

## What is E-Agribusiness, and What Changes Online?

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As agribusinesses consider online strategies they must be guided by simple business planning; a sound business model, the integration of on and offline management and marketing strategies, and an understanding of why they need to develop into an E-Agribusiness. This report provides new definitions for E-Agribusiness and discusses the implications of the technology and practices involved.



The desire for “first-mover advantage” drove much of the early dot.com craze. Business models were centered on using unique technical ideas to capture large amounts of venture capital available in a robust economy, regardless of the model’s viability. Businesses are now beginning to understand that being first should not be the priority. There may indeed be first mover disadvantages. Firms may be better served by following the success of others online and thereby not making the same mistakes.

### Definitions

**E-Business:** business that uses computer media and involves a minimum of two players.

**E-Marketing:** marketing strategies and activities within a computerized, networked environment such as the Internet.

**E-Commerce:** business conducted over the Internet in which a financial transaction or binding commitment to exchange goods or services occurs.

**Agribusiness:** the agricultural input, production, the processing-manufacturing and retail sectors; providers of farm inputs, farmers, processors of farm outputs, manufacturers of food products, and those who transport, sell, and prepare food products.

**E-Agribusiness:** is an E-Business that focuses on agricultural and food products or related services.

### “New” Online Marketing and Management “Rules”

Businesses operating in the online marketplace need to recognize some changes up front — easier said than done for existing firms. Most critical among these, we find, are:

**Speed and time compression.** Perhaps, the most dramatic changes when moving online. The increasing velocity of business and transparency of the Internet allow competitors to know instantly what their industry is doing, permitting rapid imitation. Time zones disappear and there is pressure on the firm to deliver faster.

**Consumers have increasing power.** Buyer attention is a scarce commodity so competition for their attention is fierce. This makes customer relationship management even more important online.

**Geographic location may no longer be critical.** Some online markets are larger than the local or regional market that may have preceded them. But barriers to trade still exist. Different local sales laws, tariffs and taxes can cause confusion; costs of international marketing strategies are increased by cultural requirements for differentiated products or presentation online; and transportation costs remain high for many agricultural products.

**Managing information** is key. Customer information is inexpensive to gather, store, mine - if the firm has a plan. However, businesses are increasingly swimming in data. Converting that data to knowledge is critical for future success in a digital economy. Data management – and, more importantly, knowledge management – brings new costs in equipment, personnel, and management structure. At the same time, security concerns involving information technology (IT) increase both direct costs in infrastructure, and indirect costs in customer relationship management.

**Intellectual capital and entrepreneurship** are often more valuable than physical assets for an E-Business. However, recent evidence in the “dot-com shakeout” has demonstrated that the stock market does not understand how to value these assets.

### **What Strategies can an E-Agribusiness Follow?**

The Internet’s ability to offer pricing information to buyers at any time requires a dynamic pricing strategy. Many pricing strategies are centered on cost savings from lower fixed or variable costs. While long-run costs for an E-Agribusiness may prove to be lower than traditional businesses, short-run costs may not be. Many firms have incorrectly made online prices as low as possible, attempting to profit on scale. It is critical they understand the motivation of their online customers. Market segmentation is critical in any pricing strategy. Some are after price advantages, but others focus on services. Some are driven by the enhanced ability to manage time. Some are simply following the lead of colleagues or competitors.

**Service Strategy.** Firms adopting a service strategy for their Internet ventures focus one of two directions to reduce costs; improve quality, and increase speed of services. The first is not particularly unique to E-Agribusiness. In the second area IT can be used to manage and conduct customer service aims to gain a competitive advantage and improve internal business processes.

**Business Process Strategy.** This strategy works to automate business transactions and workflows. IT can link a firm with its supply chain. Supply-chain management is a (B2B) strategic tool for a firm’s competitiveness. It allows the firm to lower costs, serve customers better, and speed up cycle times. However, as the number of variables influencing managerial decisions increases, so the process becomes more important. More information should lead to better decision-making, but can be overwhelming. Firms can spend too much time looking at the data rather than the trends. Therefore, E-Agribusinesses need to have a strategy for evaluating information and its implications.

**Information Technology Strategy.** IT is an enhancing or enabling tool; it provides new opportunities, but it does not eliminate normal strategic process. IT can enhance customer satisfaction, help customize a product for customers, and generally be a value-adding proposition for businesses. Yet to be efficient, IT investments must be strategic, frequently evaluated for their performance, and not simply be unplanned or “cash” expenses.

**E-Agribusiness Management.** To capture advantages from business models firms must adopt management systems flexible enough for the rapidly changing online environment. Pursuing new business models requires an innovative orientation and comfort with frequent revisions and updates. The key is integrating strategies between the various business units within the firm. How does the E-Agribusiness venture influence other products? How do IT and marketing activities blend? These are the practical questions for E-Agribusiness management.

### **Unique Constraints when Adopting E-Agribusiness Strategies:**

We basically argue that there is little difference between E-Businesses, regardless of sector. However, agribusinesses do have some uniquenesses that must be recognized.

**Internet connectivity** is still a greater problem in rural areas and small towns where agribusiness is located. The cost of interacting with the rest of one’s supply chain via IT connection, for example, will typically be higher the further the firm is away from a big city.

**Inconsistency of IT deployment** across regions and through supply chains also creates constraints within an increasingly integrated global industry. As responsiveness and speed of business are critical to the success of E-Agribusiness, any technical constraints are impediments to the growth of the industry.

At the same time, *farmers have been somewhat slower to adopt* computer and Internet technology than the average American. Some of this is related to place. Some is related to age (older individuals adopt computing more slowly) and personality traits that resist spending additional time inside doing record keeping. And some of the slowness to adopt comes from an inability to see returns to the cost of converting existing operations to computerization. Each of these factors suggests that E-Agribusiness is unique and, therefore, require further analysis.

#### **About the research**

*The conceptual work behind this report comes from an independent project involving the authors. Ongoing research within OSU’s E-Agribusiness Working Group (<http://aeede.osu.edu/programs/e-agbiz/>) is testing these concepts. This group is made up of researchers from The Ohio State University with interests in economics, marketing, management, consumer sciences, and communication of E-Business and Information Technology issues in agricultural and food industries.*

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