

Value Chains in Agriculture

Input Supplies

For a producer to start producing agricultural products, he/she needs to acquire the correct inputs. These inputs differ between the various sectors but usually included:

- Seed
- Fertilizer
- Chemicals
- Machinery & Equipment
- Diesel
- Electricity
- Water
- Finance
- Insurance

The input sectors span a wide variety of product segments like providing nutrition; protection against diseases, pest and weeds; improving efficiency with which can be cultivated and harvested; and providing services to farmers such as credit or insurance.

Primary Production

Farming/primary production is the riskiest activity in the value chain, subject to changes in weather and market volatility. However, in good years it is also potentially the most profitable. Primary producers utilise the inputs and natural resources to produce agricultural products that, in its turn, is sold to processors or direct markets.

Processing and Distribution

Much of the value added in the food chain happens at this stage and margins are commonly in the range of 10-20 percent. Within the food processing sector there are several distinct subsectors each with its own characteristics, for example meat, dairy, beverages, sugar, snacks and food service. Companies can vary in size from large multinationals, several of which employ over 100,000 people, some of which can trace their origins to the 19th century, to SMEs.

Marketing

As with the other stages of the agri-food value chain, retailers can vary greatly in their characteristics, size and format. Food on average accounts for around 50 percent of retailer's sales. Sales includes processed food such as baked goods, meat, dairy, snacks and beverages. Margins are low and supply chain efficiency is paramount.

Depending on the food type, retailers may source products from any of the three previous steps in the value chain: food companies, traders and farmers. As the primary interface with the consumer, in addition to responding to consumer preferences, retailers can play a significant role in influencing them, especially in matters concerning healthy eating and sustainability.

Consumption

The value chains in the agri-food sector has shifted from producer-driven chains to consumer-driven chains. High demands of consumers, such as year-round availability of produce, consistently high quality, more diversity and safe, traceable products that are produced in a sustainable manner, shifts the decision-making process of value chain stakeholders so that they focus on the fulfilling needs and demands of consumers (Standard Bank, 2017).

In recent years, the consumer demand for 'buying local' and 'knowing your farmer' has created the need for shorter, less complex value chains.

Value Chain Analysis

The purpose of value chain analysis is to:

- Analyse the industry and the value chain participants,
- Identify challenges and opportunities to improve the performance of the chain for the benefit of all the stakeholders, and
- Capture the interaction of the dynamic and complex markets.