



Chives Planting Investing Challenge

2-SP10-10-083

This problem situation was written by Roberto Gómez Tobías (roberto.gt@tec.mx), with the purpose of serving as discussion material in the classroom; it does not intend to illustrate good or bad administrative practices. The story on this document is based on different people's experiences; some data has been modified at the request of the people and institutions involved.

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Current Situation

Bright Chives de México is an agricultural company dedicated to the production and exports of chives to England. Their decision to export to that market was due to the fact that their economies of scale did not allow them to compete with the large producers of the export market to the United States.

For more than 5 years the Mexican company successfully exported to the British market, but during the last 2 years Bright Chives de México has faced competitiveness problems that threaten its market share in this country due to the increasingly high transportation costs incurred and its high percentage of loss that together represent increases of up to 30% in their costs.

The losses that occur throughout the entire supply chain are one of the main problems in logistics management in this type of productive sectors where the handling of agricultural products requires high standards of safety, health and even nutritional organoleptic characteristics for the preservation of the quality and freshness of the product.

On the other hand, given its geographical location, Bright Chives de México incurs in high logistics costs for its land transportation to a port in the Atlantic Ocean and its maritime transportation to the European country, or when using a long route via the Panama Canal which can take more than 30 days.

Image. The Panama Canal route is longer.



Source. Michael D. Camphin in Pexels, 2019.

Production in Mexicali

The Valley of Mexicali belongs to the Municipality of Mexicali and is located in the extreme northeast of the Mexican state of Baja California. It was originally one of the driest desert areas in the region, but it changed its vocation to agriculture, with the opening of an irrigation network, favored by the construction of dams.

Currently, this Valley occupies the first national place in the production of chives in Mexico. Its advantages are based on its proximity to its main market, the United States, and the availability of labor, which manifests itself in high international competitiveness.

Chive production has achieved remarkable growth based on the continuous incorporation of technological innovations into the production process. The chive market resembles a perfect competition model; its price fluctuations are the result of the forces of a competitive market that defines its behavior by its productive cycle, that is, seasonally (Bancomext 1998).

Image. The chive market can be considered mature.



Source. Kelly Common in Pexels, 2022.

Currently, the Valley of Mexicali exports 90 percent of the production mainly to the United States, while the rest is destined to supply the demand of England and the domestic market (Gobierno de México, 2020).

Consulting Company Advice

Due to this problem, Bright Chives de México hired a company based in Ensenada, Baja California, dedicated to consulting agricultural projects, to analyze the problem and provide alternative solutions.

After carrying out the respective analysis, the consulting company warned that given the prevailing economic conditions and the economic prospects of this sector, its financial results could worsen and compromise its participation in the English market.

For these reasons, the consultant recommended that the company sell its production to the Mexican market and invest in an African country (Senegal, Guinea, or Mauritania) to carry out its chive production. The weather and hydrological conditions, as well as the type of soil offered by these countries allow the production of this product with the same quality standard, in addition to offering more competitive production costs and allowing the shipping time to be reduced to only 8 days.

Investing Alternatives

The company welcomes the possibility of carrying out its operations outside of Mexico and being able to maintain its participation in the British market, even being able to increase it from a greater exportable supply in each agricultural cycle, given the attractive production costs in these countries. They highlight the possibility of achieving greater profitability by being able to significantly reduce their transportation costs due to the logistics simplification, the reduction in freight costs, as well as the decrease in losses as a result of the substantial reduction to only 8 days of maritime transportation.

However, since these are African countries with which they have never worked before and are not fully familiar with, the company requires a risk analysis that allows them to decide in which of the 3 proposed countries it is convenient to make the investment considering the economic, political, and financial risk in each. It is also necessary to carry out a risk mitigation plan that allows them to protect themselves against events that put the security of their assets and operations at risk.

References

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