Area II. Effective Food Chain Management.

“Restrictions to innovation in the design of the honey agribusiness in Argentina: the case Mieles Naturales de la Bahía®”

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a- Problem Statement

World demand of honey is about 220 grams per inhabitant per year\(^4\), average consumption in developed countries is 650 grams per inhabitant per year\(^5\) (European Union, the US, Canada, and Oceania). Meanwhile, average consumption in developing countries is 133 grams per inhabitant per year\(^5\) (Africa, Asia and South America). The latter have adopted the role of suppliers of those countries with larger consumption. Among the highest-consuming countries are Austria, Greece, Switzerland and Germany, which consume over 1,000 grams per inhabitant per year\(^5\); they all belong to the EU, which shows the largest average per capita consumption –700 grams per inhabitant per year\(^5\). This helps explain why almost 50% of world exports of honey are destined to this region (199,975 tons of a total of 401,589 commercialized\(^5\)).

Among the main honey producing countries are China, Argentina, the US, Turkey, Ukraine and Mexico. Together they concentrate 48% of world production. Honey is basically commercialized in bulk in the international market, in 330 Kg. (728 lb.) barrels. Approximately 30 % of the world’s total production is exported. The two countries with largest participation in the market are China and Argentina; between them they concentrate almost 40% of world exports\(^6\).

Argentina is a very important player in the world market of honey; although it is not the main exporter from the point of view of volume, it is from the point of view of the quality of the product. The comparative advantages of the product must be accompanied by institutional, organizational and technological innovations that will make it possible to leverage these advantages and turn them into sustainable competitive advantages. In this sense, the State has promoted the development of designs aimed at recreating the way to do business for the case of honey. Within this new state policy is the project of the group called Mieles Naturales de la Bahía in the province of Buenos Aires, Argentina.

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\(^4\) FAOSTATS 2002.
\(^5\) FAOSTATS 2003
\(^6\) Napolitano, G. et al., 2006.
The group “Mieles Naturales de la Bahía – MR”

In the case of the producers who are members of the group “Mieles Naturales de la Bahía” the construction of this new business design started in the fall of 2004, when they decided to form the group. Initially there were work meetings with representatives of the different companies who answered the call for a meeting made by a Consortium of Regional Development of the Province of Buenos Aires, the Productive Consortium of the Salado area(COPROSAI in Spanish). It was decided then to develop first three Good Practice Protocols (GPPs): one for field production, one for harvesting and storage, and a third for commercialization. These protocols were developed cooperatively among the members of the group, which gathered 13 producers, all of whom had apiaries within the COPROSAI area (districts of Verónica, Castelli, Chascomús, Tordillo, Madariaga, Alvear and Magdalena). The development of the GPPs took place during about 8 months in periodical meetings that convened in their area of application. In addition to the work with the producers, experts were consulted and a protocol developed in the Emilia Romagna region of Italy was taken as a guide, together with the protocol of INTA’s Apicultural Program.

All the work described was coordinated by a professional agronomist, paid by a program of assistance to producers called “Cambio Rural” (Rural Change), and by a professional agribusiness specialist financed by the Consejo Federal de Inversiones (Federal Investment Council) (CFI in Spanish) of Argentina. Once this development was completed, the job of the professional paid by the CFI was done, and the entire program rested in the hands of the agronomist working for Cambio Rural, who still coordinates the group.

The greatest restrictions to the model, soon after the start of activities (at the end of 2005) were:

- A marked individualism of the producers, especially at the time of developing joint commercial actions.
- Financial limitations to develop a legal entity to support the brand, the product and the group.
- There were no plans to perform third-party certification of the system; instead, it is performed by the Cambio Rural technician.
- No leader has been generated for the business; management of the project has not been professionalized.

b. Objectives

- Analyze the present situation of the group of businesses under the Mieles Naturales de la Bahia brand, especially regarding the completion of business.
- Diagnose and prioritize the main restrictions found by the members of the group and other analysts consulted.
- Present alternative solutions to the restrictions found in the design according to the preceding item.

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7 National Institute of Agricultural Technology (Instituto Nacional de Tecnología Agropecuaria), Argentina.
8 Napolitano, G. et al. (2006)
c. Procedures

A survey was conducted among the members of the group (See Annex I); their technical adviser and other relevant players in this business in the COPROSAL region were also interviewed. The data were evaluated in order to know and validate opinions. Then the fundamental restrictions were taken and prioritized according to the results of the surveys and interviews. An analysis was made of this new situation of the group within the framework of the concepts of the New Institutional Economy, modern marketing practices and quality assurance systems. Strategies were formulated to improve the performance of the group. All this analysis was framed within the research methodology of the case study.

d. Results and discussion

During the month of April a survey —presented in Annex I— was conducted among the producers who form the group “Mieles Naturales de la Bahía”. A total of 61.5% of the members responded to this survey. The aim of this survey was to gather information about the limitations that the producers face in the current state of development of the group, especially in juridical terms, and their commercial, legal and tax-related implications. Those taking the survey were also consulted regarding the causes that originally took them to form part of the group.

As for the expectations of the members at the time of forming the group and starting activities, there is a clear orientation toward group work as a form of improving the negotiating capacity, the sale price and the quality. These topics are considered very important at the time of assessing the problems faced by apiculturists who work individually and constitute the main reasons for which the COPROSAL promoted the development of the project. Likewise, when consulted whether they have obtained the desired results, 87.5% of those interviewed answered affirmatively. So far, it would seem as if the program has had important success and there is little expectation of encountering fissures in the development of the group’s business.

It is interesting to go over the numbers obtained in answer to the question about the way in which the producers sold their product: 50% of them admitted having sold it individually. We can infer from this that the advantage of marketing with greater critical mass in order to improve prices and/or increase the negotiation power was not such. Only half of the producers who sold their product individually bottled it and sold it in the domestic market. The other 50% sold to a normal broker at the normal going price. The group that commercialized their honey jointly obtained a differential price in 50% of cases. In addition, it is worth mentioning that there were no direct exports, either individual or in group.

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11 We should remember that the domestic market of honey in Argentina is very small, so selling the product in bottled form is risky both in terms of quantities and in terms of safe collection.
Moving on to the design of the juridical format\textsuperscript{12} of the group, the members were consulted about the convenience of improving this aspect. A majority of those surveyed considered that it would be beneficial, since they would reach part of the objectives initially agreed on (greater negotiation power) and obtain greater cohesion within the group. Those against the idea mentioned individualism as the fundamental enemy at the time of developing a common juridical structure for all members. Up to now, the producers have indicated lack of decision of many members, the lack of a concrete proposal in this sense, and lack of analysis of the topic as the fundamental causes against the juridical formalization of the group. All these aspects may be associated with lack of technical information, which should be provided by the group’s technical consultant, and lack of a leader to guide the development of the important aspects from now on. It is vital to point out that 75\% of those surveyed indicated that they would not destine funds from the ongoing harvest to make progress on this subject.

It is evident, then, that although many consider it important, the topic of the juridical format to operate is not an aspect seen as relevant. This is related to the fact that three fourths of the group would not contribute money for it. The lack of a design to offer better price and/or lower costs to the business probably does not help juridical formalization. In Kotter’s terms\textsuperscript{13} a feeling of urgency that will ‘force’ the group to face an important change in this sense has not been installed.

Although no more than 25\% of the product has been sold as a group with a differential price, the members continue to work together, the filed technician continues to collect information for the “Cuaderno de campo” (Field Log) that defines the production GPP, and so on. In other words, the dynamic continues to exist around this product and its GPPs. In response to this, the producers state that they find the group to be a source of information and formation; there is support and friendship within the group; some of the producers feel that the time will come when their GPPs will be recognized by the market and they will be paid more for their product; others believe that there is a benefit in joint purchases and sales and in the potential to export directly.

It is interesting to analyze what the group is willing to do to move forward with the possibility of getting their GPPs ‘recognized’ and of trying a joint direct export. When consulted whether they would be willing to obtain a third-party certification of the GPPs that would give them international recognition, only 50\% of those surveyed answered affirmatively. In addition, they were asked whether they would invest money from the ongoing harvest to achieve this, and in this case 87.5\% of them answered they would not.

To sum up, the preceding information may be presented in the following general terms:

- The group faces restrictions to the direct completion of business, especially exports.
- The GPPs have not been recognized by the market.
- The members of the group do not have a clear idea of why this has been the case.

\textsuperscript{12} Any type of formal society, Temporary Union of Businesses, Consortium, Cooperative, etc.
\textsuperscript{13} Kotter, J. 2000.
• Lack of leadership and commitment on the part of the coordinator underscores these difficulties and keeps the group in a strategic trap that it is finding hard to get out of.
• There is no clear conscience of investment in business in order to reach ambitious goals.

e. Conclusions

According to Williamson\textsuperscript{14}, diseconomies of the second order, that is, those related to organizational designs and their interactions, take between 1 and 10 years to resolve. This is not the case with the redesigns of technological aspects that undergo permanent update. It is evident from this that the technological innovation defined by the GPPs in the group Mieles Naturales de la Bahía has not been enough to effect an important enough change in the results for the participants. Thus, a redesign of second order economies is imperative to reorient the competitiveness of the honey business for this group of producers. Taking the elements of discrete structural analysis\textsuperscript{15} we would then say that innovation has not been such in the organizational environment and that the technological innovation of the GPPs has not been able to achieve the competitive advantage of this project over the comparative advantages of the area and the capacities of the producers.

It is clear that the producers wish to reach several business objectives but are waiting for someone else to take the initiative, for a savior leader to lead them to the hoped-for success. This lack of leadership is not clearly perceived by any of the members of the group or by their technical consultant, who should probably accept this challenge. This individualism has led to the fact that most producers have not obtained differential prices for their products and that half of them have sold individually, even against the objectives they claim to have. This “strategic trap” does not allow them to see that, without investing in reliability (third-party certification of the GPPs) there are no real possibilities of developing business in the international market, at least with “price recognition”. It is also true that, should some business appear in this sense, they are not formally prepared in the juridical aspect to satisfy the demands of the international market, so they will have to solve this problem before going on. Both aspect require investment, an investment that the producers are not willing to make in the short term.

In this sense, one might think that, since the group was born on the basis of State financing of the professionals who helped the initial development of the proposal, there is no culture of investment to continue the business. This culture of no investment is what prevents the members of the group from understanding clearly the importance of developing some aspects of the organizational frame before trying to obtain differential prices for most of their product. In addition, third-party certification would validate the technological innovation of the GPPs, something that, so far, has been developed but has generated no value for that development.

No doubt, several of these questions would be made clearer in the eyes of the apiculturists of the group if they developed a Strategic Business Plan that allowed them to set an aim for the business. Likewise, fulfillment of this Plan should be in the hands

\textsuperscript{14} Williamson, O. 1999.
\textsuperscript{15} Ordóñez, H. 1999.
of the project leader, who would lead the group towards compliance with the objectives defined. All of this would make it possible to define a business policy and a group policy. To sum up:

- The absence of a business plan precludes the presence of clear goals; therefore, a good business design does not prosper if there is no plan to sustain it and justify individual and group actions\(^\text{16}\) (lack of entities related to the organization’s policies\(^\text{17}\)).
- The action of a professional leader is indispensable to orient and manage the group and the business so as to obtain a good government of the organization\(^\text{17}\).
- Lack of leadership promotes opportunistic actions by the members of the Mieles Naturales de la Bahía group and makes it harder to follow the original plan, complicating management of the business\(^\text{17}\).
- Policies, government and management of the business will contribute to develop in the members a culture oriented towards cooperation and investment in intangible assets that will generate value appropriable by the group.

f. References

- Becchi, A. 2007. Manager of COPROSAL. Personal communication.
- Ordoñez, H. 2003. Aportes metodológicos de estudio e intervención en los agronegocios – Una teoría, tres modelos y tres casos en Argentina. Commerce Chair, FAUBA.

\(^{16}\) Ordoñez, H. 2003.
Annex I: Survey conducted among the members of the Mieles Naturales de la Bahía group, April 2007.

1. What are the reasons that led you to form part of the group?
   a. Better sale price
   b. Greater negotiation power
   c. Increase in the quality of the product
   d. Greater juridical security *
   e. Other…………………. 

2. Did belonging to the group give you the results you had hoped for?
   a. Yes
   b. No 

3. Did you commercialize honey together with other members of the group or individually?
   a. Individually
   b. Group

4. If individually
   a. Did you obtain a differential price?
   b. Did you sell to a broker at the going price?
   c. Did you export on your own?
   d. Did you bottle and sell in the domestic market?
   e. Other…………………….. 

5. Group
   a. Did you obtain a differential price?
   b. Did you sell to a broker at the going price?
   c. Did you export on your own?
   d. Did you bottle and sell in the domestic market?
   e. Other…………………….. 

6. Do you think that giving the group a juridical frame (cooperative, Public Stock company) would generate additional advantages?
   a. Yes ➔ Which?……………………………….. 
   b. No ➔ Why?

7. What prevented the group from being given a juridical frame?

8. Would you invest part of the revenue from the 2007 harvest in giving the group a juridical frame?

   YES                     NO
9. Why do you continue to form part of the group?

Habría que cerrar la respuesta con algunas opciones y dejar un “otros” por las dudas

10. Would you be interested in an internationally recognized external certification of the process and the product?

YES     NO

11. Would you invest part of the revenue from the 2007 harvest in obtaining an internationally recognized certification?

YES     NO