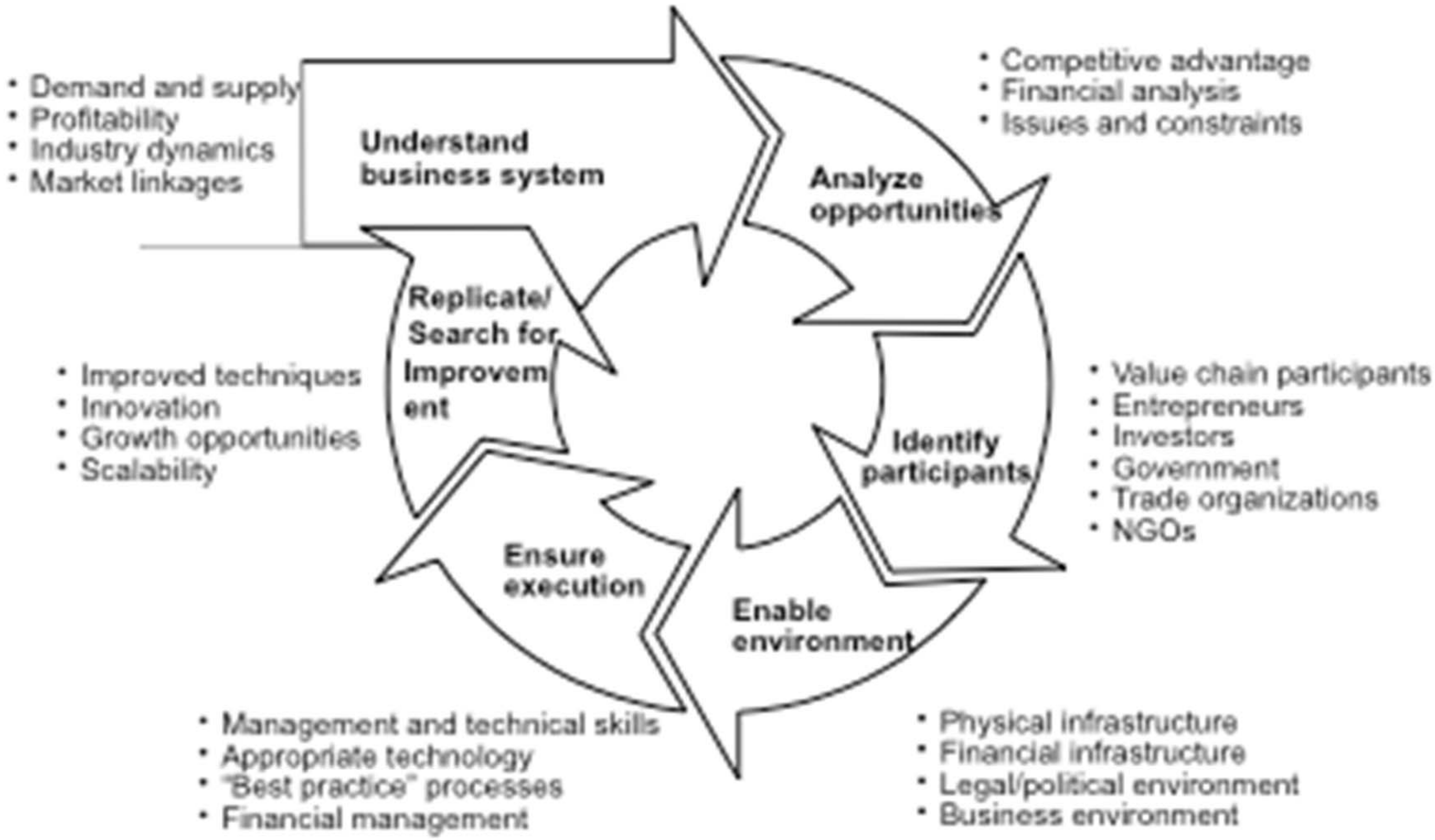
Third Party Induced Industry Growth



Mozambique Poultry

- Domestic market for frozen broilers has grown from 4.5 million in 2005 to 23 million in 2009. CURRENTLY at 40 MILLION.
- From 2005-2009 consumption increased annually at 21%.
- 20 million birds produced in 2007, of these 12 million frozen birds sold through formal channels and 8 million live birds through informal channels
- Brazil is primary competition; Rising real and increasing grain prices blunt its competitiveness.
- Until 5 years ago imports of “second hand” frozen boilers was the major constraint to growth of a local industry
- Result of: i) strong management skills, poultry producers Mauritius, Zimbabwe and Portugal; ii) appropriately adapted business models; iii) relatively low cost inputs.
- Eleven processors are at the core of the industry. Three leaders have emerged: one each in the North, Center and South.
- 5000 small famers are involved: 55% small scale, 30% small scale commercial, 15% large scale commercial. In 2005 no more than 10 commercial poultry farms existed in Mozambique.

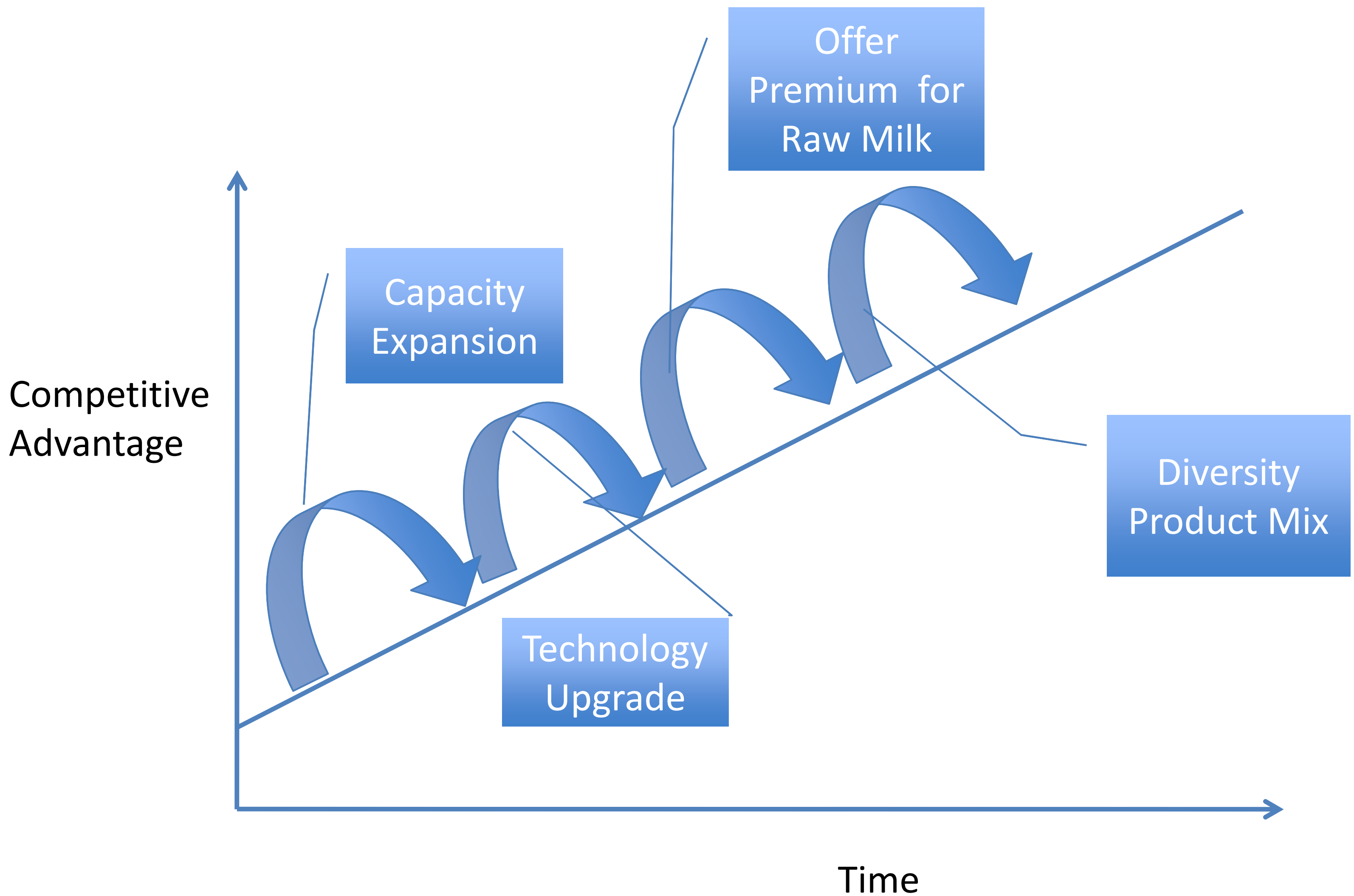
FRAMEWORK FOR INDUSTRY DEVELOPMENT



Internal Poultry Dynamics

- One of the “big three” anchor production in each of Mozambique's three regions. UGC in the Maputo Region; Abilio Antunes in Manica Province; and Belos Horizontes in Nampula. Each region enjoys a different set of competitive advantages. All relentlessly focus on the basics of cost control and produce quality improvement.
- During the period 2005-9, $20.5 million has been invested in the industry. Clusters of look-alike producers have emerged around the three leaders, where input costs are low, transport to major city centers is low and climates are suitable for poultry production.
- Links in the supply chain are stronger and better integrated: i) breeder farms, ii) hatcheries (day old chicks); iii) poultry feed factories; iv) broiler farms; vs.) egg producers; vi) abattoirs; vii) suppliers of specialized poultry equipment.
- The AMA has emerged to promote industry development, both through technical support and market expansion. It has also become the primary advocate.

Leap Frog Competition



Malawi Dairy

- Malawi's dairy industry is growing at 15% per year…..faster than its GNP.
- Imports have been progressively declining over the past 3 years and now account for less than 50% of consumption.
- At the same time consumption is increasing albeit from a low case. Currently stands at 6 liter/capita compared with Kenya's 30-35 liters.
- The industry has been liberalized for only 10 years. Multiple new dairy business models have started up in the interim period.
- The industry's regionally circumscribed structure has changed fundamentally as well since privatization. An integrated and open national market now exists.
- Zambia and Zimbabwe are the industry's primary foreign competition. Rising milk power prices and the adoption of UHT processes in Malawi have countered this competition and Malawi's dairies are beginning to export.
- Until 5 years ago the Malawi dairies had no response to imports of steri-milk and flavored and diverse milk products. Today, among the major dairies a great deal of new product development is underway. Dairies have found a way to more fully utilize their new UHT equipment by using it to produce new non-dairy food products.
- Result of: i) strong management skills; ii) appropriately adapted business models; iii) relatively low cost inputs.
- Ten processors make up the industry. Three leaders have emerged: two in Lilongwe and one in Blantyre.
- 8000 small famers are involved in the industry. Most of these in the North and Center.

Internal Dairy Dynamics

- The “big three” include: i) Lilongwe Dairies (2001) pioneer in UHT processing, buying raw milk in the South and contracting directly with MBG’s, It sells into Zambia. Ii) Suncrest (2000) has strong logistics competencies and is keen to develop an extended line of both dairy and non dairy products which can be produced with its new UHT packaging equipment, iii) Dairiboard Malawi Limited is a sister company to Zimbabwe’s largest dairy. It imported steri milk until 2009 when it opened its own UHT line. Each of the big three enjoys a different set of competitive advantages and different logistics challenges in the new national market.
- Two leading supermarket chains facilitate access to the entire national market for new startup dairies. These two chains, PTC and Shoprite, serve the entire country and their procurement rules define the common basis of competition among dairies, their requirement that dairies make store direct deliveries requires them to build up strong logistics capabilities.
- The informal market is estimated to be about the same size as the formal market. Prices in this market are 40% lower than in the formal market. Quality is poor, however.
- Approximately 95% of raw milk comes from small holder farmers. Their production can be characterized as low input/low output. Surge supply can be evoked in the short term when prices of raw milk rise sufficiently to justify more inputs on the part of farmers.
- Advantages of dairy production in Malawi include: i) highland ecologies are conducive; ii) low input, low output production supplies low cost milk reliably; iii) strong farm to processor chains.
- MBG’s are organized under three regionally based producer associations. Of these Shire Highland Milk Processors (SHMPA) is the most effective and dynamic. It delivers milk under three supply contracts and effectively manages the national market through its contract negotiations.
- The a National Dairy Forum has taken shape. It is industry’s primary advocacy organization. .

Lessons Learned

- Agribusiness competitiveness comes from quickly learning…..from experimentation…… from testing new business models, new business processes and new technologies through competition.
- Competitiveness improves when challengers are slow to change and when a few investors are prepared to lead.
- Different drivers appear to work in this process. Two models here third party facilitator and round robin market leadership.
- In both cases a combination of competition and competition is required to move forward
- Markets for corporate control facilitate restructuring, clean up messes and reduce risks