Available online at www.sciencedirect.com
ScienceDirect
Procedia - Social and Behavioral Sciences 220 (2016) 338 – 345
Procedia Social and Behavioral Sciences

19th International Conference Enterprise and Competitive Environment 2016, ECE 2016, 10–11 March 2016, Brno, Czech Republic

Determinants of the Business Model Change – a Case Study of a Farm Applying Diversification Strategy

Jana Poláková[a,*], Pavel Moulis[a], Gabriela Koláčková[a], Ivana Tichá[a]

[a]*Department of Management, Faculty of Economics and Management, Czech University of Life Sciences in Prague*

Abstract

Farmers diversify their business portfolio and introduce new business model with specific expectations based on presumptions. The paper defines these presumptions within the case study of farmer used diversification strategy and formulates specific measures based on the presumptions to evaluate diversification strategy implementation

Peer-review under responsibility of the organizing committee of ECE 2016

Keywords: Business model; diversification; farms; agriculture; strategy

1. Introduction

The long-term sustainability of business should be the top owner and management priority of each farm. The prior economics and strategies that created the success of specialization agriculture production systems are not nowadays suitable for many especially smaller farms. A global marketplace, retail food sector consolidations and the shift to central ordering and distribution are creating barriers to supplying traditional agriculture markets. Innovative farm entrepreneurs thus are actively seeking ways to reinvent agriculture and create sustainable profits and fair returns for their farm production.

Many businesses are exploring the diversification into new enterprises or the addition of value to existing enterprises to create value to both the consumer and the farm business. The opportunities available to farm business

* Corresponding author.
E-mail address: polakovaj@pef.czu.cz

1877-0428
Peer-review under responsibility of the organizing committee of ECE 2016
doi:10.1016/j.sbspro.2016.05.507

are only limited by ones thinking (Farm Management Canada, 2012). Building added value through farm diversification provides real opportunity for those that can recognize them and assemble the vision, resources and spirit necessary to create success.

Farmers diversify their business portfolio and introduce new business model with specific expectations based on presumptions. The paper defines these presumptions within the case study of farmer used diversification strategy and formulates specific measures based on the presumptions to evaluate diversification strategy implementation.

2. Theoretical background

2.1. Farm diversification

Diversification is a strategy of farm adaptation which goes back to the 1960s, but is gaining increasing importance in the European multifunctional agricultural model today. The scientific literature reports great interest in farm diversification, its occurrence and determinants (e.g. Ilbery, 1991; McNally, 2001; Chaplin et al., 2004; Gorton et al., 2008; Barbieri and Mahoney, 2009; Maye et al., 2009; Brandth and Haugen, 2011; Grande, 2011; Vik and McElwee, 2011). When speaking about the diversification of farms, Lange, Piorr, Siebert and Zasada (2013) understand this to be extension of on-farm business activities into other sectors to enhance the continuation of agricultural activity, to broaden the income base, and to enable steady farm development. De Vries (1993) simply sees diversified farms as responding to upcoming consumers demands in a more flexible manner in order to maximise profits.

Meraner, Heijman, Kuhlman and Fingre (2015) defined diversification as the reallocation and recombination of farm resources away from its original farming activity to generate another form of income. With this definition they are excluded farm strategies aiming to engage in the cultivation of different crops or a combination of crop and livestock raising activities, or by off – farm labour.

While from a macro point of view relations between farm-household diversification and rural economies are central in the process of multi-functionality and in the provision of public goods through agricultural activities, from a micro" point of view onfarm diversification activities can represent a relevant share of farm income (Bartolini, Andreoli, Brunori, 2014).

Barnes, Hansson, Manevska–Tasevska, Shrestha and Thompson (2015) distinguish between the following two types of diversification, that is: farm diversification and diversification of the agricultural enterprises (agricultural diversification). The first type of diversification implies that a farm business is considered diversified if it uses any of its farm resources to produce income from activities outside conventional agriculture, such as farm shops and tourism, and renting out of machinery, buildings, or where farm products are processed on-farm. Farm business is considered involved in diversification of the agricultural enterprises (agricultural diversification) if it obtains income from two or more agriculture enterprises, such as grain and milk.

One recommended strategy for diversifying the rural economy is to help farmers find new or complementary commercial ways of using existing resources (such as farm buildings, labour, equipment, pasture and forests) that were previously employed in conventional agriculture. For the farm businesses, this would imply diversification to activities outside mainstream agriculture (Hansson et al., 2012).

Barbieri and Mahoney (2009) take farm diversification to imply that farm uses its agricultural resources, such as land holdings, buildings, machinery and labour, to produce income from activities that are not defined as conventional farming, or to process its raw material on-farm, often in order to pursue a marketing strategy based on value – added products.

With the Ansoff market growth matrix, there exist three types of diversified activities, namely:

- developing new products for the farm´s existing market,
- introducing existing products to a new market,
- entering new markets with new products.

The alternative strategy to diversification Meraner, Heijman, Kuhlman and Fingre (2015) call no diversification, i.e. specialising in one activity rather than diversifying. Specialisation can go hand in hand with expansion of the farm business, but can also be a business as usual strategy, or imply focusing on agricultural production.