

## **Starting and Scaling Resilient Agribusinesses - Deji Adebuseye**

Purdue University published an article titled “The role of resilience capabilities in shaping how firms respond to disruptions”. According to the article, disruptions are inevitable for a firm, and the agriculture supply chain has many risks that can cause this disruption. Beyond cash flow problems associated with these risks, problems such as input supply, transportation and logistics, technological issues, or something as simple as not having power can be major hurdles. Agricultural firms are some of the most at-risk due to their dependence on natural resources. Adapting to the changing landscape quickly is vital to an agribusiness quickly and efficiently returning to a sustainable trajectory.

Unfortunately, most agribusinesses are embedded in the agriculture value chain and thus exposed to the sector’s inherent and external risks. For example, a rice miller will be in business for as long as there is a steady supply of rice paddy to the mill and at an affordable rate. In recent years, several flooding events have destroyed thousands of hectares of rice. The recent increase in diesel prices has led to high transportation costs, impacting paddy rice’s landing cost. The Russian-Ukraine war has starved the sector of the required fertiliser, and agribusinesses are struggling with the lingering effect. Without the fertiliser, yields and hence, productivity would drop. The poor productivity will lead to a shortage of paddy in the market, and several companies that have invested millions of dollars will be starved of sufficient paddy; many more will shut down as a result. And then there are those factors that are external to the sector. Covid-19 sent a major shock across the entire world. The local agriculture companies were not spared. Many of them could not weather the disruptions that came with the shutdowns. Many more struggled under the weight of non-performing loans that could not be serviced because of the business slow-down. Due to these unforeseen shocks, it is becoming increasingly difficult for companies in the sector to sustain their operations, talk less of having new entrants into the market. Nigeria cannot shy away from enabling the companies in the industry that generates about 35% of the total employment in the country.

The first recommendation the authors of the article suggest is for a firm to have awareness and recognition of all serious threats to its supply chain or business model, which they call “disruption orientation.” This involves thoroughly analysing all points where a firm is vulnerable to external shocks that may disrupt business. The food and agribusiness supply chain is complex as products go from farm to processing to marketer to retailer. Understanding this interaction is crucial for identifying the key risk areas for a firm.

The authors’ second recommendation is to formulate a proactive risk management strategy for each risk identified in the first step. The key here is the emphasis on proactive. The authors find that many firms wait for an event before formulating a plan. They find that firms that have already planned for such an event are more resilient, meaning they return to normal operations faster. Managers must be forward-looking to identify methods of shielding their firm from risks.

The third recommendation is investing in risk-averting infrastructure. For weather-related events, this is straightforward. Invest in infrastructure that allows you to operate through a crisis. However, it can be more complicated for other types of supply chain disruptions. For example, suppose an agribusiness currently has one supplier of a particular input. In that case, it may be worthwhile to form a relationship with a secondary supplier and purchase a small number of inputs from this supplier. This makes switching suppliers easier if the primary supplier cannot meet their obligations and reduces switching costs.

The final recommendation is resource reconfiguration. Resource reconfiguration is the capability of the firm to rearrange existing assets to meet the needs in a changing environment. Whereas previous strategies focused on one risk, this final recommendation takes a more holistic view of the firm. Sometimes individual responses, while needed, are not enough to fully recover from an external shock. In some scenarios, businesses are forced to change whole segments of their business model. This may include production practices or reshaping their segment of the supply chain. In cases where a firm has strong inertia,

swiftly adapting to changes may be difficult. The authors suggest that managers practice rearranging a firm's assets in likely scenarios to understand better what their firm may look like in these situations—in a dynamic marketplace, adapting the firm's business model as quickly as possible bolsters its resilience.

These factors are critical to building a resilient business. However, there are several other factors required to scale a business. What it takes to start a company differs from and sometimes counters the requirements to scale one. There is an increasing requirement for proper governance, processes & systems, technology, partnerships, and infrastructure development.

How are these factors related? What are other factors critical for starting and scaling a resilient agribusiness? What are the challenges? And how can they be mitigated?