

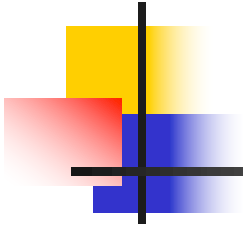
# Chapter 4:

## The Organization of an Agribusiness



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# Objectives

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- Factors in selecting the best organizational form
- Proprietorships, partnerships, corporations, cooperatives, limited liability companies, and strategic alliances
- Advantages and disadvantages of different organizational forms



# Objectives

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- Special forms of partnerships
- Types of partners
- Scope and scale of cooperatives
- The role and impact of individual and corporate tax laws on a firm's organizational structure



# Factors Influencing Choice of Business Form

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1. What type of business is it, where will it be conducted, and what are the owners' objectives and philosophies for the agribusiness?
2. How much capital is available for the firm's start-up?



# Factors Influencing Choice of Business Form

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3. How much capital is needed to support the agribusiness?
4. How easy is it to secure additional capital for the agribusiness?



# Factors Influencing Choice of Business Form

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5. What tax liabilities will be incurred and what tax options are available?
6. How much personal involvement in the management and control of the agribusiness do the owners desire?



# Factors Influencing Choice of Business Form

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7. How important are the factors of stability, continuity, and transfer of ownership to the firm owners?
8. How desirable is it to keep the affairs of the agribusiness private, and carefully guard any public disclosure?





# Factors Influencing Choice of Business Form

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9. How much risk and liability are the owners willing to assume?
10. How much will this form of organization cost and how easy is this form of agribusiness to organize?



# Single Proprietorship

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An organization owned and  
controlled by one person or family



# Advantages of Proprietorships

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- Minimal legal requirements
- Owner has complete control over the business
- All profits, losses, liabilities are vested in the proprietor
- Costs of organizing and dissolution are low



# Advantages of Proprietorships

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- Business affairs are completely confidential
- Lenders base decisions on owner's assets
- Proprietors have total discretion for selling the business
- Proprietors pay no business taxes



# Disadvantages of Proprietorships

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- The owner is personally liable for all debts and liabilities of the business
- Limited amount of capital funds
- No business taxes may be a disadvantage



# Disadvantages of Proprietorships

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- Not being able to share the control may limit highly trained employees
- Proprietorships lack stability and continuity because they depend on one person



# Partnerships

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- The association of two or more people as owners of a business
- Agreements can be written or oral
- Two primary types:
  - General partnerships
  - Limited partnerships



# General Partnerships

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- Each individual partner has equal rights and liabilities unless stated otherwise in a partnership agreement
- Each partner is liable for all partnership debts and may share profits equally with other partners





# General Partnerships

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- Each partner can bind the partnership to fulfill any business deal made
- There is no business tax for general partnerships



# Limited Partnerships

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- Individuals are permitted to contribute ownership capital without incurring the full legal liability of a general partner
- A limited partner's liability is limited to the amount that person has invested in the business



# Limited Partnership

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- The limited partner can contribute capital but not services
- The limited partner's surname cannot appear in the business's name



# Advantages of Partnerships

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- They are as easy to start as proprietorships
- Low cost to set up, though may involve attorney to draw up partnership agreement



# Advantages of Partnerships

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- More resources because more people involved than in proprietorship
- Taxes are paid by individuals on their share of the profits
- Partners may sell their interest in the business if other partners agree



# Disadvantages of Partnerships

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- Unlimited liability of each general partner
- Partnerships have a limited number of members
- Lack of continuity and stability
- Being taxed as individuals can be a disadvantage



# Types of Partners

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- General partner
- Limited partner
- Senior partner
- Junior partner
- Secret partner
- Silent partner
- Dormant partner
- Nominal partner



# Corporation

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A special legal entity endowed by law with the powers, rights, liabilities, and duties of a person

➤ Special case: nonprofit corporations





# Stock of the Corporation

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A share of stock: a legal document representing each person's amount of ownership in the organization



# Types of Stock

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- Common stock: includes the privilege of voting for the board of directors
- Preferred stock: non-voting but preferred position for dividends and liquidation



# Advantages of a Corporation

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- Stockholders (owners) not personally liable for the organization's debts
- Transfer of ownership is easy
- Relatively easy to raise equity capital
- Corporation is perpetual



# Disadvantages of a Corporation

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- Taxes are paid twice
- More regulations on corporations
- A lack of privacy
- Individual stockholders may have little or no control over management/policies



# Closely Held Corporations

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S-corporations allow owners of a corporation to be taxed as individuals

- Limited to 75 stockholders
- Stockholders must be individuals
- Passive income must be ☒ 25%



# Cooperatives

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- Organizations owned, operated, and controlled by members
- The basic purpose is to serve the needs of patron-members rather than make a profit for investors



# Cooperatives Are Committed to:

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1. Helping members improve prices received and/or reduce prices paid
2. Helping members find markets and/or improve negotiating position
3. Providing economic and/or operational benefits to member-owners



# Types of Cooperatives

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## Food and Agricultural Cooperatives

- Marketing
- Agricultural inputs
- Finance and banking
- Service
- Grocers





# Types of Cooperatives

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## Non-agricultural Cooperatives

- Mutual insurance companies
- Housing cooperatives
- College campus bookstores
- Auto parts dealers
- Many others ...



# Unique Business Features of Agricultural Cooperatives

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1. Member controlled, member owned
2. Operation at cost
3. Limited returns on capital



# Member Controlled, Member Owned

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Cooperatives must be owned and controlled by the people conducting business with them:

- Typically, one vote for each active patron-member
- Members' Board of Directors controls the cooperative



# Operation at Cost

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- Net income distributed to members proportionally to the volume of business done with the cooperative
- Net income not distributed taxed at corporate income tax rate



# Operation at Cost

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- Patronage refunds distributed:
  - Annually
  - Consistent with standard accounting procedures
  - Regardless as to how much earned on individual transactions



# Operation at Cost

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- Revolving fund financing
  - Patronage refunds issued in the form of stock or equity allocations instead of cash
  - Cash earnings can be retained while satisfying the obligation to return excess of income over expenses



# Limited Returns on Capital

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- Returns on capital cannot be greater than the going interest rate or 8%
- Ensures that members holding stock in the cooperative don't see it as an investment



# Capper–Volstead Act of 1922

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Ensures the right of farmers to organize and market their products collectively so long as:

- The association conducts at least half its business with members
- No member of the association has more than one vote, or
- Stock dividends limited to 8%





# Rochdale Principles

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1. Capital should be of own providing and bear a fixed rate of interest
2. Only the purest provisions procurable should be supplied to members



# Rochdale Principles

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3. Full weight and measure should be given
4. Market prices should be charged and no credit given nor asked
5. “Profits” should be divided pro rata upon the amount of purchases made by each member



# Rochdale Principles

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6. One member, one vote should govern, and there should be equality of the sexes in membership
7. Management should be in the hands of officers and committees elected periodically



# Rochdale Principles

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- 8. A definite percentage of profits should be allotted to education
- 9. Frequent statements and balance sheets should be presented to members



# Limited Liability Company (LLC)

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Similar to a partnership but with  
limited liability for the partners



# Advantages of LLCs

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- Can include any number of members
- Ownership and net income distributed according to proportion of assets contributed
- Taxes paid only by individuals
- Not required to file articles of incorporation



# Disadvantages of LLCs

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- Fringe benefits cannot be deducted
- Organization is not automatically perpetual



# Strategic Alliances

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Cooperative agreements between firms beyond normal firm-to-firm dealings





# Advantages of Strategic Alliances

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- Collaborate on technology or new product development
- Improve supply chain efficiency
- Gain economies of scale
- Fill voids in expertise
- Improve market access
- Increase competitive advantage



# Disadvantages of Strategic Alliances

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- Effective coordination can be challenging and time consuming
- Possible language/cultural barriers
- Information is shared but relationship may cool
- Firms may become dependent on other firms, making them vulnerable



# Chapter 5: International Agribusiness

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# Objectives

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- Why agribusinesses may choose to seek out international markets
- The importance of international markets to U.S. food and agribusiness firms



# Objectives

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- Challenges facing agribusinesses when pursuing international markets



# Objectives

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- How a society's culture shapes the operating environment for an international firm
- Methods that food and agribusiness firms might use to enter international markets



# Table 5.1a Benefits from Doing Business Internationally

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- Grow sales
- Take advantage of scale economies
- Capture benefits of a global brand
- Reduce risk by diversifying across markets
- Lower costs of production



# Table 5.1b Benefits from Doing Business Internationally

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- Access lower-cost raw materials through international sourcing
- Broaden access to credit
- Leverage experiences from operating in international markets into domestic market





# Key Factors Helping Small Agribusinesses Market Globally

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- Many emerging markets since WWII
  - Eastern Europe, India, Latin America, China
- Improvements in technology make international communication easier
  - Computers, modems, email, telephone, cell phone, fax



# Global Marketing vs. International Marketing Management

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- Global marketing:
  - Based on identifying and targeting cross-cultural similarities
- International marketing management:
  - Based on the premise of cross-cultural differences—each country needs its own marketing strategy



# International Agribusiness Trends

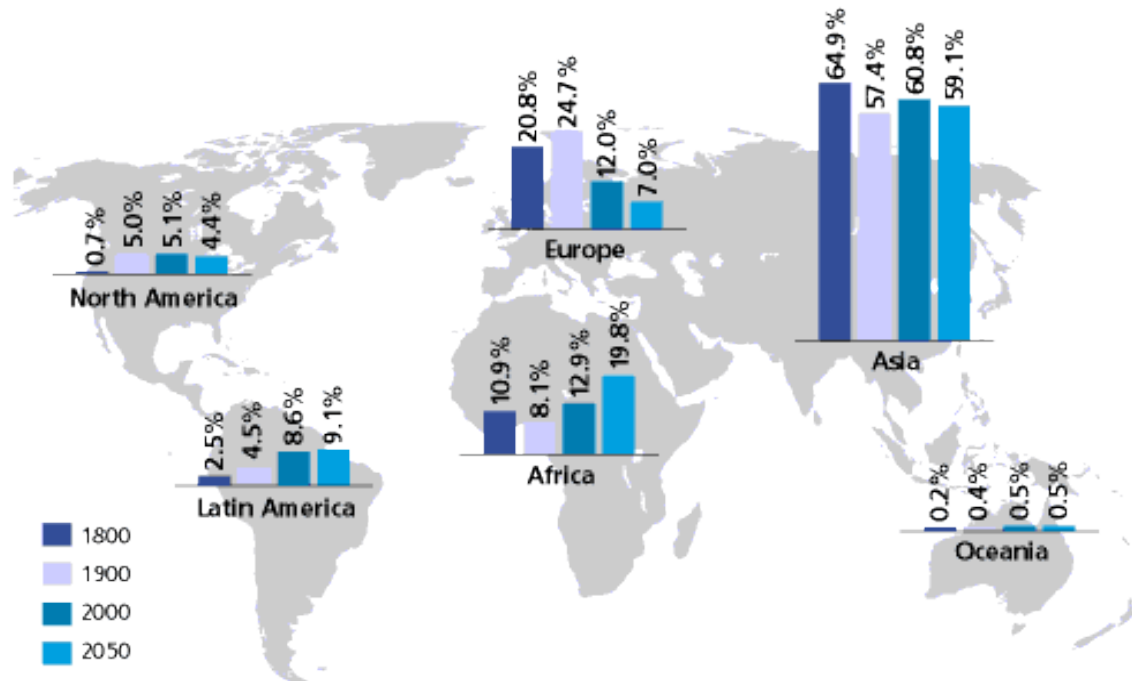
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## Growing global population

- Increased population growth
- Increased income controlled by upper income bracket of the population
- More urbanization

# Figure 5.1

## World Population Growth





# International Agribusiness Trends

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U.S. food industry is growing abroad

- International trade is increasing faster than domestic sales
- Growth prospects for U.S. consumer food products are shifting toward developing countries



# Table 5.2 Characteristics of Developed and Developing Markets for Food

**Table 5.2. Characteristics of Developed and Developing Markets for Food**

<b>Developed Countries</b>	<b>Developing Countries</b>
<b>Saturation</b>	Increasing demand
<b>Food safety</b>	Food security
<b>Buyer's market</b>	Seller's market
<b>Concentration</b>	Fragmentation

# Table 5.3 USDA Agricultural Trade Values

Table 5.3. USDA Agricultural Trade Values					
	2007	2008	2009	2010	2011 <sup>1</sup>
	Billion Dollars				
<b>Agricultural exports:</b>					
Livestock, poultry and dairy	16.36	21.77	18.63	21.54	23.0
Grains, feeds and products	24.30	38.33	26.28	27.29	35.4
Oilseeds and products	13.67	22.81	20.87	25.37	28.3
Horticultural products	18.02	20.79	20.63	22.61	24.3
Tobacco, unmanufactured	1.14	1.28	1.20	1.22	1.2
Cotton and linters	4.29	4.75	3.51	4.76	8.0
Other exports	4.44	5.18	5.18	5.87	6.3
<b>Total agricultural exports</b>	<b>82.22</b>	<b>114.91</b>	<b>96.30</b>	<b>108.66</b>	<b>126.5</b>
Bulk commodities exports	31.57	50.65	36.80	41.03	NA
High-value product exports	50.65	64.26	59.50	67.64	NA
High-value product share	61.6%	55.9%	61.8%	62.2%	NA
<b>Agricultural Imports</b>					
Livestock, poultry and dairy	12.03	12.18	10.68	10.84	11.5
Grains, feeds and products	5.99	7.88	7.37	7.48	8.2
Oilseeds and products	4.03	6.59	5.35	5.27	5.6
Horticultural products	32.39	34.71	33.02	35.55	38.5
Sugar and tropical products	14.14	16.36	15.34	18.32	20.3
Other imports	1.48	1.6	1.64	1.49	1.4
<b>Total agricultural imports</b>	<b>70.06</b>	<b>79.32</b>	<b>73.40</b>	<b>78.95</b>	<b>85.5</b>
<b>Net agricultural trade balances</b>	<b>12.16</b>	<b>35.59</b>	<b>22.9</b>	<b>29.71</b>	<b>41.0</b>
<b>Agricultural exports (volume)</b>	Million Metric Tons				
Bulk commodity exports	125.61	138.89	115.30	128.91	139.5

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# Characteristics of Developed and Developing Markets for Food

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## Developed Countries

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- Saturation
- Food safety
- Buyer's market
- Concentration

## Developing Countries

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- Increasing demand
- Food security
- Seller's market
- Fragmentation





# International Agribusiness Trends

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Increased proportion of U.S. agricultural exports are value-added products

- Incomes have increased, spurring demand for high-value products (HVP)
- Import barriers have fallen



# International Agribusiness Trends

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## World Trade Organization (WTO)

- Reduce tariffs on manufactured goods
- Eliminate non-tariff barriers
- Mediate trade disputes
- Challenge regulations impeding international trade



# Challenges in International Markets: Cultural Differences

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- Sense of self and space
- Communication and language
- Dress and appearance
- Food and eating habits
- Time and time consequences
- Relationships
- Values and norms
- Beliefs and attitudes
- Mental process and learning
- Work and work habits



# Responding to Cultural Differences

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- Product adaptations
  - Product and/or marketing
- Individual adaptations
  - Language/social norms
- Institutional adaptations
  - Hiring practices/organizational structure



# Other Challenges in International Markets

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- Exchange rate fluctuations
- Accounting differences
- International law and property rights issues
- Sanitary and phytosanitary regulations (SPS)
- Management challenges



# Entering International Markets

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- Modes of Entry

- Exporting

- Licensing

- Investing in foreign production



# Exporting

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- Indirect exporting
  - Uses a trading company or an export management company
  - Provides expertise and market connections
- Direct exporting



# Licensing

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- Company (licensor) contracts with a firm (licensee) in the target market to produce and distribute the product
- In return, licensor receives a fee or royalty





# Direct Investment in Foreign Production

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- Greenfield investments
  - Direct investment by a firm into a particular country (new plant, new distribution)
- Joint venture
  - A strategic alliance with a firm in a country to share resources, production, marketing, or financing



# Direct Investment in Foreign Production

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- Acquisition

- Purchasing a firm or controlling interest in a firm in a foreign country
- Uses existing distribution, plant, employees, etc.



# Choose to Export in International Markets when...

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- Financial resources are small
- Little experience in the new market
- Barriers of trade for product do not exist
- Target market is small
- Growth potential is limited
- Barriers to investment and ownership exist
- Control of market is unimportant
- Globalization is not a high business priority
- Foreign market is unstable
- Foreign market is culturally “distant”



# Choose to Invest in International Markets when...

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- Financial resources are large
- Experienced in new market
- High barriers to trade exist
- Target market is large
- Growth potential is high
- Barriers to investment or ownership do not exist
- High desire for market control
- Firm's goals include an international presence
- Stable political and economic climate
- Market is culturally “similar”



# Start-Up Strategy

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Markets are evaluated for their overall profit opportunities:

- Market size
- Rates of growth
- Adaptability of the product to the country's culture
- Consumer income levels
- Political and economic climate of the country



# Start-Up Strategy

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Choose strategy to enter the market:

- Initial entry typically through exporting the firm's products
- Follow with licensing and/or investment in production facilities in the country