



Survival of Macedonian Agribusiness during the Global Economic Crisis

Macedonian agribusiness is about to enter a very challenging period. Export markets for agriculture-based products are weak, as demand is anticipated to be less than last year due to employment considerations. Yet early indications are that the output of Macedonian agricultural products this season will be even greater than last year due to higher subsidies and good early season growing conditions. Domestic market consumption is very unlikely to increase significantly, so where is the additional production going to be sold? Therefore, agricultural products prices are likely to decline, and significant price decreases will put great pressure on producers' margins and net incomes.

Processors and marketers of agriculture-based products also face problems. Many have not been paid for their last year's sales due to financial problems of their buyers, especially the large regional supermarket chains who are delaying payments to their suppliers. This causes processors and marketers cash flow problems at a time when they need to purchase raw materials for this season. And as noted, they are facing weak export demand for their products, and, reluctance on the part of potential new customers to take on unproven suppliers.

So while there may be an ample supply of reasonably priced raw materials for agribusinesses, how to capitalize on this potential benefit is their challenge.

Around 75% of the Macedonian exports of agriculture-based products that AgBiz supports are sold to ex-Yugoslav markets. Therefore, it is important to retain and even increase Macedonia's market share in these markets. However, these markets are increasing in complexity and their product and service requirements, so Macedonian products are losing out to more acceptable products from more advanced suppliers in countries such as Italy and Spain, so competitiveness improvements are needed.

Given the pressure for increased exports caused by a growing supply of raw materials, plus the need to increase exports for balance of payments and economic growth purposes, new sales are needed to EU and other export markets. This is an especially difficult challenge for most Macedonian agribusinesses due to their low level of readiness to compete in these advanced markets. Therefore, agribusiness competitiveness enhancement is especially important in current and new EU markets.

USAID's AgBiz Program has been helping Macedonian agribusinesses to enhance their export competitiveness for more than two years. During that time the Program has observed some opportunities for Macedonian agribusinesses to capitalize on the current situation, or at least minimize the negative impact of the global economic crisis. Here are some of our suggestions.

- **Implementation and Certification of Globally Accepted Food Safety Standards**

Adopt and become certified for globally accepted food safety standards such as GlobalGAP and HACCP. Even though the Government of Macedonia has further delayed HACCP implementation, having GlobalGAP certified raw product suppliers, and an internationally recognized HACCP certification will give an exporter a competitive advantage in the more developed EU markets, since customers there consider these certifications important supplier attributes. AgBiz is currently supporting GlobalGAP implementation and certification for 14 producers and HACCP implementation and certification for 6 agribusinesses.

- **Understand in Depth Customer Requirements in Current and Potentially New Markets**

Investigate and understand in-depth current and potential new market requirements. If an agribusiness doesn't understand the dynamics and structure of a market, they cannot effectively compete there. For example, indications are that wholesale/green markets are becoming more popular at the expense of chain supermarkets, and this has important implications to Macedonian exporters' emphasis of sales channels. AgBiz is helping our customers gain this level of understanding by supporting study tours to current and new export markets. Recent study tours include to California for table grape producers, to Bulgaria, Poland and Sweden for processed vegetables companies, and to the Biofach Organic Trade Fair in Germany and the Alimentaria Food Fair in Portugal for wild gathered products companies. Achieving a better understanding of export market requirements will enable better market targeting and better product presentations this season.

- **Understand and Utilize Demand Pull Marketing**

Macedonian agribusinesses are familiar with "supply push" selling, but less so with "demand pull" marketing. In "demand pull" an importer/buyer wants the exporter's product because it will sell through the buyers' outlets since the exporter or his local wholesaler has created demand by appealing directly to consumers, and these consumers want to purchase the exporter's specific product. Under "supply push" the exporter uses price and/or personal relationships with importers or buyers to sell their products, with minimal consideration of end customers or consumers. A key consideration here is the extent of product value added that is appropriate given the current consumer focus on value, the latter being a potential Macedonian competitive advantage. AgBiz is helping Macedonian agribusinesses do more demand pull marketing by supporting them to attend international trade shows so they can understand in depth the requirements of a broad range of geographic markets and market channels, and learn how to market their products to customers. Recent examples of such AgBiz supported international trade shows include ProWein in Germany and the London International Wine Fair for bottled wine companies and the Fruitlogistica trade fair in Germany for fresh fruits and vegetables marketers. Macedonian exhibitors at these trade fairs have consistently returned with new customer prospects, and usually new export orders for the coming season.

- **Consistent and Appropriate Quality Products Delivered on an Agreed Time Schedule**

Consistent and appropriate quality products delivered on an agreed time schedule are essential to export success. To accomplish this, viable and strong value chain linkages are needed to communicate the requirements of international buyers back to producers and input suppliers so they can supply the type and timing of raw materials required by exporters. In many cases export customers want a specific raw material, or the only profitable season is either early or late. Due to its geographic location, Macedonia has a comparative advantage to supply early and late season agriculture-based products. Transforming this comparative advantage into a competitive advantage requires very good value chain linkages. That is a big challenge in Macedonia since there are a very limited number of stable and viable linkages between producers and processors/marketers. This has historic and social causes, but must be overcome for Macedonian exports of agriculture-based products to be competitive. AgBiz has made attempts to overcome this challenge, for example by helping to get pepper producers, processors and marketers together, but these have been only marginally successful. Better producer organizations that are more effectively linked with processors/marketers must be developed as soon as possible so Macedonian exports can become more competitive in the current and difficult export environment. If everybody in a given value chain is not working toward the export competitiveness goal, the value chain will not be internationally competitive.

- **Identify, Understand and Utilize Currently Available Sources of Financing**

Given the current scarcity for finance, more effort is needed to identify and understand currently available sources. Due in part to the global financial squeeze, Macedonian banks have become more restrictive in their lending. This reduced access to financing will limit the ability of processors and

marketers to purchase the agricultural and other raw materials they need this season. However, there are still sources of finance for the best borrowers, so the question is – how to become a best borrower? AgBiz is working with our customers to identify currently available sources of finance and affectively secure funding from those sources. To date we have been able to help more than 60 individuals from 49 companies better understand alternative sources of finance, often from new and different sources, and have helped customers successfully apply for approximately MKD 235 million in financing. Macedonian agribusiness managers need to increase their understanding of and ability to use financing and financial information to manage their businesses, especially in these difficult times when access to financing is a critical success factor.

- **Enhance the Organization of and Emphasis on Export Promotion**

The GoM has a Foreign Direct Investment agency, yet in the current financial and business environment FDI is very challenging, especially in agribusiness. Macedonia had a negative food and agriculture-related trade balance of some 11.5 billion MKD in 2008. Yet there is no agency dedicated to export promotion. For example, in the highly competitive international bottled wine market the image of the origin of a wine is almost as important as the brand, but there is no focused effort on promoting Macedonia as a source of quality bottled wine. When we take customers to international trade fairs we see the very well presented national booths of our competitors, including Balkan neighbors, but no coordinated approach by Macedonian companies in cooperation with the GoM. When we seek financial support from the GoM for trade fairs, sometimes we communicate with MAFWE and sometimes with MoE. Doing value chain competitiveness enhancement work in coordination with the government is made difficult when different Ministries are involved in the early (MAFWE) then later (MoE) stages of a given agribusiness value chain. An immediate discussion needs to take place between Macedonian agribusiness exporters and the GoM regarding how export promotion of Macedonian agriculture-based products can be better coordinated and supported, especially when the balance of trade, and its impact on the Denar, is projected to be a serious problem in 2009.

Prepared by

USAID's AgBiz team