Proceedings of IYSC, (2022), vol. 11

Journal homepage: http://journals.sdu.edu.kz/index.php/iysw

2022 International Young Scholars' Conference

APPLICABILITY OF CANVAS BUSINESS MODEL AS A TOOL FOR ANALYZING SMALL AND MEDIUM ENTERPRISES IN AGRICULTURAL INDUSTRY OF KAZAKHSTAN

A. Beknazarov

M. Narikbayev KAZGUU University, Nur-Sultan, Kazkahstan

Abstract

Agriculture as an economic sector of any country, perform a significant role in its development, progression as an independent country and improvement of the social life of citizens. Problems in the field of agriculture lead to social tension and instability in society, so its development is controlled in all countries. When Kazakhstan has been part of Soviet Union, the Country were developed mainly as an agrarian republic, being one of the main producers of meat, wool and grain throughout the USSR. 30 years after independence and the market economy transition, there are certain problems in the field of agriculture in the country, which the state is trying to solve by means of providing preferences to investors. Despite all the efforts made by the state, in order to solve the problems of small medium enterprises in the agricultural sector, a clear understanding and analysis of business models, internal and external factors and the use of advanced frameworks is necessary, which is the main topic of this master's thesis.

*Keywords***:** agriculture, canvas business model, strategic management

Introduction

The aim of this master thesis is to determine the existing business models of companies operating in agricultural sector of economy in Kazakhstan, particularly: identifying the strengths and weaknesses of the different business models that used in market, identifying methods for improving existing business models and researching new business models that will help small and medium-sized agricultural business to develop and improve its financial performance. In accordance with the aim above, my master's thesis will address the following objectives: Analyze the agricultural market in Kazakhstan, identify companies representing small and medium-sized businesses, determine the main types of activities, study the business models used, consider the problems and difficulties that small medium-sized businesses face and develop the most effective methods for solving them by using acquired knowledge from strategic management class.

The business model is a summary of how the process of creating, delivering and capturing value will go. An important element of the business model is how the company plans to implement its value proposition in order to profitably offer its product or services to customers using its own resources and the resources of its partners (Osterwalder and Pigneur, 2010).

According to Kazdata.kz research (2021), there are three main business model that companies are engaged in - crop production, livestock production and mixed production. Due to severe winters in Kazakhstan, crop production in the country is represented largely by grain crops. As for animal husbandry, according to the data obtained from Kazdata.kz (2021), this category can be divided in two major types - raising cattle and sheep, poultry farms.

According to an article on increasing the competition on the market of agriproducts in Kazakhstan written by Kerimova et al., (2015) there are 3 main problems due to which the market for agricultural products in Kazakhstan does not have proper development. The first is the fragmentation of small and medium-sized businesses or the absence of vertically integrated enterprises. The second problem described by the author in this article is the technical and technological backwardness of this sector of the economy in Kazakhstan. The last problem mentioned by author was low profitability of the agricultural business.

Madiyev, G. et al. (2018) writes in his work that one of the key problems of business models of small farms is that communication between farmers involved in crop production and companies that are engaged in the procurement, storage and sale of finished products is disrupted in Kazakhstan. The author considers the creation of cooperatives as a solution to the above problems, thanks to which producers will have a stable sales market, which in turn will increase their attractiveness for investors or help facilitate the procedure for obtaining a loan from a bank.

Lukhmanova et al., (2021) writes about how to increase the competitiveness in the agricultural market and suggests that, the state needs to consider the evolution of financial and economic mechanisms that will make available the main innovations in progression of the agro-industrial sector for SME in Kazakhstan, among which the authors list subsidies and grants for highly effective technical developments that will have a commercial benefit to the industry as a function of repayable financing.

For the convenience of visualizing the value proposition of a company or an individual product, Osterwalder proposed an existential business model for digital business. Subsequently, teaming up with Pigneur (2009), they built a canvas business model based on these developments. The newly created business model canvas includes nine elements that need to be considered when we evaluate the company's business model: Value Propositions, Customer Segments, Channels, Customer Relationships, Revenue Streams, Key Partners, Key Resources, Key Activities, Cost Structure.

Research question

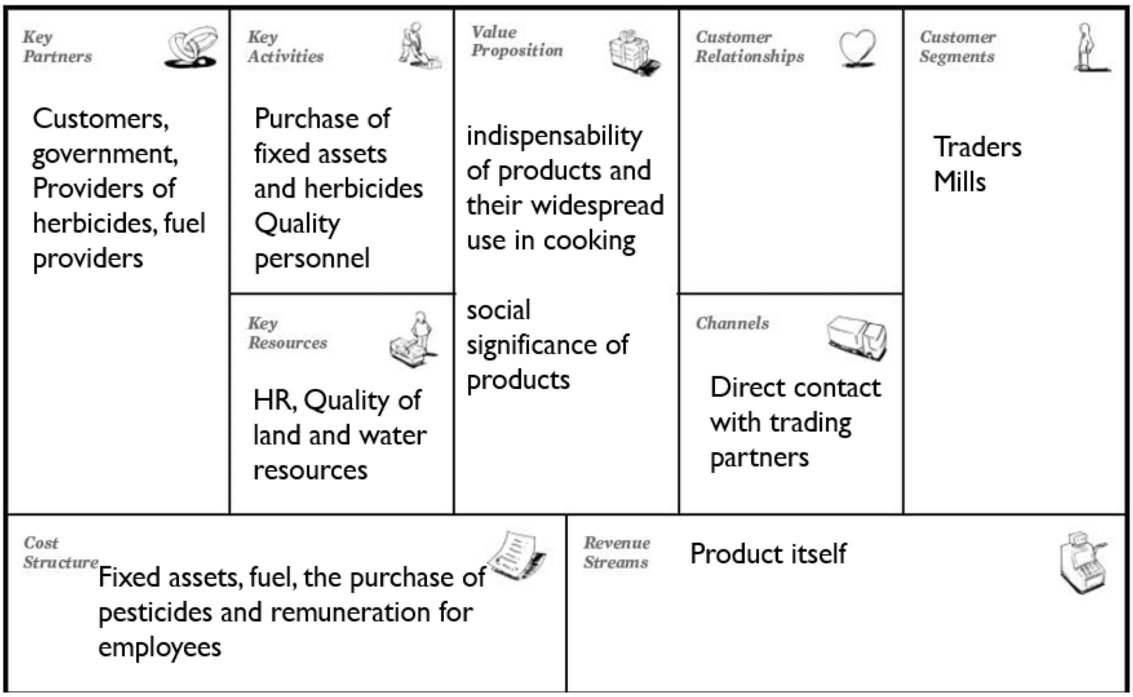
Is Business model Canvas approach applicable for analyzing main operational and strategic problems of small and medium sized enterprises of agricultural sector in Kazakhstan?

Based on the results of the analysis of the canvas business model, which improvements can be made to existing business models how they can increase the competitiveness of small and medium-sized enterprises in the agricultural industry in the domestic market?

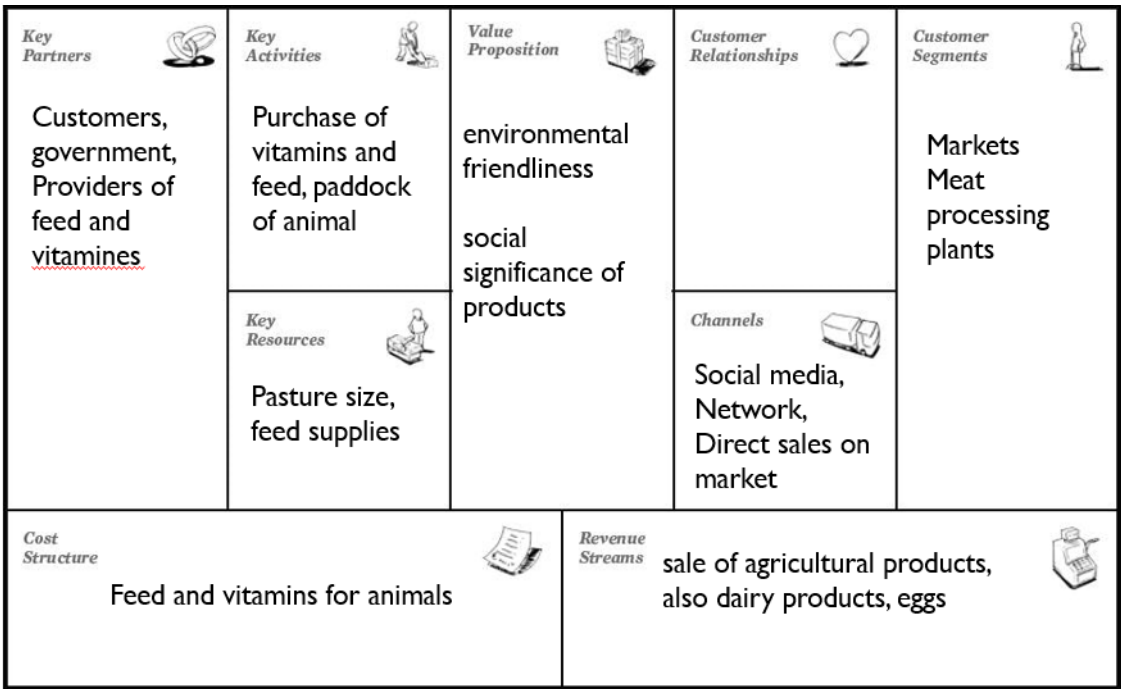
Research methodology

The chosen research methodology is a business case study method combined with an in-depth analysis of the agricultural market. Investigation of the existing business models of small and medium-sized businesses, the main activity of which are crop production, livestock and poultry farms. Understanding of business processes, conducting online survey to the company's management. The questionnaire that the respondents filled out is based on questions that are key in building a canvas business model, since filling it out implies indicating the main factors influencing business processes within the company. In other words, the questionnaire consists of the main nine blocks of the BMC, in addition, some questions are aimed at obtaining a general understanding of the market, such as whether companies use subsidies provided by the state or what is the attitude of the management of agricultural companies to the creation of cooperatives. These questions are necessary to create a common understanding regarding the mechanisms that are used by the state and what mechanisms can be applied, in the author's opinion, to increase the competitiveness of companies in the market. The chosen sampling technique is snowball sampling, since the farmers rarely provide their contacts in public. Fill of the Business Model Canvas to describe business models, with a description of all business processes - Infrastructure, Offering, Customers, Finances. Having answers from representatives of various companies, the author means filling out the canvas based on the most common answers, that is, defining patterns so that the completed table can be applied to all participants in the questionnaire.

Results



Picture 1- Business Model Canvas for Crop production company



Picture 2- Business Model Canvas for Livestock production and poultry farm

If we evaluate the canvas business model of both crop and livestock production separately, considering all the pros and cons of these business models, we can conclude that most of the advantages and disadvantages of the crop production and livestock breed business models overlap, which suggests that the mixed farming method is the best business strategy from the customer segmentation side. If crop growers do not have a large number of distribution channels, then livestock breeders, in turn, have the opportunity to sell their products as they want - both as wholesale deliveries to other businesses, and as retailers in the markets. This feature makes it possible to diversify income both by type of activity and seasonality, since most of the sales of crop growers occur after harvesting and sometimes after wintering if market prices are not satisfactory. Equally important is the fact that grain waste can be used as a food base for animals. One of the biggest costs for livestock farmers is the purchase of feed, and the hybrid business model brings the possibility of savings through the processing of grain products.

The limited vision of agronomists' business methods becomes a bottleneck in their business processes, business owners sell only basic agricultural products to a narrow circle of trusted partners in the form of traders and mills. The possibility of direct participation in a convenient marketplace will help agronomists control the sale process and reduce dependence on the trader's market. Another problem with a realization of the product is that in Kazakhstan there is no system for the sale of production residues. The creation of a cooperative in which crop and livestock breeders will participate in order to provide the latter with a fodder base can have a positive impact on savings in the cost of feeding livestock.

Considering that almost all respondents answered the high cost of running their business in the top 3 main problems, the best business model for farming is cost leadership. On the part of strategic management, this means managing your expenses, finding a method for optimizing them, and this can only be achieved if you control your expenses. However, almost all respondents answered that the main financial indicator they use is productivity and annual revenue. On the value creation side, the problem that differentiation in the agricultural market is almost impossible - all market players supply the same product, the depth of the market allows you to find another supplier and the high costs incurred will not always be capitalized due to instability product prices on the market. The presence of economic innovation in the use of energy-intensive business practices can be a solution to the problem.

References

1. Kerimova, U., Rakhimzhanova, G., Beibit, A., Gulnur, Y. (2015, July 30). Improving the competitiveness of agricultural products is the basis for food security in Kazakhstan. Asian Social Science.
2. Madiyev, G. et al. (2018). Fostering Investment-Innovative Activity within the Agro-Industrial Complex of the Republic of Kazakhstan. Journal of Environmental Management and Tourism.
3. LUKHMANOVA, G., BAISHOLANOVA, K., SHIGANBAYEVA, N., ABENOV, B., SAMBETBAYEVA, A., & GUSSENOV, B. (2021). Innovative development of the agricultural sector of the Republic of Kazakhstan.
4. Osterwalder, A., & Pigneur, Y. (2009). Business Model Generation.