



## **The displacement of competitive positioning of an industry after changes in agribusiness chains: the case of commoditization of the agrochemicals industry in Brazil.**

### **Abstract**

The displacement in the competitive position of an industry changes the flow of demand and modifies the strategic options that each company has to compete in the market and increase its sales in a sustainable manner.

The commoditization process moves a segment of the industry from a position related to innovative products and strong generation of margins to an approach more focused on less differentiated products, higher number of suppliers, and results focused on volume of sales and turnover. That is, the strategic position of the industry has changed from differentiation to cost leadership.

In the Brazilian industry of agrochemicals, that shift in the competitive positioning can be checked. However, there is a movement in another direction. Companies typically positioned as cost leaders have begun to invest more heavily in actions and strategies associated to differentiation companies (Rocha, 2007).

The paper presents a literature review about strategy (Porter, 1986; Ghemawat, 2000), strategic positioning and the Delta Model (Hax and Wilde, 2001) in order to analyze the decisions of a multinational agrochemical company acting in Brazil, which takes an intermediate position of differentiation, considering the influence of cooperative and relationship networks.

### **1. Introduction**

The competitiveness analyzed in the agribusiness chains over time leads to changes in the so-called 'Competitive Positioning of the Industry' (Hax and Wilde, 2001). After the recurring cycles of marketing actions for product launches, sales, relationships with customers and management of client's portfolio in post-sales, there were changes in the structure of the competitive positioning of the industries and the consequent displacement of demand by the final consumers.

Among the major changes in competitive positioning of industry seen in Brazilian agribusiness chains in recent years, one that stands out is the commoditization of the industry for agricultural inputs. This commoditization is verified from the moment that the most demanded products do not hold patent protection anymore and thus become provided by a larger number of industries, leading to increased supply and consequent reduction in products' prices by unit.

The main goal of these industries is to seek an effect of 'perceived differentiation' on customers, not necessarily attributed to intrinsic differentiation of the product that is being marketed, but rather, through strategies typically called by the area of marketing as 'augmented product' (Kotler and Keller, 2006). I.e. to seek higher margins on sales because of products and services associated with the main product traded.

This intermediate position, established among the polar strategies proposed by Porter (1985), is studied by experts in strategy with the terminology 'stuck in the middle' (Hill, 1998) and

tries to explain the motivation of certain industries to make option for unconventional strategic positions.

However, in the case of Brazilian agricultural inputs industry, the change in positioning is attributed to the pressure done by the partners' network of the manufacturers. In other words, these companies have a strong dependence on their distributors' networks in the development of demand on their products and, consequently, these agents are strong influencers to the modification of industry's competitive positioning.

Therefore, in synergy to the review of agribusiness chains and how the competitive positioning is influenced by the agents' competitiveness, it is proposed a literature review focused on the analysis of agribusiness networks (Aitken, 1998; Dyer and Singh, 1998, Stuart et al., 1998; Lazzarini, 2008).

In this condition, the proposition of 'stuck in the middle' (Hill, 1998), as a theoretical model to explain the motivation of companies to adopt an intermediate position, cannot be applied to environments where the influencers' networks exist. This statement comes from the finding that this theoretical orientation focuses on the strategic positioning of only one company, and not an industry, influenced by different companies, intermediaries and customers.

Thus, the search for theoretical models that help to understand the changes that occur in an industry as representative as the agricultural inputs for Brazilian agriculture is needed in order to deepen the knowledge concerning industrial strategies in agribusiness.

## **2. Objectives**

This article seeks to understand the events that lead to change in the competitive positioning of the Brazilian agricultural inputs industry and the network influence in this change. As specific objective, it intends to raise the issue of strategic positioning as a major factor for the development of marketing strategies that enable continued growth of the companies.

## **3. Methodological Procedures**

This paper is qualified as a qualitative and exploratory study focused on verification of applicability of a theoretical concept, without corroborative quantitative analysis or even provable results, but rather seeks to clarify and identify the theoretical explanation for the mutations that drive major strategic players in Brazilian agricultural inputs market.

Through a literature review of strategies for Competitive Positioning, we attempt to identify in the Brazilian agrochemicals market, from the strategic movements of companies with low product differentiation, facts that show the search of these agents by adding value not linked to differentiation of products they produce.

In reviewing the concepts applied to Competitive Positioning, the methodological framework called Delta Model (Hax and Wilde, 2001) was identified as the most aligned with the objectives of this study, because it is the only model of competitive positioning applied to networks' environments, an intrinsic aspect to the marketing of agricultural inputs in Brazil.

In a second step, the applicability of the Delta model was checked with the strategic changes on competitive positioning developed by a leading company in the segment of generic agrochemical products, which serves as a case study of this work.

In parallel, a survey with 38 partners distributors of the company used as the object of this study was developed in order to prove the perception and alignment of partners' network on the competitive position of the supplier.

From the use of the Delta model in that case, it is intended to identify key opportunities and bottlenecks that competitive positions offer to agricultural inputs companies in Brazil.

#### **4. Theoretical framework**

In the marketing perspective, what the buyer demands is not the product itself, but the service or solution to a problem that the product is supposed to provide. The role of strategic marketing is to follow the evolution of reference market and identify the different products for current or potential segments, based on the diversity analysis of the needs to be met (Lambin, 2000).

The companies envision getting a unique position for their products in the market, without the threat of competitors, ensuring profitability, dominating market segments with high attractiveness and high potential (Adcock, 2000; Cravens, 1994).

However, the attractiveness of the segment also depends on the competitiveness of its offer, which will be on the extent that the company holds a competitive advantage, either by product characteristics different from those of competitors or due to superior productivity that gives cost advantages (Lambin, 2000).

Competitive advantage here is understood as something the competition does not have or cannot get in short term. This comes in general as a result of company performance relative to competitors through characteristics or attributes of a product or brand, which give it certain superiority over its immediate competitors (Hamel and Prahalad, 1994).

Thus, the role of strategic marketing is to guide the company towards existing opportunities or to create attractive opportunities well suited to its resources and expertise, which offer growth potential and profitability (Lambin, 2000; Toledo, 1973).

##### **4.1. Competitive Positioning**

Although the value propositions are exclusives to the combinations of value packs from each company, they can be gathered under concepts called 'generic strategic positioning', which flourished from the 1980s. According to Mintzberg et al. (2000), the so-called 'positioning school' supports the choice of a few key strategies in the search for a competitive advantage.

In this review, it is necessary to highlight Porter (1986) and Treacy and Wiersema (1995), who make converging propositions on generic strategic options.

Porter (1986, p.49) proposes two generic strategies for companies that want to operate in a broad scope of market:

- a) **cost leadership**, which involves the pursuit of efficiency and cost reduction as the catalyst for the entire organizational effort, maintained parity with the competition in other value attributes and;
- b) **differentiation**, which requires the choice of an value attribute recognized by target customers and in which the company must provide performance far superior to the competition, and for which customers are willing to pay the additional cost required to produce it, and another award in the form of profit.

For companies operating in a narrow market scope, in regional terms, or according to other criteria for segmentation, Porter (1986) recommends the generic strategy of 'focus', which also requires the adoption of one of two strategies described above.

Treacy and Wiersema (1995), in turn, conducted research with leading companies in different sectors and classified these companies into three groups, based on the core values they generate for customers and proposed three generic strategies relating to: a) product leadership, b) intimacy with the customer, and c) operational excellence.

One can interpret that the 'product leadership' and 'intimacy with the consumer,' by Treacy and Wiersema (1995), correspond to the main forms of Porter's 'differentiation', while 'operational excellence' can be understood as 'cost leadership' strategy.

Additionally, to Treacy and Wiersema (1995), the effective maximizing and delivery of the implied value of the three generic strategies depends on the development of dedicated 'operational models', which involve a combination of organizational and managerial structures, processes and culture, or 'value disciplines'.

Porter (1986), in turn, recommends that to produce the implicit value to the generic strategy, it is necessary to plan, understand and operate the so-called 'value chain', or flow of value activities, and 'links' between activities.

According to Toledo et al. (2007), competitive strategies have intimate relation with how the dynamics and competition rules are understood in each sector of the economy. Thus, the determinants of market attractiveness, barriers to entry, strengths of competitors, among others, should be considered. The author points out that all factors of relative importance for this analysis are highlighted by Porter's five forces (Porter, 1986).

Oliveira et al. (1998) understand that the positioning seeks to stimulate an awareness in the target group of the offer, by adapting its variables to the aspects he valued, making it distinctive from the competition. It results in the following concept: 'Positioning is the definition of a value proposition that interests to the company, which is significant to a target group and that, in its perception, is more attractive in relation to the proposals made by the competition' (Oliveira et al, 1998, p.76).

Thus, in a simplified way, the positioning is the development and transmission (rooted in a brand) of a value proposition, from significant aspects for a particular target group, which will be processed and compared with competitors, giving rise to perceived positioning.

## 4.2. Delta Model

According to Toledo et al. (2007), Porter's models (1986) and the process of strategy formation have been widely discussed under different perspectives in the Brazilian academic circles, as evident, for example, in the articles of Bertero et al. (2003) and Vasconcelos and Cyrino (2006).

On the other hand, many theoretical persons on strategy, analyzing the positioning model of Porter, point to possible gaps in the light of contemporary business scenario (MINTZBERG et al, 2000).

To interpret the strategic process in the context of contemporary globalized and competitive environment, the Delta Model, developed by Hax and Wilde (2001), offers a different framework. The model emerges from the analysis of global companies that operate within the new reality of the competitive business environment.

In the authors' conception, the Delta Model is proposed to establish connection and integration points between traditional conceptual models of two schools, Resource Based View (RBV) and Competitive Positioning, placing the customer at the heart of strategic propositions. In methodological terms, the Delta Model:

- a) defines the strategic positions that represent new sources of income and benefits in the company's performance at international level;
- b) aligns the strategic options with the operational activities of a company, providing consistency between the strategic direction and execution;
- c) characterizes processes that can respond to uncertain environments.

The Delta Model assumes that the competitive system of a company, the architecture, the articulation and realization of relationship with the customer emerge as decisive elements for setting the strategy. Hax and Wilde (2001) call 'customer bonding' as the mechanism for creating almost inseparable bonds with customers, which are made directly or indirectly, through complementors, external elements to the offer itself.

The Delta Model conceives its central position as a management scheme, in which the strategy is developed founded on a system of close relations between company, complementor, and client.

The Delta Model establishes three types of competitive position represented by a triangle whose vertices refer to each of the following positions: (a) best product, (b) total solution for the customer, and (c) system lock-in.

At best product option, the spotlight is on the company's competitors, generating little or no action by the client. All efforts and resources are devoted to product competition.

Highly product-oriented companies on the one hand, have a high concentration of assets in research and development (R&D) structures and are highly dependent on the margins obtained through differential pricing of their products. On the other hand, when the concentration is on low added value products (among them the generic ones), investments in R & D are reduced and these companies are strategically directed to produce, since the focus is the maximum reduction of costs in order to compete in market with low prices.

The strategic choice of the total solution for the customer differs in much from the best product option. It assumes that the focus, efforts and resources of the organization should be in line with the customers' expectations and desires in order to serve them. This strategic choice is highly based on attributes of customer orientation (Day, 1990) and market orientation.

In the latter, the company focuses on not only the product or the customer, but also the other players in the system that contributes to the creation of economic value. The position of system lock-in is the strongest form of bonding, deserving special attention to the part called complementor. According to Brandenburger and Nalebuff (1996, p.18), 'a participant is a complementor if customers appreciate more his product in situations in which it is presented together with the product of the participant, than in situations in which it is presented itself isolated.' The significance of complementor involves the idea that the complementor is not necessarily a competitor or a supplier.

To attract, satisfy and retain customers, the company also needs to attract, satisfy and retain complementors, which raises the value of the system, due to the greater participation of components. Thus, all enter into a zone of economic expansion and increasing returns.

However, the occurrence of lock-in depends on the occurrence of two conditions: (1) the existence of increasing marginal returns and (2) effects of external network. Increasing marginal returns show a higher value of a product or service due to the increasing number of users and amount of use. The external network reflects the attractiveness of the product, since it results not from the characteristics of the product, but the investments made by the other parties, especially customers and complementors (Hax and Wilde, 2001).

## **5. Case Study**

Cheminova is a multinational company based in Denmark, founded in 1930, active in the chemical sector, and it produces and sells open patent agrochemicals in Brazil.

Its initial focus was the development of raw materials for the primary chemical industry. In the 1940s, the organization underwent its first major change in strategic direction, with the donation made by its founder of the entire organization to the University of Aarhus also in Denmark. This donation has generated new direction for Cheminova in terms of market access and technological development of its products.

During the 1980s until the beginning of 1990s, Cheminova realized the global demand for chemicals used in agriculture and began supplying active ingredients to a large number of established companies in this sector, becoming thus an important provider.

The year 1992 leads to another big upset in the strategic positioning of the company, which now access the market through products branded Cheminova. To this end, it began to develop different strategies for market access or 'Go to Market' (Nalebuff and Brandenburger, 1996), both by acquisition of pre-established companies, as by building their own manufacturing facilities.

The arrival to the Brazilian territory occurred after late 1990s, more precisely in 1998, through the purchase of product registrations from domestic and small companies. The

acquisition of registrations allowed the entry of the company in the domestic market, importing active ingredients produced in its factory in Denmark.

Upon the entry into the Brazilian market and taking advantage of competitive differentials arising from importing their products (via exchange incentives for imports) or even for periods of high market demand (e.g. the incidence of soybean rust in the early 2000s that boosted sales of fungicides), Cheminova has achieved significant annual growths.

However, the competitive dynamics of generic agrochemicals market intensifies every year in Brazil, pushing for actions of competitive differentiation, even for firms categorized as belonging to markets with low perceived differentiation.

Thus, while maintaining the focus of its marketing activities in the segment of open patent or generic products, Cheminova has adopted strategies of product portfolio, customer care and services with a strong market orientation, aiming competitive advantages.

### **5.1. Agrochemicals Market in Brazil**

The agrochemicals industry in Brazil is considered one of the most competitive sectors of agribusiness. This competitiveness arises from the constant need of innovations originating also from the seasonal emergence of new diseases and pests that affect the productive system. According to the National Association of Plant Protection (Andef), this is a market which earns around 6.5 billion dollars a year, and positioning the country as the world's largest consumer of that kind of product, ahead of the United States.

This market growth and attractiveness promoted several changes in the competitive landscape over the last fifteen years. The companies that led the segment of new products heavily invested in economies of scale, innovation and increased product portfolio through mergers, giving origin to the current companies competing for leadership on innovation market: Syngenta (merger of ISK Merck, Maag, Stauffer, Sandoz, Ciba Geigy, Zeneca / ICI and Novartis), a market leader; Bayer CropScience (merger of Bayer, Aventis, Union Carbide, Schering, Hoechst, RhonePoulenc), second one in the rank, and BASF (that acquired companies Celamerck, Shell, Cyanamid).

These three companies, as well as Dow, Monsanto and Du Pont, form, currently, the six largest companies in Brazilian agrochemical sector considering financial results and position themselves in the market with the terminology known as 'specialties', what means companies that have focus on investment in market innovation.

Due to the time required to develop new products and the high costs involved, the companies that form the segment of specialty look for legal protections to market their new releases. For that, seek patent protection on new formulas that protect competition for a certain time (usually patents on agrochemicals have durability of ten years, with possibility of extension).

Over the years and the renovations demanded by the market, some traditionally used products have lost their patent protection. The agricultural market started to experience the entry in the country of the 'generic industry', characterized by analyzing market potential of high demand products, producing them efficiently and delivering them to users through the same distributors, historically partners of the specialty industry. Thus generics came to occupy a significant space in the market.

Thus, in the mid-2000s, the market began to be attended by two groups of companies, specialty companies, formed by companies previously presented, and generic companies, formed by Makhteshin / Milenia, FMC, Agripec / Nufarm, Ihara, Nortox Cheminova and Arysta, among other ones of smaller scale, some of them present in Brazil for over 30 years.

Currently, the agrochemicals market shows a participation of specialty companies of 22% in terms of sales volume. However, this volume represents a market leadership in financial returns, since that result in 58% of sector income. The generic companies, both traditional and the entrant ones participate in the market with 78% of the volume, however, representing only 42% of revenue (Sindag).

The development of the generic segment not only in Brazil but worldwide leveraged the growth of these companies and also provided some modifications through acquisitions and mergers. The most representative for the Brazilian market were the merger of Makhteshim Agan, owner of Milenia (traditional generic agrochemical company), with the giant Chemchina, forming the world's largest company in the segment; the acquisition of Agripec by Nufarm, an Australian company and second worldwide company in volume of generic production in the world; besides the purchases of product registrations in the Brazilian market, as the strategy used by Cheminova.

These consolidation movements also transformed the competitiveness in the generic segment, forming around ten companies with greater wingspan leading the segment and a competitive fringe of small and medium enterprises, which have recently entered the market, attracted by the growing revenue potential.

However, the low profitability of the generics segment and hence the returns it brings face the investment to make large volumes available to the market is among the issues for discussion of traditional companies in the segment, when discussing competitiveness. This concern is driven by low barriers to entry for new competitors, prevailing in the present scenario. Thus, companies with longer and consistent history in the Brazilian market seek to position themselves in a third segment, called the Post-Patent.

This market position is motivated by the companies' perception that both the products they offer as well as how they invest in the market in terms of distribution, services, mixtures of products, portfolio and customer relationships have differences regarding purely generic companies (new entrants) that have as a guideline only the lowest final price for their products.

Under this view, the market competitiveness should be understood in three groups of companies that compete both within their specific group and among groups. These groups would be defined as:

- I) **Specialties**: companies with a focus on investments in R&D and, consequently, product innovations, but they hold in their lines some products without patents, with the intention to acquire sales through force of their brands;
- II) **Post-patents**: companies previously forming the generics segment and with traditional presence in the national market for agrochemicals, but do not exclusively center their focus on operational efficiency in order to generate the lowest cost and hence the lowest price. They practice the development of products and make

investments in relationship and services, seeking perceptions of differentiation, although their products are open patent;

III) **Generics**: entrant companies in market, mostly with low investment in products or distribution strategies and market relations. The focus is highly concentrated in lower final price. In the vast majority they are importers of finished products or of low price active components to be mixed in Brazil.

The implementation of this new proposal of market positioning suggested by traditional generics companies is even quite complex, since both the consumer market and the distribution market do not understand the market competitiveness in this way. However, there is a growing business investment accordingly.

## **5.2.Competitive Positioning of Cheminova**

In this environment, Cheminova is configured as one of the leaders of the generics segment in Brazil. Highly focused on this market, the company has, over the years, diversified its business strategy, seeking to grow through customized solutions, developing value discipline 'customer intimacy', targeting on strategic markets and differentiation from the competing companies by strengthening the brand.

This investment in strategic diversification in order to obtain differentiation face the competition calls attention to the innovative character. The theory of strategic management and competitive positioning explains that companies with low differentiation potential of its product portfolio, few investments in R&D and low added value tend to behave strategically in 'product focus,' however, with the direction for reducing costs of their internal processes (such as manufacturing, for example), in order to provide a final differentiation on price.

However, what can be seen in the performance of Cheminova and other companies in generics segment is the adoption of differentiation strategies that more closely resemble the actions verified in companies positioned to focus on intrinsic differentiation of product, or better product. The strategies are even similar to companies focused on delivering value to the customer, addressing aspects of the total solution for the customer, not performing in practice, conceptual premises of strategy for companies like this - the cost leadership.

This statement can be understood as one of the major strategic difficulties of the generics segment, the definition of competitive positioning. Being a market where competitiveness has generated the need for changes in position, currently, companies in this segment face difficulty to demonstrate differentials that can highlight them from their main competitors. And this difficulty is felt by Cheminova Brazil.

## **5.3.Perceptions of ditribution network**

In order to reinforce this tendency in the generics segment, 38 managers of agricultural inputs dealers were interviewed in depth. The dealers were selected based on pre-disposition of managers to respond to questions about perceptions of purchase for the generic market (post-patent).

The dealers' managers were asked about the following parameters involved in the purchase of generic products: (1) the main reasons leading the purchase of generic products, (2) the importance of the supplier brand in providing generic and their reasons; (3) what the main

attributes of differentiation possible for a supplier of generic are and (4) what the customers of dealers (final users) expect from a generics company.

The selected channels were all characterized as dealers with multiple suppliers, with a presence of more than one supplier of generic segment and that might or might not be part of the network of distribution channels of Cheminova Brazil. This precaution was taken in order not to produce bias on the analysis of expectations and demands of the final consumer and distribution markets. Thus, questions were not connected to brands of products nor suppliers' names, but only broad questions in relation to buying behavior in the generic segment.

At the same time, the analysis was made in a generalist manner, trying to understand the average behavior pattern of all dealers' managers, not targeting these channels by territory, predominant crop or even structural size or turnover.

### **5.3.1. Main Reasons to Lead the Purchase of Generic Products**

The first question sought to identify the importance of the generic product portfolio in the range of products sold by a retail company and the main factors that lead buyer of the channel make the decision for a particular company or product over its competitors.

Among the key factors that have excelled in the responses, which draws the most attention is the demand of farmers. Of the total respondents, 70% highlighted that the main factor that leads, harvest after harvest, to trade increasing volumes of generic agrochemicals comes from the final consumers' demand.

This finding led to the need to deepen the questions about what motivates farmers - the final customers of agrochemicals - to demand generic products to the dealers. The first attribute highlighted by managers, with 65% of the responses, was 'perceived commoditization' of products. This attribute highlights the evolution of the amount of information available to final users of agrochemicals who, according to respondents, now easily understand the differentiations of innovative products and that the same is true for generic products.

This result may demonstrate that prior knowledge on the products, and especially in relation to the technical results of the active ingredients of these products, is a relevant factor in making a decision for the purchase, taking to consider that the perception of these customers for the products is that there is some parity in terms of efficiency.

Besides the knowledge factor in relation to the results that the products can provide, the consequent demand of farmers can be directly correlated with the second factor identified by managers, the factor 'price'. According to 55% of respondents from the identification of parity in terms of results given by the products that are offered by generic companies, the price factor has a fundamental importance in making purchasing decisions.

However, an attribute that stood out as a generator of demand by farmers was the 'relationship'. Of the total respondents, 40% noted that, respecting the market prices of generics, in cases where the supplier industry develops programs for direct relationship with customers, there is a change in demand, and customers tend to demand products of a particular brand over other ones.

In the environment of dealers, another attribute that has been raised as an important factor to motivate the purchase of generic products was the aspect related to trust in 'go to market' strategies implemented by suppliers. Although 50% of respondents have highlighted that the relationship and channel management programs proposed by the generic companies has no distinguishable characteristic, 38% highlighted interpersonal relationships and trust in transactional relationships as a relevant factor for making purchasing decisions.

The product portfolio was identified by 20% of respondents as a relevant factor for the decision of buying generic products. It was found that the factor 'product portfolio' is highly correlated with the presence of specific products (called by respondents as strategic) or the amount of products that compose the portfolio and not the question about differentiation of certain products.

One factor that draws attention when discussing generic portfolio in dealers is that although the products do not have perceived differences between one brand and another, some formulations, also called mixtures of two or more different active ingredients were highlighted by 10 respondents as an interesting product strategy that some generic companies have performed.

The product quality was identified by only 5 of the 38 respondents who participated in the survey. However, this attribute has been highlighted with regard to the product results after applying on the field (indicated by 3 of the 5 respondents), and the quality of packages (also indicated by three of five respondents).

### **5.3.2. The Importance of the Brand of the Generics Supplier**

Questioning the 'importance of brands' of generic suppliers in the survey with the owners and managers of agricultural inputs dealers were made in order to identify whether possible differences related to the presence of brands may be representative as a factor in decision making for purchase. What stands out is the presence of 'go-to-market' strategies or management programs of channels (go to market) with rules of benefits to sales (rebates).

Benefit programs were indicated by 80% of respondents as the main factor in decision making not only to buy, but also to relate with suppliers for a longer period. But this attribute was not considered a differential by the respondents, but a necessary parity, i.e., respondents who selected this item consider as a 'base' for the maintenance of relationship with suppliers. The brand, in this sense, is attributed to the initial decision (first purchase) and relationship programs with the channels are part of that initial decision.

The second reason given by the respondents, and that relates to the brand, is the 'tradition'. Regarding this issue, 55% of respondents identified that the tradition of some brands in the generic segment is an important factor in decision making to relate with them. The brands highlighted by respondents as 'traditional' are linked to companies repositioned as 'post-patent', no more generic companies.

The attribute 'tradition' in this case is identified (70% of respondents) by the time of these companies in the generics segment and second (35%), by the perception of relationships and differentiated services of these brands over other brands considered 'new' in the market and which positioned themselves primarily by aggressive pricing of products. This reinforces the aspect of 'trust' identified in the first block of questions.

The third factor pointed by respondents regarding the importance of brands for decision making is the perception of ‘positioning’ of these brands, mentioned by 45% of resellers’ managers. In this regard, the respondents sought to justify the reasons for choosing their partner brands for the supply of generic products with the following contributions:

‘I have decided to buy from company X, once they are world leaders in the generics market and have the broadest product line in the market’ (owner of resale in the state of Mato Grosso).

‘I have bought from them for a few years and they are the generic company with the best portfolio for sugarcane crop (...) the farmer asks for their products’ (owner of resale in the state of São Paulo).

‘They are the most aggressive on pricing in the generic market. This is very important because that is what my client seeks’ (owner of resale in the state of Paraná).

Statements such as those highlighted ones are examples of how brand positioning is relevant for the decision making of a dealer manager relate to a particular brand of generic supplier. But what is to notice in these statements is that, in some cases, the positioning perceived by these managers is not exactly the one of the companies themselves.

This finding may identify that clear and aligned positions to the expectations of the consumer market and / or distribution network are relevant for decision making at the time of purchase, however, erroneous and distorted perceptions may pose a risk that could lead to making purchase decision in the opposite direction objectified by the companies.

### **5.3.3. Key Differentiation Attributes of a Generics Supplier**

The question regarding the possible differential that a generic company may have in relation to its main competitors, in the perception of reseller managers, was developed to make the respondent identify differences clearly observable through products or strategies distinct from a supplier. Also for identification of possible differentiated actions for specific regions or crops.

In this respect, the differential by ‘focus’ on a particular market or crop was identified as the main possible differentiating factor of a company of generic.

Among the arguments identified as differentiable with respect to ‘focus’, 80% of respondents identified as success in differentiating the example of a company considered positioned in the generic segment, but which sought to strengthen its differentiating position by specialization in sugarcane and cotton crops, developing for this, relationship strategies, products and programs highly focused on that crops.

The second factor that has been highlighted in analyzes of possible differentials in generic companies was the factor ‘flexibility.’ Several attributes were cited to form what is called, in this analysis, as ‘flexibility’ and those were mentioned by 65% of respondents as important generators of different perception.

Among these attributes, 'flexibility for adjustment of prices' stands out reported by 70% of respondents. According to them, efficient generic companies must constantly analyze market prices to identify (by themselves or through their channels) distortions in price positioning that are being worked versus what other companies are working in the market and thereby quickly develop price adjustments.

Another attribute considered important in relation to the 'flexibility' is the adjustment in planning. Of the total respondents who chose flexibility factor in the companies as a source of differentiation, 50% identified that companies which know how to exam 'constants' changes of the market to reassess and restructure their sales planning and field actions may be perceived as differentiated.

In addition to the factors of 'focus' and 'flexibility', the third more pointed factor, with 35% of opinions, was what was called, for the purpose of this work, the 'Operational'.

The attributes that stood out in the answers that form the possible differential of 'operational' were: (1) logistics: reported by 85% of respondents who chose the 'operational' factor as a differential, which identified the speed and accuracy of delivery logistics as the most important attribute to this fact; (2) routine visits of the supplier representative: from the total respondents, 50% identified the routine visits and constant presence of the technical sales representative in their dealers as the second most important attribute for the differentiation of 'operational'; and, (3) inventory: availability of products at the time they are required and the effort for not to miss a demanded product were pointed as relevant attribute for 38% of respondents.

The last important factor of differentiation, identified by 30% of respondents, was the 'structuring of distribution policies'. This aspect was identified as important, despite the low rate, since all the respondents who cited it argued that it is not tradition of the generic industry to have 'go to market' strategies with distribution policies with clear and formalized rules, creating for this action a potential factor of differentiation in the segment.

Most of the respondents who chose this argument drew attention to the fact that this reality is changing and that some companies already show the first steps of structuring distribution rules. However, these are quite distant of existing in the relationships with companies of differentiation segment.

#### **5.3.4. Expectations of Final Customers in Resellers Relating to Generics Industry**

The approach focused on final customers' expectations was developed as a way of understanding the final customer's demand in relation to the strategies of the generic agrochemicals companies in direct contact (for sale or relationship) or through network of distributor partners.

The questions were made to channel managers, requesting they answered according to demands and perceptions that come to them through discussions and exchange of experiences with their final customers.

The questions were structured in two blocks. In the first block, the goal was to identify expectations and demands of final consumers of generic agrochemicals in relation to what the companies could and / or should be doing in the relationship with them and currently is not.

This block is called ‘bottlenecks.’ The second block of questioning focused on strategies of customer relationship management or even marketing strategies that the generic agrochemicals companies already do and should continue doing, and was called ‘maintenance’.

It is important to mention that, for these questions, only 23 out of the 35 respondents were able to position the clients’ demands, particularly with respect to ‘bottlenecks’ factors. As for the factors ‘maintenance’, all 35 managers identified demanding points.

Among the factors identified as bottlenecks, we highlight three points: (1) absence of formalized programs for customer relationship, identified by 60% of respondents in this block, (2) routine visits from supplier’s representatives on farms, identified by 35% of respondents, and (3) technical services in the property, identified by 30% of respondents.

Regarding the first item identified, the absence of formalized programs of customer relationship, it is identified that such demand can be attributed to the historical experience of these customers with the industries of other market segment, the specialty, which has implemented this kind of strategy relationship with final customers for years.

The dealers managers are categorical in stating that, despite the existence of this type of demand from final customers, the implementation of this strategy could represent a significant risk to the first point, identified as a priority on the block ‘maintenance,’ which is maintaining prices on their products.

This type of perception can generate major challenges for companies of post-patent and generic segments, since, as strategic premise, these companies need to have more aggressive operational costs and be efficient in total costs and customer relationship programs are contrasted to this. However, examples were cited of companies in the post-patent segment, which are currently developing relationship strategies along with the final customers and getting important results in terms of sales, but mainly in relation to the customers’ perception.

Now regarding the second item identified, respondents identified several possible reasons for this perceived ‘lack’ of technical representatives’ presence in the field, when it comes to manufacturers of generic and post-patent agrochemicals.

The small number of representatives that in general the generic agrochemical companies keep in the field mainly motivates that perception. However, this point can be configured as a tradeoff for these industries, since one of the assumptions of demand identified by respondents is keeping prices low and, therefore, structural costs are representative.

At the same time, there are few examples of technical-agronomical work that are performed in the customers’ properties, in order to demonstrate the differentiated technical attributes of the application of products. According to respondents, this lack of action in companies make not only the generation of demand by end users difficult, but also the ‘conviction’ for sale by the technical teams of dealers. According to them, the industry should have more technical tests to be used as business proof.

Regarding questions about the factor ‘maintenance’, respondents identified primarily two points, namely: (1) aggressive prices facing the competition and representatively lower than the ‘specialties’ brands, addressed by 95% of respondents, (2) product’s portfolio, noted by

60% of respondents, and (3) mixtures of important products of the portfolio, mentioned by 43% of respondents.

Clearly, through the response rate to point number 1 in the block 'maintenance' the price still represents a determining factor for the decision making in relation to the purchase of generics and post-patent products. This finding shows a possible difficulty for companies trying to differentiate by positioning themselves in the post-patent segment, since it identifies industries that possess differential in field work and structures, however, offering products similar to the competitors', and the market demands for the same prices.

As for point number 2 of the block 'maintenance', respondents indicate that one differentiable aspect in the final customers' view in relation to suppliers of post-patent or generic product is the product portfolio.

Thus, it is identified that farmers take into account companies that have strategies for maintaining an extensive line of products, which offer different buying opportunities for different demands. At the same time, respondents suggest that final users tend to choose companies that hold product lines considered 'important' (terminology important has been used for high demand products or even products the market is underserved and that few companies have).

The consideration of the mixtures in the product portfolio (answer number 3) refers to recently checked strategies in generics and post-patent market, in which some companies, through its analysis of specific demands (by crop, for example), identify potential to mix two active principles present in two products of their product's lines, or competing lines separately. And through this strategy, these companies mix the two (or more) components, creating a new product that generates the same result of the separated products into just one.

The results over the expectations of final users in relation to generic or post-patent agrochemicals companies show that farmers expect to the companies to provide a portfolio of services associated with products minimally similar to what they receive from the differentiated agrochemicals companies (specialties). However, the delivery of services' package will substantially increase costs for that companies, which is a challenge for the post-patents brands.

## **6. Conclusions**

It is seen through the analysis of the strategic development operated in the market by the company object of this study, guidance for a representative strategic shift, which has been verified as a marketing tendency for the segment of generic agrochemicals in the Brazilian agricultural market.

This strategic movement seeks to change the perception of distribution agents to recognize aspects of differentiation linked to services and investment in relationship developed by the company, unlike the differentiation strategy focused on the product they sell. This investment seeks to change the strategic positioning of generic segment to a position with greater added value.

In contrast, along the distribution channels partners of the company object of this study, there is a distortion relative to competitive positioning sought by the supplier. This distortion occurs

in the analysis of recognizing specific investments in relationships and services which are being made, but it is not encouraging this network of partners to recognize a 'real difference' in the company positioning yet.

Through the use of the Delta Model as a theoretical reference of analysis, it was verified that this strategic change in the industry has not shown possibilities for development of system lock-in, since the existence of specific complementors and which imprison the network are virtually unfeasible in the market analyzed. In contrast, it appears that investment in mixtures of commoditized products may represent a source of perception for differentiation by the users. At the same time, it also appears that the partners' network and the final customers of the products value investments in specific services and relationship marketing.

Thus, it is considered that the positioning objectified by the company focus of this study is located in an intermediate position between the polar strategies of 'product differentiation' (Porter, 1985) and 'customer intimacy' (Day, 1990). This intermediate position can be aligned in the Delta Model theory with the explanation clarified by the 'value disciplines' (Treacy and Wiersema, 1995).

Through the proposals of 'value disciplines' it can be verified that the hybrid position of Cheminova Brazil, in an intermediate position between the poles of 'best product' and 'total solution to the customer,' aligns more to the positioning of 'product leadership', thus justifying its strong direction in seeking perceptions of differentiation in the network by means of intrinsic characteristics of product (quality) and on the strategy of how to deliver this product (value package).

Therefore, it is seen that the Delta Model is configured as an attractive theoretical framework to identify strategic changes on the competitive positioning of the companies in the sector of agricultural inputs, and can be used for new studies that prove the strategic changes on competitive behavior of agribusiness agents.

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