

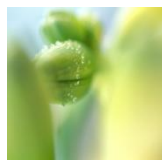
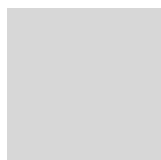
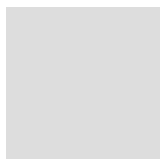


Agricultural policy in the service-driven economic system

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Introduction



- Changes in the structure of the economy from industrial *product-driven* to the post-industrial *service-driven* economic system.
- Service sector have started to dominate in the economic system.
- In the last decade of 20th century revealed new tendency to *provide services* not only by specialized service companies but also by industrial or agricultural enterprises. This new tendency to organise business was called “*servitization*”.
- The movement is pervading almost all industries but still is weak in agriculture.



Aim of the presentation



The aim of this presentation is:

- to demonstrate an agricultural sector-specific picture of servitization and discuss the *differences* between the business models of *product-driven and service-driven farms*;
- to analyse the needs and perspectives to develop agricultural policy in line with the *success factors of the service-driven economic system*;
- highlight the main new *post-industrial rural policy trends*, which corresponds to the needs of new farmers' generation in the new programming period after 2020.



Limitations of an industrialized agricultural business model



- Massive industrialization of agriculture has started after the Second World War.
- The success of an industrialized farming system was based on a business model combining three production strategies: **extensive growth**, **intensification** and **specialization**.
 - The extensive growth strategy was implemented by increasing the amount of financial capital used in agricultural production, thus achieving the *growth of production volumes* and gaining a *scale effect*.
 - The strategy of intensification was implemented using work process automatization, Green revolution technologies and standardized production organization methods, which allowed producing *more output with the same amount of resources*.
 - The specialization strategy was implemented by choosing to produce only those products that allow a particular manufacturer *to gain a competitive advantage*.



Limitations of an industrialized agricultural business model



At the end of the 20th century, the success of business model oriented to the:

- scale-effect
 - intensification of productivity
 - narrow specialization
- have ended.





Growing list of factors that have a negative impact on the attractiveness of farming:

- Dramatic increase in labour productivity and the use of monetary and agricultural policy tools have *eliminated the food shortages* in developed countries caused by the World War II.
- The *increase in gross production* volumes became undesirable.
- Constantly *increasing costs of production* (reason of so-called 'technology mill' effect).
- Increased *requirements for quality of products* requested of food industry and retailers.
- Farmer's ability to meet the *criteria for product diversity* and presence.





Growing list of factors that have a negative impact on the attractiveness of farming:

- Flexibility to supply products and the availability of *higher-quality product labels*.
- Growing *requirements for nature protection* (additional investments to comply with newly introduced environmental standards, animal welfare standards and sanitary measures).
- *Growing dynamism* of the business environment (free market and free trade model).
- *Globalization of the economy* (changes in liberalized markets for food, energy and other agricultural commodities).



Limitations of an industrialized agricultural business model



- Assessing the growing impact of the above listed factors, farmers begin to consider *farming as a risky and unattractive activity*.
- Rural policy has faced the challenge to find new measures to support the sustainability of farms. New agricultural policy measures were introduced for farmers to change strategy of specialization to *the strategy of diversification*.
- In the countries of high economic development in the last two decades is not only the *lack of successors* to family farms, but also *the lack of individuals* who wish to take farms of retired farmers.





- Servitization process was started by industrial companies producing technically sophisticated equipment and vehicles.
- In addition to their core production, they provided services in financing, operating, maintaining and updating their own or other manufacturers' products installed in the production process.
- Examples: Rolls Royce (produces jet aircraft engines), the Xerox Company (producer of copier makers).



Service-driven business model of new farmers' generation



- The level of servitization processes in agriculture is low.
- A group of farmers is emerging, called the '*new farmers' generation*', aiming to find alternatives to the business models that existed during the industrial stage of the agricultural sector in the servitization framework.
- Aim at the beginning – *to shorten food supply* chain by creating farmers' markets and start direct selling of farm products to the end-users.
- The new generation of farmers has started *new initiatives* to develop alternative local food markets, revitalizing traditional farmers markets in cities, creating shops in their own farms, delivering food to the customer's home or workplace, etc.



Service-driven business model of new farmers' generation



Later farmers have started to use *more complex systems* as 'product plus service' or 'resource access plus service':

- rental of a garden or kitchen-garden;
- community-based farming;
- service provision for other business where farmers gives certain service to other farmers;
- companies using serviced business model and producing various agricultural machinery, to lease rather than buy farming equipment.



Tendencies of new agricultural policy of the European Union after 2020



- Important direction of innovation is *adaptation of other business organizational models*, opening up many new opportunities to increase the efficiency of service providers and business sustainability.
- In this century it is important *the reduction of business risk*, as the widespread *use of informational and communicative technologies* has not only high positive influence on the productivity of the service sector, but also undesirable consequences.
- New opportunities to get requested information immediately and ability to manage this flow have created an *extremely dynamic business environment*.



Tendencies of new agricultural policy of the European Union after 2020



- It is important to create *the opportunity to obtain loyal consumers* and reduce the number of competitors.
- Instability and *unpredictability of the business environment* are very important, if not the most important, factor for servitization of industry and agriculture.
- Unfortunately, in the current documents defining agriculture and rural development in the EU, the term 'servitization' is not mentioned at all.



Tendencies of new agricultural policy of the European Union after 2020



There is given little attention to the interests and plans of the new farmers' generation when planning financial support tools.

Transition to a *business model with elements of servitization* requires radical changes in the paradigm of agricultural and rural development policies.

The EU needs to develop agricultural policy in the new programming period after 2020 *in line with the success factors of the service-driven economic system*, which corresponds to the needs of new farmers' generation oriented towards servitization of farming:

- propose policy measures to support the use of cooperation strategies;
- business model based on the paradigm of co-creation.



Tendencies of new agricultural policy of the European Union after 2020



The key future objective of improving the EU's agrarian and rural policies is to provide support measures to encourage ***innovative cooperation between farmers, as service providers and their consumers***, to implement a variety of cooperation models.



Conclusions



- Business *vision of a new generation of farmers has a great potential* because it is based on the *success factors of a post-industrial economy*.
- Conservative *policy-makers are sceptical* about the ideas offered by the new generation of farmers to create a sustainable source of income for the *production of customized food or other services*.
- Establishment and support of innovative business farms based on the *concept of servitization can become an effective tool* for development of the economy of rural regions, and formation of a *new, socially responsible culture of consumption* and a healthier diet and lifestyle habits.





Thank you for your attention!

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