

Course Code: AEM 502

Course Title: AGRIBUSINESS MANAGEMENT

PREPARED BY DR. A. E. OBAYELU AND DR L. O. OKOJIE

COURSE OUTLINE AND LECTURE NOTE

1. GENERAL INTRODUCTION AND WORKING THROUGH THE COURSE

- The objectives of this course are

1. To prepare student on what it means to set up an agribusiness of their own and the risks that are involved
2. To make students aware of the importance of the agribusiness sector
3. Assist students in planning and organizing agribusiness enterprises
4. To increase students understanding of what management is, and the use of specific management tools to improve decision-making within an agribusiness firm.
5. To expose students to basic accounting for managers and how to analyze Financial Performance

- **Suggested Textbooks**

- 1 Principles of Agribusiness Management, 4th Edition—by James G. Beierlein, Kenneth C. Schneeberger and Donald D. Osburn Published in 2008 by **Waveland Press**.
- 2 Understanding Management, Sixth Edition. Richard L. Daft and Dorothy Marcic, Thomson - Southwestern, 2009. ISBN: 978-0-324-56838-7
- 3 Management by Koontz and ODonnel
- 4 Exploring Agribusiness by E. P Roy
- 5 The principle of Management by P. F Drucker

- **Course Information:**

Students will be evaluated by your performance on attendance, CAT and exam.

- **Attendance Policy:**

Seventy-five percent class attendance is expected as a qualification of writing the exam. The probability of doing quiz during a lecture equals 1 if the population in the class is found scanty. We expect to notify you in advance if we are going to miss a class as a result of any circumstances beyond our control.

- **Teaching schedule**

The teaching schedule for the course in the semester is as shown in the time table.

2. INTRODUCTION TO AGRIBUSINESS (WEEK 1 TO 4)

- **Meaning of agriculture and business**

Understanding the meaning of a business and agriculture is a very important building block of Agribusiness management. Agriculture is the production of food, feed, fiber and other products by the systematic growing and harvesting of plants and rearing of animals to sustain life. Agriculture deals with farming and/or raising livestock. A business can be defined as an organization that provides goods and services to others who want or need them.

- **Explain the meaning of business organisation**

Business organisation refers to all necessary arrangements required to conduct a business. It refers to all those steps that need to be undertaken for establishing relationship between men, material, and machinery to carry on business efficiently for earning profits. This may be called the process of organising. The arrangement which follows this process of organising is called a business undertaking or organisation. A business undertaking can be better understood by analysing its characteristics

- **Identify the different forms of business organisation**

While establishing a business the most important task is to select a proper form of organisation. This is because the conduct of business, its control, acquisition of capital, extent of risk, distribution of profit, legal formalities, etc. all depends on the form of organisation.

A business can be classified based on the

- (i) **Forms of ownership**

- Sole proprietorship
- Partnership
- Corporation
- Cooperative

(ii) Types of product

- Agribusiness
- Financial businesses
- Marketing businesses
- Real estate businesses
- Information businesses
- Service businesses
- Transportation businesses
- Industrial businesses
- Utility business
- miscellaneous

- **Reasons why businesses fails in Nigeria**

Businesses fail in Nigeria due to several reasons. Some of these are lack of clear cut of what to achieve, going in to a business without experience, poor selection of employee, expanding too rapidly, having too little capital etc

- **Characteristics of Agricultural Produce**

The agricultural produce are bulky and they need to be transported from the areas of production to the areas where they are to be processed and thereafter marketed. They are seasonal, perishable etc

- **Recent government efforts to improve agriculture in Nigeria**

Fadama Development Project, Special Programme for Food Security, Presidential Initiatives on Cassava, Rice, Vegetable Oil and Tree Crop etc

- **The Meaning, Origin, Scope and nature of Agribusiness Mgt**

There are three major components in agribusiness, namely, the production and distribution of farm inputs, the actual production and then the processing and distribution of farm produce. The industrial components of agribusiness are referred to as agro industries. This is the core aspect of business.

- **Objectives of agribusiness enterprise**

The main objective of agribusiness enterprise is to maximize profit. Others include sales maximization, cost minimization, maintenance of favourable financial ratios and homeostasis. The application of these in mathematical form should be known.

- **Nature of successful agribusiness**

A successful business must have the following characteristics: Clean objectives, proper planning, sound organization, proper plant location, layout and size, adequate finance, efficient management, harmonious relations with the workers etc.

- **Major problems facing agribusiness in Nigeria**

Some of the problems include poor infrastructural facilities, poor management, poor record keeping, and insufficient capital base etc

- **Steps in establishing agribusiness organization**

Appraise the Economic needs of the Business, Feasibility Study, Selection the Appropriate form of Business, Selecting and Adopting Appropriate Article of incorporation and Registration.

- **Full discussion of the meaning and characteristics sole proprietorship business, partnership, corporative and cooperative business, identify the advantages and disadvantages**

1. Sole proprietorship business

When the ownership and management of business are in control of one individual, it is known as sole proprietorship or sole tradership

The characteristics can be explained in terms of ownership, management, source of Capital, legal status liability, legal formality, stability etc

Advantages of Sole Proprietorship include easy formation, better control, prompt decision making, flexibility in operations, retention of business secrets, social benefits, personal attention to consumer needs, direct motivation etc

Disadvantages of Sole Proprietorship are uncertainty of duration, unlimited liability, limited financial resources, limited capacity of individual etc

2. Partnership

A partnership form of organisation is one where two or more persons are associated to run a business with a view to earn profit. Persons from similar background or persons of different ability and skills, may join together to carry on a business. Each member of such a group is individually known as 'partner' and collectively the members are known as a 'partnership firm.

There is need to find out the characteristics / features, advantages and disadvantages of this form of business.

3. Corporation

A corporation is defined as an artificial person created by law, having separate legal entity, with perpetual succession and a common seal.

There is need to find out the characteristics / features, advantages and disadvantages of this form of business.

4. Co-operative society

A co-operative society is entirely different from all other forms of organisation. A co-operative society is entirely different from all other forms of organisation. The co-operatives are formed primarily to render services to its members. Generally it also provides some service to the society. The main objectives of co-operative society are: (a) rendering service rather than earning profit, (b) mutual help instead of competition, and (c) self help in place of dependence. On the basis of objectives, various types of co-operatives like consumer co-operatives, producers’ co-operatives, marketing co-operatives, credit co-operatives etc can be formed.

It is important to find out the characteristics / features, advantages and disadvantages of cooperative society

- **Business valuation and market capitalization**

Capitalization is a measurement of the value of a corporation. Market capitalization is determined by multiplying the market price of the stock by the number of issued outstanding shares.

A Business Valuator (or anyone valuating your business) will use a variety of business valuation methods to determine a fair price for your business, such as:

- (i) Asset-based approaches (ii) Earning value approaches (iii) Market value approaches

ASSIGNMENT

1. Discuss the characteristics of Agricultural produce in Nigeria.
2. Identify government efforts at improving agriculture in Nigeria
3. Explain the meaning of Agribusiness and agro-industry
4. Explain the nature of agribusiness and agro-business
5. Explain the steps involves in the establishment of agribusiness in Nigeria
6. Complete the following table

Crop / raw materials	Agro Products / agro-industries
Yam	
Cassava	

Maize	
Oil palm	
Citrus	
Rubber	
Cocoa	
Fresh milk	
Groundnut	
Cotton	
Livestock	
Soya beans	
Timber	

3. MANAGEMENT PERSPECTIVE (WEEK 5 -8)

- **Meaning of Management**

Management in all business areas and organizational activities are the acts of getting people together to accomplish desired goals and objectives with organizational resources. It comprises planning, organizing, staffing, coordinating, leading or directing, controlling and motivating a group of one or more people or entities for the purpose of accomplishing a goal.

Student must be able to explain whether management is an art or science, qualities of a good manager etc

- **Functions / elements of Management**

Planning: meaning, importance, features, planning process

Planning bridges the gap from where we are to where we want to go. Other areas of importance in planning that will be discussed include the areas in which planning are needed in agribusiness, problems inherent in planning and principles of planning

Directing: meaning, importance and principles

Directing means giving instructions, guiding, counseling, motivating and leading the staff

Controlling: meaning, importance and principles

Control refers to the task of ensuring that activities are producing the desired results. Control in this case is limited to monitoring the outcome of activities, reviewing feedback information about this outcome, and if necessary, taking corrective actions. The managerial function controlling always maximize the use of scarce resources to achieve the purposeful behaviour of employees in an organisation

Staffing: meaning, importance and process

Staffing is the function by which managers build an organisation through the recruitment, selection, and development of individuals as capable employees.

Other things student need to know is the differences between recruitment and selection, differences between training and development

Organising: meaning, importance and process

Organisation is the process of identifying and grouping of the works to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most efficiently

- **Principles of Management**

There is need to know the evolution of management principles and be able to explain the general management principles as summarized by Fayol (1916). Some of these principles include division of work, discipline, authority, unity of command, unity of direction, remuneration, order, equity etc.

- **Developing a business plan**

The importance of planning should never be overlooked. For a business to be successful and profitable, the owners and the managing directors must have a clear understanding of the firm's customers, strengths and competition. They must also have the foresight to plan for future expansion. Whether yours is a new business or an existing business in the process of expanding, money is often an issue. Taking time to create an extensive business plan provides you with insight into your business. At the end of the lecture, students should be able to

- Describe the importance of a business plan
- Identify the elements of an effective business plan
- Write a business plan

A business plan has to answer some critical questions about the new business venture.

- Is this a viable business idea?
- Is there a market for this product or service?
- What will it take to produce and deliver the product or service (materials, resources, personnel)

- Who will buy it, how much, how often and how will your potential customers find out about you?
- Who and where is your competition?
- Your cash flow projections should cover both the startup phase of your business and ongoing operations.
- How much will it take to open the doors? and
- What will it take to cover direct costs, overhead and expenses, and still clear a 'profit?'

- **Forecasting and its applications**

Forecasting is the process of making statements about events whose actual outcomes (typically) have not yet been observed. A commonplace example might be estimation of the expected value for some variable of interest at some specified future date.

Various methods of forecasting such as the time series methods, causal/ econometric methods, judgmental methods etc

- **Choosing a business organization structure**

Organisation structure is the pattern of relationships among various components or parts of the organisation which prescribes the relations among various activities and positions. An effective structure will result in increased profitability of the enterprise. Whenever an enterprise grows in size or complexity it needs an adequate organisation structure. The various types include line type, staff type line and staff type etc.

- **Inventory control model**

Inventory control is the process of managing inventory in order to meet customer demand at the lowest possible cost and with a minimum of investment. The main objective of an inventory control system is to make inventory decisions that minimize the total cost of inventory.

There are several objectives of inventory control. These include

- Minimization of the inventory investment.
- Determination of the right level of customer service.
- Balance of supply and demand.
- Minimization of procurement costs and carrying costs.
- Maintenance of an up-to-date inventory control system.

Students must be able to do little calculation such as the applications of Economic Order Quantity (EOQ).

- **Organizing production using economic principles**

An agribusiness manager transforms inputs into an output through production management. This is a two-step process

- ✓ The process must be technically efficient (maximum output/unit of input)

- ✓ The process must be economically efficient (maximum profit)

Three major types of production decisions for an agribusiness manager

- What to produce
 - How to produce
 - How much to produce
- Students must understand how to determine the point economic efficiency, explain equimarginal allocation principle, principle of diminishing return etc
 - **Cost controls and the use of break-even analysis**

In any business the manager of a business has to make irrespective of what they produce they have to ensure that the products they produce maximize owners equity. That is the products and services they offer can make a profit and to identify loss making products and introduce new products if they have a profitable market. In addition, they must have a cost control system, which can minimize overheads and direct cost of producing goods and services.

Break-Even analysis is one of the simplest methods for a business to make decisions, where the enterprise or business entity produces very limited number of products. As well, the cost can be analysed in to fixed and variable cost accurately. That is, it has a costing system, which can identify variable and fixed cost. Fixed costs are costs, where the cost over a period is constant irrespective of the volume of production to a level. Variable costs are costs that varies with the level of business activity or level of production

Assignment

- i. Describe what management is and its importance
- i Is management the same as ownership of the business? Discuss.
- iii Explain the principles of scientific management
- iv Is management an art or a science?
- v A manager is both a scientist as well as Artist. Discuss?
- vi Management as an art or science are not mutually exclusive but are complementary. Discuss?
- vii Identify and describe the functions of management
- viii Identify and describe the principles of management
- ix Explain in your own words why production does not increase in a straight line forever as more input is applied. Give an example of a situation that supports your argument
- x Define and explain the relationship between economic efficiency and technical efficiency. Show how a manager would use them to achieve her objective of maximizing the long-term profits of the firm.
- xi Agribusiness managers face three major production decisions—what to produce, how to produce, and how much to produce. Where does a manager find the answers to these three questions? Why are these answers important?

- xii Define and explain the difference between the efficiency and contribution of input use in production management decisions.
- xiii What is the rational range for production as defined in this chapter? Explain the lower and upper bounds of the area and why they exist where they are.
- xiv Explain in your own words the principle of equimarginal allocation. How does it relate to the marginal product concept.
- xv Explain in your own words the principle of diminishing returns. Explain why the production function increases at an increasing rate, increases at a decreasing rate, reaches a maximum, and then declines as more input is added. Give an example to illustrate the use of this principle.
- xvi Explain in your own words how to locate the point of economic efficiency within the rational range of production.
- xvii Explain how an agribusiness manager combines the production management decisions given in this chapter with those involving consumer demand to operate a profitable business
- xviii Why is technical efficiency a prerequisite to economic efficiency?
- xix Authority and responsibility are on the same side of the coin. Discuss? {OR} Differentiate between authority and responsibility in management
- Xx Why is it important for manager to distinguish between authority and responsibility?
- xxi Explain the term "organization" and "organization structure"? Why is organisation structure necessary in a business entity?
- xxii What do you understand as organizational Structure? Explain the types of organizational pattern for enterprise you know.

5 Communication

Communication is the process by which a message or information is exchanged from a sender to a receiver. For example a production manager (sender) may send a message to a sales manager (receiver) asking for sales forecasts for the next 6 months so they can plan production levels. The sales manager would then reply (feedback) to the production manager with the appropriate figures.

This is an example of internal communication, i.e. when communications occur between employees of a business. Communication therefore links together all the different activities involved in a business and ensures all employees are working towards the same goal and know exactly what they should be doing and by when. Effective communication is therefore fundamental to the success of a business.

A business will of course need to communicate with people or organisations outside of the business. This is known as external communication. For example a marketing manager will need to tell customers of a new special pricing offers or the finance director may need to ask banks for a loan.

Students are expected to know the importance of good communication as well as various techniques for effective communication.

Assignment

- i. What is organizational communication? How important is communication to managers?
- ii. List and describe micro and macro barriers of effective communication

5 POLICIES AFFECTING AGRIBUSINESS ENTERPRISES IN NIGERIA (WK 10)

Students are expected to search for various policies affecting agribusiness enterprises in Nigeria and the problems with the policies and the way forward to be discussed in the class during lecture

6 BASIC ACCOUNTING FOR AGRIBUSINESS MANAGERS (WEEK 11 -12)

- Balance sheet - summary of financial conditions at a point in time
 - ✓ Explanation of the component of balance sheet such as assets, liabilities and networth / owner's equity
 - ✓ Hypothetical example and illustration of preparation of balance sheet
- Income statement or the Profit and loss account
- The basic financial statements for business control
- Using accounting information for business control

7 ANALYZING FINANCIAL PERFORMANCE BY AGRIBUSINESS MANAGERS FROM FINANCIAL RATIOS (WEEK 13)

Ratio analysis drives financial control function, measures performance of business, monitor financial progress and allows trend and comparative analysis. Some of the financial ratios that will be treated are:

- ✓ Liquidity ratios
- ✓ Asset turnover ratios
- ✓ Profitability ratio
- ✓ Financial leverage ratios
- ✓ Dividend policy ratios