NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

AGRI-BUSINESS MARKETING – CBU 5205
TIME ALLOWED: 3 HOURS 30 MINUTES

Instructions

- Answer all questions
- Use examples where necessary

Question 1

Agribusiness in practice: Umdala Livestock Fattening Company

The company, based in the Limpopo province of South Africa, is in the business of buying young cattle, fattening them, and then, 11 months later, selling them in the open market. The company is one of the larger ones in the country engaged in this competitive, low-margin business. Fortunately, South Africa has an active futures market both for livestock and for the principal inputs to this business – cattle feed.

The cattle are fed mostly soyabean meal and maize (corn), in varying proportions (it depends on which of the two is the cheapest). There is only limited storage capacity – just enough for one month of winter consumption – and with the stress it would put on working capital, it would not make much sense to invest in extra storage capacity. But there are some possibilities to enter into fixed-price forward contracts with farmers, particularly for delivery in the months directly after harvest (say April-May).

As this is a capital-intensive business (a lot of capital is locked up in “inventory’ of cattle), the company relies heavily on bank capital (and feeder cattle act as collateral for the bank credit). Other than the costs of the feed and of the credit, costs are more or less stable.

There is some seasonality in the activities:
- 10% of “production” (cattle) is sold in each of the four months of November to February, and 7.5% in each of the other months.
- as during the months of April to October, the cattle can eat grass, consumption of soyabean meal and maize in these months is half of what it is during the months of November to March.

After 11 months of feeding, the cattle have reached their optimum weight. If they are kept them longer, they just eat – compared to cattle that have been fed just 11 months, their value does not increase. If you keep them longer than 15 months, they actually need to be sold at a discount.

Assume that the company's / entity's senior management has, for the case described, given your Agribusiness Marketing team the responsibility:

a. Analyze the price-related risks to which the company/entity is exposed, and the (potential) consequences of this exposure for the company/entity. **(5 marks)**
b. Identify possible strategies for dealing with these risks **(5 marks)**
c. Argue in favor of **two** of these strategies, and describe on the basis of what criteria management can decide to select one or the other. **(10 marks)**
d. In this light, also describe the potential consequences and risks of adopting **either** of these strategies, and what would need to be done to ensure that the adoption of the strategy goes smoothly. **(5 marks)**

<u>Question 2</u>

a) What are the main determinants of the recent increases in commodity prices observed since 2003? **(5 marks)**
b) Is the long-term downward price trend for commodities reversing? **(5 marks)**

<u>Question 3</u>

Discuss the issues that have helped change/reshape world commodity markets in recent years. **(20 marks)**

<u>Question 4</u>

Agricultural tariffs, TRQs, Tariff Escalation and Tariff Peaks are some of the issues to take cognizant of when trying to enter new markets. Discuss. **(20 marks)**

<u>Question 5</u>

Discuss how the International community, the government and the private sector can help Zimbabwe become more competitive in the global agricultural commodity business sector by using various policy intervention measures. **(25 marks)**