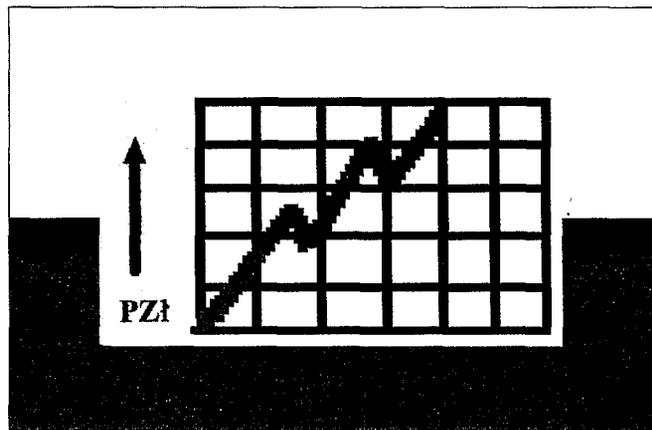


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Agribusiness Market Information Systems:

Lessons from the Polish Experience



LAND O'LAKES, INC.

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Agribusiness Market Information Systems: Lessons from the Polish Experience

This monograph assesses the experience of the Agribusiness Commodity Market Information Project (ACMI) in Poland. Its lessons can be applied to similar projects in Eastern/Central Europe, New Independent States of the former Soviet Union and market transitions in developing countries. Market information systems are an essential element of competitive markets and their development is a logical follow-on activity to assistance in privatization, firm-level business planning and, as economies evolve, an increasingly important component of agricultural development projects.

The marketing system not only moves commodities from production to consumption, it directs remuneration back to each production factor. As a consequence, markets generate information necessary at every step of the food chain. This information permits sellers to choose among alternative markets and channels (e.g., wheat into animal feed, flour or industrial starch), the production of different crops or livestock; and for agribusinesses to make critical business decisions and mitigate some of the risks of the marketplace.

Market information systems include detailed surveys by sectors, prices, situational analysis, outlook/forecasting and research. The full range of marketing information is critical to a competitive agricultural system because it makes the market transparent and efficient. The information helps firms to know more about the timing of purchases or sales, optimum product mixes, prospective investments, strategic planning and risk management. In turn, associations can inform producers as they specialize and respond to market signals.

Project Description

The two-year, \$1.5 million USAID project was carried out in 1996 and 1997 by Land O'Lakes Inc. in cooperation with Sparks Companies Inc. Land O'Lakes is a vertically integrated U.S. cooperative that is carrying out numerous assistance projects in Eastern and Central Europe, NIS and developing countries. Sparks is a large private agricultural information company with worldwide activities.

The ACMI project succeeded an earlier project (RAAPS) by assisting in the privatization of state-owned agribusinesses by helping them compete in open markets. It concentrated on the preparation of agribusiness plans and management strategies (80 plans were prepared and implemented). This process highlighted the severe lack of information for decision-making and unfamiliarity by managers in the use of such information. Not only is current information lacking, it is not a natural element in centrally planned systems, and must be developed to complement private systems. Polish firms needed to be trained and coached in uses of market information and ways

to incorporate it into their operational procedures. No similar market information project of this type has been undertaken by USAID.

The project attempted to achieve three objectives:

- (1) Design Western-type information systems that report the situation and outlook for selected commodities (grains, meats, poultry and dairy). This information reduces procurement risk and improves the capacity of firms to plan and manage their investments. The project lays the groundwork for the emergence of commercial services.
- (2) Strengthen agribusiness management (35 leading firms), Polish consultants (seven), and project and association staff (seven) who can generate and incorporate agribusiness information into practical applications.
- (3) Develop the capability of Polish commodity associations (National Poultry Board, National Alliance of Dairy Cooperatives, Chamber of Grain and Feed, and National Chamber of Meats) to provide market information bulletins, and to widely distribute and sustain them through dues and subscriptions.

Most Polish agribusinesses evolved from state-owned entities that managed their operations to conform to government directed plans. The central authority focused on maximum capacity to meet internal needs, rather than quality products to meet consumer demand. Former state-owned firms understood the concept of identifying markets only in a limited way (within the Eastern bloc trading system) and material sources, but the routine use of information systems was little known or understood by most managers. The lack of understanding of market information systems came from training and experience in the command system where quotas and goals that directed investments were clear and market signals largely confusing.

Marketing was often seen as sales and information was limited to current pricing. Today, Polish firms are coming head-to-head with Western companies and are increasingly at a severe disadvantage in transactions and competition for markets at home and abroad.

Western firms have long recognized the value of analytic and real time decision-making information and the importance of internal and external sources to enhance management and reduce risk. These complex and sophisticated systems are generally understood worldwide. Polish firms recognize the need to identify markets and sources but many still lack the capacity to undertake the systematic development and use of information. The ACMI project attempted to develop model information systems in the Polish context and help Polish firms in their overall design and use to meet individual firm needs.

Project Activities

1. Publication Development

Land O'Lakes and Sparks designed and trained Polish staff and consultants on outlook and situation bulletins to meet local Polish needs in meats, grains, dairy and poultry. Western models based on various sources of information (USDA, Sparks, AgroEurope) were modified to fit the Polish environment. These bulletins were built through gathering and organizing data, balance tables and price analysis; making forecasts; and drawing analytic conclusions.

A particular challenge in Poland was a lack of current and reliable data. For example, price analysis requires considerable historical data (10-15 years) to understand normal fluctuations. Yet, data in Poland before 1989 have little bearing on current markets. In the early development of model bulletins, ACMI staff relied heavily on Sparks analysts in Memphis; then, identified local sources and customized data. Over time, bulletins used less Sparks and more local and European information sources. Local staff produced draft bulletins, then handed them off to commodity associations where the bulletins were further tailored to their members.

2. Selection of Agribusinesses

The project selected 35 firms (20 in first year, 15 in second) for intensive instruction and application of the information in their decision-making. Consultants trained in the U.S. and Poland provided one-on-one consulting twice a month. Firms were selected based on leadership in targeted sectors, willingness to participate, progressive management and differing sizes (medium to large). Marketing information plans (including organizational options to implement them) were prepared by the consultants for each firm. A tracking system for consulting sessions was developed to assess the impacts and uses of the information in the bulletins. One-on-one consulting was critical to developing trust with senior managers to be able to discuss sensitive corporate issues.

3. Seminars and Consulting

Land O'Lakes and Sparks carried out four seminars on concepts of information systems and its uses with break out sessions by sectors. Special attention was paid to commodity outlook reports to demonstrate how analytical conclusions are reached and near term price expectations forecast. Price risk management, policy, trade and general consulting practices were detailed. U.S. analysts at seminars discussed U.S. and global markets, and local experts focused on Poland and European markets. The seminars were followed up with U.S. and consultant visits to apply the learning to specific firms. The idea was to simulate client servicing similar to Western consulting approaches.

4. Association Development

As soon as model bulletins were prepared by project staff and tested with the targeted firms, that part of the information process was shifted over to associations to assure sustainability after the project ended. Several hand-off models were carried out depending on the strength and character of the associations.

The strongest association is the Dairy Alliance (300 dairy cooperatives) that already produces some market information for its members. In this case, more sophisticated analysis has been incorporated into an existing publication, and the capabilities of its Statistics Department substantially strengthened.

The poultry bulletin was turned over to the National Poultry Board (includes all major processors and local associations) and has become its principal publication and service to its members. Subscription is \$12 per monthly issue.

The meat bulletin was located in a separate consulting firm attached to the Chamber of Meats (800 members and 10 regional associations). Its future is uncertain, though the leadership indicated that demand is strong and they expect to charge \$1.50 per bulletin.

The grains bulletin was initially handed off to one of the larger Polish grain firms (PZZ) and is now a membership service of the newly formed Chamber of Grains (109 members) that was created in cooperation with ACDI-VOCA's licensing and bonding project for grain storage. As a large grain producer (25 million metric tons) and given the nature of grain markets, Polish firms are more affected by overseas grain markets than the other commodities.

The project conducted U.S. and in-country training in association development for the four Polish associations and linked them with U.S. counterparts. Association training emphasized member services, income generating activities and lobbying.

Conceptual Framework

The conceptual framework of the ACMI project experience is intended to help practitioners in its application for other countries and similar market transitions. For agribusiness, marketing information and risk management used during the transition to a market economy can be viewed as moving through four phases:

- (1) command economy where government defines and directs physical allocations for state-owned enterprises through central plans and quotas.
- (2) seat-of-the-pants decision-making by newly privatized firms that rely mostly on informal processes with little understanding of the critical role of marketing information; and governments continue to exert heavy and unpredictable impacts on markets.

- (3) informed and objective decision-making in which financial institutions begin to require more detailed market analysis, government interventions decrease, nascent risk management tools are developed and agribusiness managers begin to appreciate market information systems.
- (4) fully functioning, free markets characterized with an array of market information sources, commercial market information firms, few government interventions and sophisticated risk management tools such as hedging available to agribusinesses.

To be competitive and survive in the evolving Polish marketplace, the project attempted to help managers move from seat-of-the-pants to informed and objective decision-making. An equivalent Polish colloquialism for "seat of the pants" is "following the tip of your nose."

In interviews with managers who participated in the project, they defined seat-of-the-pants decision-making in the current Polish environment as:

- lack of awareness by managers of the importance of marketing information.
- reliance on informal marketing sources (word of mouth).
- inability to make timely and independent decisions.
- unable to process lots of different sources of information.
- reliance on weak marketing departments concerned primarily with sales (i.e., volume), not responding to customer preferences nor advising managers on risk management approaches.
- copy cat decisions in which smaller firms base their actions on what larger former state firms are doing.
- unresponsiveness by agribusinesses to economic opportunities.

In a developing market system, agribusinesses need to understand the importance of access to market information and develop skills in data use and analysis in response to changing market conditions. For informed and objective decision-making, they must have a customized and systematic way to collect and analyze market information.

Firms should be able to:

- clarify and assess their information needs.
- identify and systematize sources of information related to the firm's market activities.
- evaluate relevance of different information sources.
- take steps to incorporate information into market decisions.
- make organizational changes for incorporating market information.
- develop an implementation plan to accomplish these tasks.

Challenges

The project had to quickly train Polish staff and consultants in complex information systems and analysis in a short time in order to produce the model bulletins. This capacity building took longer than anticipated and delayed application and handing off of the bulletins to associations.

The project relied on existing sources of market information (e.g., BOSS, GUS, Sparks) but participants were more interested in Polish data or that of Eastern Europe where accurate information was lacking. This gap hurt the project's credibility with some firms.

Given the diversity and different capacities of firms, it was sometimes difficult to fully understand current decision-making processes and apply more informed and analytical approaches. Many firms were too small to develop stronger marketing departments and internal information systems. Some firms and senior managers saw marketing as too sensitive for candid discussions with consultants about company decision-making. Others accepted analysis without questioning and did not understand the underlying dynamics of the analysis. These managers exhibited naiveté about the predictive ability of such analytical systems.

Several associations were weak with limited staff to carry on the publication of sector-specific market information bulletins after handoff. Subscriptions to information services required to prepare the bulletins are costly for smaller associations. Through institutionalizing the bulletins in sector associations, a more integrated bulletin for firms that are interested in the inter-relationships of the four commodities will not occur.

Many firms in the associations may not be willing to pay high enough subscription rates to maintain quality bulletins. Only a limited number of firms received intensive training in the application of the information. Model bulletins were prepared for consultants and participating companies, were not widely disseminated and may not have created sufficient sector-wide demand. The associations were supported in publishing the bulletins and provided with computers, printers, software and binders. Their ability to continue publication after the project ends appears likely, but should be reviewed at a later date to fully assess sustainability.

Impacts

Three bulletins are expected to be sustainable within the associations and the future of the fourth (meats) is uncertain. Based on interviews, demand for the bulletins is high and valued by association leadership and leading firms in the four sectors. The project substantially strengthened the four associations in their operations, strategic planning, advocacy and member services.

The project met and exceeded project outputs and helped achieve USAID/Poland's intermediate results in assisting small and medium enterprises in business development (indicator: 30 agribusinesses using services of support organizations) and building sustainable indigenous organizations (indicator: 4 sustainable national associations) that provide technical assistance and training to enterprises.

The most significant impacts are process-related. The project helped local and association staff and consultants to gather, analyze and prepare marketing information and apply the information at the firm level. Specific impacts are difficult to assess given the complexity of the factors other than information included in manager decisions. Agribusiness firms will require and acquire increasing amounts of marketing information as they become more competitive and will carry out risk management programs or they are unlikely to survive. The project accelerated the acquisition and development of these marketing information systems.

Based on consulting reports and interviews, impacts included:

- Made the right decision at the right time to purchase rye and wheat.
- Enabled firm to implement EU standards.
- Helped in making decision to increase production levels for broilers.
- Understood better opportunities for duck exports to Germany.
- Marketing data was important in preparing joint venture with U.S. company.
- Through analysis of grain balance and future assumptions, made important purchasing decision.
- Able to make appropriate livestock purchases given analysis of prices and availability by Polish regions.
- Created new market information system within firm.
- Used information to assist suppliers and producer of turkeys.
- Carried out strategic plan based on market information.
- Better understood the relationships of grain, feed and livestock markets and forecasting demand and price levels.
- Information about customs on soybeans helped trading firm to reduce risks in volatile market.
- Better able to make inventory decisions based on forecasting of prices.
- Since it is too expensive to create own information, bulletins provided information in timely and concise form.
- Decided not to buy Romanian grain and, instead, purchased lower cost for U.S. corn.
- In the face of expected world surplus, decided to purchase minimum grain needs and postponed purchases until prices fell.
- Because bulletin indicated that export quota ran out for Czech grains, purchased Czech grains via Slovakia.

The list is not comprehensive but a sample of impacts and comments as a result of the information and consulting generated by the project. Through bulletins, telephone contacts, U.S. consultant visits and seminars, the project generated a continual flow of information that facilitated decisions of the types above.

It is important to note that most decisions are not made discretely or in isolation from other considerations. Rather, decisions with regard to the market often have a continuous or rolling nature.

Examples of Impacts

Early in the project, a U.S. consultant visiting a milling company discussed grain prices. At the meeting, the company mentioned the prices it was paying for wheat f.o.b. Ukraine. Based on the analysis of availability at the time, the consultant suggested that the price for Ukrainian grain was very favorable and a good value. The miller acted on this information and purchased additional wheat over the next few weeks. Subsequent bulletins and consultant discussions confirmed this information and supported the manager's action. Later in the project, seminars offered a broader context for the reasons that prices increased and why the initial Ukrainian price was so favorable.

A grain storage company bought all the grain available to fill its elevators in 1990. This was the wrong decision because they had too much supply and got stuck with excessive inventory. With better analysis in 1996 through the project, the company played the market more cautiously and now monitors global trends. Through careful decision-making, the firm timed purchases based on these forecasts. A larger similar firm that is less knowledgeable in marketing information is failing because management does not understand how the Polish market is related to volume and prices on world markets.

A meat processing company developed a business plan and a marketing information system through both Land O'Lakes projects. In 1990, the owner did all of the purchasing and sales. Today, the firm has a three-and-a-half person marketing department and is responsive to consumer demand. The firm produces various meat products tailored to customer preferences and demand, and keeps inventories at a minimum. The firm has regularly used all four bulletins, relied on market consultants, and the owner and manager participated in every project seminar. As a result, the firm has a 350% annual growth rate.

Ultimately, marketing information services need to be provided by the private sector. This is now occurring in Poland. Sparks Companies Inc. opened a Warsaw-based office after the project ended. Demand for Sparks and similar services by other firms (e.g., AgroEurope, Pakpol) was created by firms that participated in the project. Larger Polish firms are able to immediately afford these information and consulting services. No USAID project funding was used in these commercial endeavors.

Lessons Learned

1. Given the complexity of marketing information systems, project effectiveness would have been greatly enhanced by location of an expatriate staff with strong technical expertise in Poland. Transfer of knowledge to local staff would have been faster and more effective than U.S. training of Polish staff and heavy reliance on U.S. consultants for seminars and one-on-one firm consulting.
2. Evidence of project success was apparent when senior managers, not lower level salespeople, got involved in the project; firms began to rely increasingly on consultants; managers asked for advice on specific decisions; firms expressed a willingness to pay for additional market consultations and bulletins; and associations felt that their membership expected these informational services.
3. The major challenge in shifting from seat-of-the-pants to informed and objective decision-making is the lack of trained firm-level staff with an understanding of marketing and a technical ability to interpret and apply marketing information to mitigate against risks. Lack of a fully functioning commodity exchange places Polish firms at a competitive disadvantage and at greater risk since they can not hedge (futures contracts, options) their purchases and sales.
4. The project generated analytic information on supply-demand and price outlooks. It was delivered through monthly bulletins, bimonthly consultant visits and semi-annual seminars. The consultants were supposed to fill in the gaps between bulletins. In retrospect, a weekly fax bulletin would be preferable to large and detailed monthly bulletins that were somewhat dated by the time they were received by firms. The project also should have charged fees for bulletins and attendance at seminars to stimulate commercial demand.

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