

INNOVATIVE APPROACHES AS A SUPPORT OF MULTIFUNCTIONAL BUSINESS IN AN AGRARIAN SECTOR

HES A., TOMŠÍK K.

Abstract

Multifunctional business is closely connected with an agricultural sector. Innovative techniques lead to an establishment of innovative firms in agribusiness, which fulfil aims of multifunctional business by filling in particular functions. Rural areas have just one function in a traditional agricultural concept: production of foodstuff or raw basis for foodstuff. However rural areas need today inventive and innovative business, which would ensure its prosperity and social stability. That means to leave the traditional conservative approach by forming business models and to adopt marketing and knowledge approaches.

Key words: innovation, knowledge approach, knowledge model, agrarian sector

INTRODUCTION

Multifunctional business is a perspective business form in agrarian sector. We assume that the term "multifunctional business" is relevant to the term "innovative business in regions". Use of innovative techniques is a ground for an establishment of innovative firms in agribusiness, which can fulfil as common as partial aims of multifunctional business. In a general scheme, a region (rural area) has just one function in its agricultural concept: to produce foodstuff or raw basis for foodstuff. The differences exist just on a base of economic and trade efficiency of enterprises. However rural areas need currently inventive and innovative business, which would ensure their prosperity and social stability. That means to leave the traditional conservative approach and to adopt marketing and knowledge approaches. The assumption of this change consists in information and communication background of a region. The innovative business cannot be developed without an implementation of modern communication technologies. But not all regions are ready to cope with this reality. For this reason, differences between regions have arisen. If regions and their municipalities lay stress just on material equipments (like canalization, support of house building and so on), the people maybe abide to live in villages but they won't spend their money there. They will spend their money in towns, where they work and where they are used shopping. The prosperity of such region will be influenced by negative purchasing stream.

Kinds of Innovations

The only reasonable solution is a support of small and middle enterprises (SMEs) in rural areas. This support should be granted by state administrative to establish SMEs - innovative firms, which could generate job opportunities in the region. Such solution would attract

businessmen and a generation and use of purchasing funds would be so balanced. The choice of approach is to be stressed by the support of innovative firms. The right way consists in marketing approach, or better, in knowledge approach. The information society needs more offers than a conventional approach can satisfy. New trends resulting from initiative of producers and businessmen are requested. Such trends should simplify and make easier the trade activities by using modern and fast communication. In the production, technological and trade sphere following innovations are recommended:

1. Product innovations
2. Materials innovations
3. Technological innovations
4. Trade innovations

1) **Product innovations** are based on knowledge of higher and extra needs of customer. The substance of product innovation lies in a new construction solution, which upgrades user functions or brings a new product quality. Product innovations are represented by such production in the agricultural sector, which reflects social and cultural nature of the region (rural area) or by small scale production of non conventional and non agricultural products, and which use materials innovation on a base of market knowledge. An agricultural enterprise can become an innovative firm if it upholds the innovation in its strategy or in strategy of its subsidiaries, eventually within a cooperation. The cohesion of enterprises is also useful, if it enables faster and easier financing of innovations. In some cases cooperating firms can reach a better direct or indirect support.

2) The aim of **materials innovation** is to improve quality of a product material substance, which is demanded by customers. Material innovations are important for their next utilization in the product. They depend on knowledge of customer's demand and they

are unchanging during the process of manufacturing. An allocation of materials belongs to strategic decisions of management. It requires thus a special attention. Used materials must be confronted with a motivation structure of customers needs, the input and manufacturing costs then will be not decisive. The market knowledge can give us information, that products made of certain materials will be demanded and sold. Materials innovation should concern on health security, ecological aspects like recycling and so on. This attributes should be used in a promotion campaign in a stage of research and development.

3) **Technological innovations** include new and essential changes in production technologies and technological procedures. They must correspond with customer's requirements in the stage of growing demand. Technological innovations must reflect new knowledge of research and development. A cooperation of an innovation firm with adequate research institutions is recommended in such cases.

4) **Trade innovations** result from chosen trade model. The trade model must reflect the knowledge of customers' segment and the communication with this segment. That means, we must prefer a marketing and knowledge approach to build such model and to reduce an appropriate confrontation between customers' needs and perceived quality of products. This can be done by creating of sufficient big customers' group - innovators, which promotes further sales through positive references. Other marketing sales promotion instruments are not excluded. Innovative firms must keep contact with customers, several systems of guided communication can be recommended. A loyal clientele can be so constituted. One system, which is applied in some enterprises (mostly in transnational companies), is the CRM system.

Kinds of Approaches

Knowledge approach in trade activity should interconnect trade (tertiary) sphere and production sphere and create such production potential, which would satisfy individual needs of customers. To fulfil this aim, a lot of information must be exploited and compiled by using information technologies. **General approach** to trade activities is based on a classical scheme of product cash flow. Product flow is given by an offer of a narrow production assortment and a wide trade assortment, which is accepted by customers. The customer favours products which satisfy his needs without participating on product's creation. **Knowledge approach** to trade activities results from a connection of production to trade, which can better satisfy consumers' needs, on a base of information flows. The customer creates his own image which will then be manufactured and sold. That means, that such entrepreneur can be successful, who takes into consideration motivation approaches, desires and behaviour of customers, and

adopts not only offered assortment, but also sales service and communication technologies.

It can be declared that traders' offers are often very similar. Only a businessman - specialist can attract customers just by his offer. In such case the customer usually doesn't expect any special techniques of sale. He wants to see the product personally and if possible to try it on. But also such businessman - specialist mustn't to refuse information and communication technologies if he wants to address his customers.

Shopping customs are changing in the conditions of global competition, integration of inter-enterprise relationships and modern information technologies in the whole Europe. There are developed new methods how to sell more products. Formerly, when businessmen had known their permanent customers, there was not difficult to estimate which kind of merchandise to offer and how to convince them of new supplements. Such businessmen were the first pioneers in application of knowledge about customers' behaviour. Their knowledge was gained from personal contacts and social events. A group of loyal clients can be so created.

Today, when retailing companies prevail and their clients are frequently counted in millions, a return back from anonymity and creating of loyal customer groups seems to be of importance. However, a personal contact is not possible in so high numbers. For this reason there are entering new information and communication technologies. They are oriented on knowledge management and CRM utilization, which can gain, elaborate and use the information. These technologies are fundamental for innovation firms. Innovation processes relates direct to retail. It is not to be introduced in enterprises where the product knowledge would be missing. Suitable trade models are available also for the agricultural sector.

A formation of a trade model belongs to important tasks of management. The trade model is aimed at generation of revenues through innovation. There are following general approaches to a trade model:

- conservative approach
- marketing approach
- knowledge approach.

The **conservative approach** uses traditional, standard product cash relations. It is based on a technical and technological development, which is used in a production within an innovation processes. Qualitative better product is then offered through traditional distribution ways and marketing instruments. The customer is affected by final product or service. Perceived qualities of a product are often confronted with a motivation structure of customer's demands. A marketing program can decrease such confrontation but it can be expensive.

Fig.1. : Standard (conservative) trade model

Development Production Service	<i>Trade</i> Agents Wholesale Retail	Customer
--------------------------------------	---	----------

Marketing approach is based on customer's orientation. Product development is provided on a base of market research, which enables to include demands and needs into an innovation process and go towards the customer. It is obvious, that perceived quality will

closer meet the motivation structure of customer's demands. A separate target group, which accepts the product and buys it, can be so created. Following marketing support instruments are used just to enlarge the target group and usually they are not expensive.

Fig. 2. : Marketing trade model

Marketing Research	Development Production	<i>Trade</i> Agents Wholesale Retail	Customer
--------------------	---------------------------	---	----------

Knowledge model is based on knowledge of customer's demands. The knowledge is gain through modern information and communication technologies (for example internet). The base consists in talking to customers. This communication is analysed and resulting ideas are used in development and production by customer's participation. The customer can so affect the satisfaction of his demands because his ideas are

implemented into utility value of a product. This approach doesn't lead to any confrontations between perceived quality and customer's motivation structure, because all products and services are produced in accordance with customer's demands. Base assumption of this model is knowledge and communicative facilities of trade partners.

Fig. 3. : Knowledge trade model

Communication with Customer Knowledge of Needs Inventiveness	Customer Development Production	<i>Retail</i> Agents – Direct Mail, Call Trade,... (Wholesale) (Retail) Customer
--	---------------------------------------	---

CONCLUSION

For an innovation firm with multifunctional activities there is suitable to use a marketing or knowledge model, which is fast developing currently. Enterprises use new information and communication technologies to come near to customers and to their demands. Such models are common in subsystems of internal trade (for example in wholesale, retail, tourism, and partly in gastronomy and purchase order system). There are still few innovative firms in an agrarian sector. The main barrier of their development is remaining scepticism and a fear the advised results will not come. These facts can result from missing

knowledge in agricultural enterprises. Farms are often profit oriented and their activities are focused more on cost reduction than on the possibility to increase added value. Other difficulty consists in costs of building such innovative firm. The shortage of capital in agriculture makes their establishment complicated. There is also a lack of political will to support development of innovative firms in an agrarian sector using indirect financial support. The results of innovation behaviour really don't appear immediately after implementation, but in a longer time horizon, which is longer than one accounting year.

At the other hand agricultural enterprises have relative high potential to become innovative firms. Their competitive advantages consist in diversification and possibilities to finalize products and services offered direct to customers. A wide space for diversification enables to implement such activities, where knowledge approach is a determinant for success. Finalizing the output increases added value and has positive impact on farms' economy.

Management of farms must know that a knowledge approach requires such behaviour, when the customer feels to be given an extra value. This feeling must be encouraged before, during and after selling the product or service. A typical example is agrotourism. The customer can be impressed by an advertising which is aimed at some special and extra quality, he can feel to be obtained by an extra service during his stay at a farm and he should leave with a feeling of having good invested his money and having found a place for coming back.

Because innovative farms will probably not produce all offered products, they should also focus on sale of purchased goods. The sales innovation reflecting the perceived higher quality can bring positive economic effects.

REFERENCES

- KOTLER, P. (1992): Marketing management, V. Publishing, Praha
KOTLER, P, DE BES F. T. (2005): Inovativní marketing, Grada, Praha.
ŠVEJDA, P. A KOL. (2002): Základy inovačního podnikání, AIP ČR s pomocí MŠMT ČR, Praha.

*Received for publication on June 27, 2005
Accepted for publication on September 21, 2005*

Corresponding author :

Ing. Aleš Hes

KOF-PEF

Czech University of Agriculture Prague

165 21 Prague 6 – Suchbát, Czech Republic

E-mail: hes@pef.czu.cz

Ing. Karel Tomšík, Ph.D.

KZE – PEF

Czech University of Agriculture Prague

165 21 Prague 6 – Suchbát, Czech Republic

E-mail: tomsik@pef.czu.cz

