



Transaction costs and international competitiveness

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Presented at agri benchmark, Beef and Sheep Conference, Saskatoon, June 23 2017

“For the company, competitiveness is the ability to provide products and services as or more effectively and efficiently than the relevant competitors. In the traded sector, this means sustained success in international markets without protection or subsidies”

www.tci-network.org/media/download/1185

“the set of institutions, policies and factors that determine the level of productivity of a country”

(World Economic Forum)

What is competitiveness?

“At the industry level, competitiveness is the ability of the nation's firms to achieve sustained success against (or compared to) foreign competitors, again without protection or subsidies”

www.tci-network.org/media/download/1185

“Ability of a firm or a nation to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them”

<http://www.businessdictionary.com>

Case study of international competitiveness: The Danish pork sector

- Once upon a time, over a beer, three ag. economists had a question . .
- **... why was Denmark such a successful pork exporter?**





- Denmark: 5.614 million people; 43,094 Km²
- Denmark = 130 people per Km²
- Canada = 3.5 people per Km²

Case study: Danish pork sector

- **Denmark**

- Land is scarce & relatively high priced

- **Canada/US**

- Lower land costs, fewer constraints



- European Union's
**Common
Agricultural Policy
(CAP)**
- Feedgrain prices



Case study: Danish pork sector

■ Denmark

- Land is scarce & relatively high priced
- High feed costs (EU CAP)

■ Canada/US

- Lower land costs, fewer constraints
- Access to relatively low priced feed



- Strict environmental regulations
- Limits on farm size related to land capacity required for disposal of manure

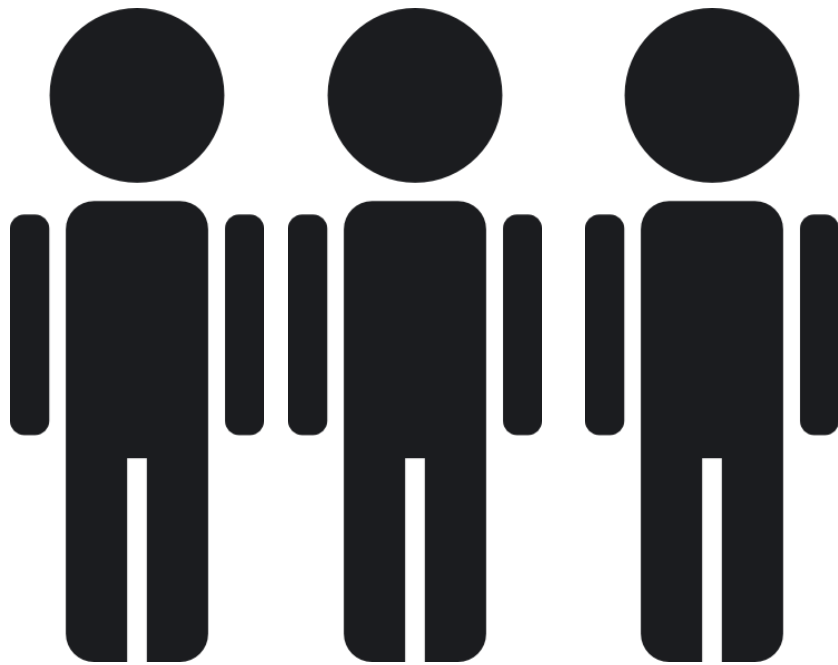
Case study: Danish pork sector

■ Denmark

- Land is scarce & relatively high priced
- High feed costs (EU CAP)
- Very restrictive environmental regs.
Limits on farm size

■ Canada/US

- Lower land costs, fewer constraints
- Access to relatively low priced feed
- Less restrictive environmental regs
(relatively)



■ High
labour
costs



Case study: Danish pork sector

■ Denmark

- Land is scarce & relatively high priced
- High feed costs (EU CAP)
- Very restrictive environmental regs.
Limits on farm size
- Very high labour costs (processing)

■ Canada/US

- Lower land costs, fewer constraints
- Access to relatively low priced feed
- Less restrictive environmental regs
(relatively)
- Lower labour costs (processing)



Image: http://www.worldphoto.org/_assets/images/c-Alastair-Philip-Wiper-1.jpg

- Slower processing line speeds

Case study: Danish pork sector

■ Denmark

- Land is scarce & relatively high priced
- High feed costs (EU CAP)
- Very restrictive environmental regs.
Limits on farm size
- Very high labour costs (processing)
- Lower packing plant throughput

■ Canada/US

- Lower land costs, fewer constraints
- Access to relatively low priced feed
- Less restrictive environmental regs
(relatively)
- Lower labour costs (processing)
- Higher throughput (lower unit costs)



■ Distance to market

<http://www.sldinfo.com/wp-content/uploads/2012/08/bigstock-Map-Of-Japan-And-Japanese-Flag-1191275.jpg>

Case study: Danish pork sector

■ Denmark

- Land is scarce & relatively high priced
- High feed costs (EU CAP)
- Very restrictive environmental regs. Limits on farm size
- Very high labour costs (processing)
- Lower packing plant throughput
- Further from lucrative Asian markets

■ Canada/US

- Lower land costs, fewer constraints
- Access to relatively low priced feed
- Less restrictive environmental regs (relatively)
- Lower labour costs (processing)
- Higher throughput (lower unit costs)
- Closer to Asian markets

Conventional wisdom?

By any standard cost of production
measure the Danes should not be
competitive . . .

Case study: Danish pork sector

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Limits on farm size
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■ Canada/US

- Lower land costs, fewer constraints
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(relatively)
- Lower labour costs (processing)
- Higher throughput (lower unit costs)
- Closer to Asian markets

Reality?

- 25-30% of global pork exports
- Large share of Asian markets

Competitive advantage...

- Not subsidies....
- **Organization of supply chains**
- Demand/market driven
- Tailored different products to different markets
- Close coordination between farmers, processors, distributors
- Industry association
coordinated market research, breeding research, meat research...
 - ❖ communication within the industry
- ➔ A value chain approach

Three C's of competitiveness:

- Coordination
- Commitment
- Communication

Lessons from the Danish pork case

- Key to understanding the Danish pork example is to understand how they used **information** within their supply chains to competitive advantage
- Reduced **transaction costs**
- Identified & responded to market demands
- Closely coordinated supply (value) chain

What are transaction costs?

- The costs of carrying out an exchange, of conducting a business relationship
 - Not typical “accounting” costs
-
- Search (information) costs
 - Negotiation costs
 - Monitoring and enforcement costs

Transaction costs

- Search
(information) costs
- Negotiation costs
- Monitoring &
enforcement costs

EXAMPLES:

- Costs of discovering prices
- Costs of identifying buyers/sellers
- Costs of determining quality
- Agents and commission fees
- Costs of drawing up a contract
- Monitoring the activities or performance of the buyer or seller
- Ensuring that payment is received
- Ensuring that the right quality is supplied

What does research tell us?

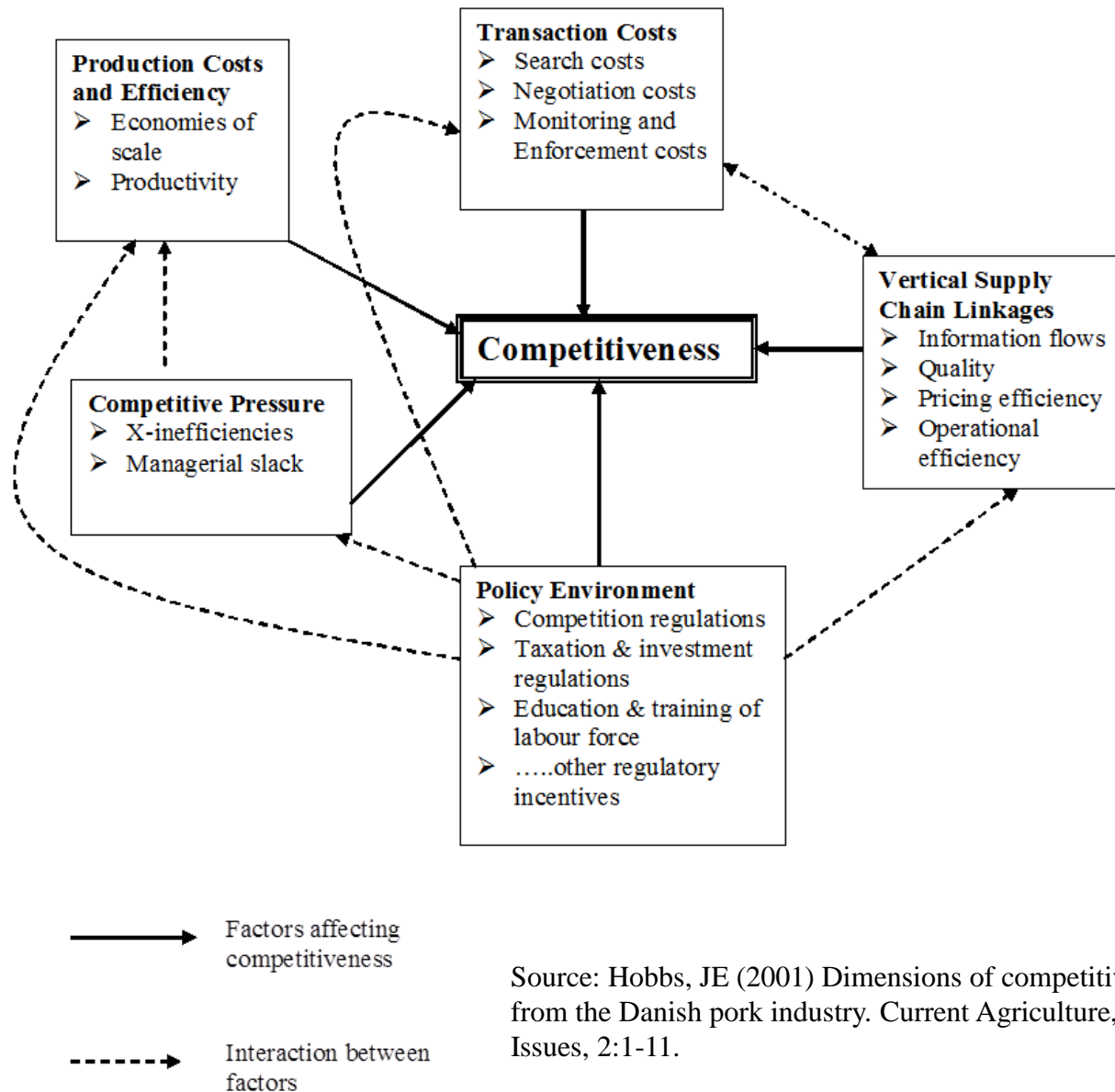
- Transaction costs influence the efficiency of different supply chain relationships
- Changing nature of vertical coordination (contracts, alliances, vertical integration)
- Durable buyer-seller relationships require commitment, trust, interdependence, transparency, mutual investment, effective information flows

Challenges in beef supply chains

- Common themes:

- Lack of negotiating power
- Adversarial relationships
- Concentration and competitive pressures
- Poor price transmission
- Divergent regulatory environments





Figure 1: Factors Affecting Competitiveness



Source: Hobbs, JE (2001) Dimensions of competitiveness: Lessons from the Danish pork industry. Current Agriculture, Food and Resource Issues, 2:1-11.

Take home message

Competitiveness is multidimensional

- Production costs 
- Regulatory environment 
- Transaction costs 
- Supply chain coordination,
communication, commitment 



Thank you!

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