



Food and agribusiness have a massive economic, social, and environmental footprint —the \$5 trillion industry represents 10 percent of global consumer spending, 40 percent of employment, and 30 percent of greenhouse-gas emissions. Although sizable productivity improvements over the past 50 years have enabled an abundant food supply in many parts of the world, feeding the global population has reemerged as a critical issue. If current trends continue, by 2050, caloric demand will increase by 70 percent, and crop demand for human consumption and animal feed will increase by at least 100 percent. At the same time, more resource constraints will emerge: for example, 40 percent of water demand in 2030 is unlikely to be met. Already, more than 20 percent of arable land is degraded! Moreover, food and energy production are competing, as corn and sugar are increasingly important for both. Such resource scarcity could lead to political unrest on a large scale if left unaddressed. Agricultural .9(e)0.5Bp-20.1(n)-13(e)0.E7(i)8.19l44.6(o1.5(22-13.85)-7.5(e)-16.4(g))TJ 0 -1.369 T

A projected surge in demand for protein in emerging markets, especially pork in China, would create opportunities for companies to grow in core production and supporting industries such as breeding, animal-health testing, feed, and vaccines. For example, beef and other livestock production in Argentina and Brazil is expected to grow strongly to meet global demand. Making feed conversion more efficient so that animals produce more meat while consuming the same amount of feed as they do

companies are increasingly integrating vertically as more traders extend into production and processing, while retailers are moving into production and sourcing of key input commodities.

At the same time, there are rising numbers of specialized players, especially on the input side, where technology and intellectual property play a critical role. Small microbial-fertilizer companies are an example. In addition, the millions of smallholder farmers around the world are gradually integrating into commercial value chains; among them are coffee farmers in Ghana and cotton farmers in India.

Consolidated, integrated farming creates an opportunity for equipment manufacturers, distributors, and technology companies to offer more sophisticated and automated products and

However, there are still investment opportunities for low-cost producers in countries such as Brazil, where agricultural exports continue to grow. In addition, investments in infrastructure that enables the movement of commodities, such as ports, storage, and the cold chain, can help to promote and capture more value from agricultural trade. Major

expected to grow 3 to 4 percent a year, mostly as a result of increasing demand from a rising middle class. While levels have risen dramatically, the Chinese continue to trail Western diets in protein consumption. The government has made a strong commitment to modernize the sector, moving from what is largely backyard farming to sophisticated commercial agribusiness. These structural changes and discontinuities make the sector a hot spot worthy of further exploration.

However, the space is vast and complicated, with multiple areas to examine and prioritize

Investors must build relationships and capabilities and be willing to manage social and political uncertainty. For example, we have seen investors struggle to find opportunities in Brazil, where many family-owned companies have strong, relationship-based businesses. Investors should be aware that social and political constraints have a large impact in this sector and that success will often require active collaboration with social and public entities.

f Take a through-cycle approach. Investors must maintain a through-cycle mentality in recognition of the underlying volatility of food and agribusiness (and the impact of the volatility in other sectors, such as oil and gas). This could lead to an investment horizon of more than seven years—longer than that of private equity. Some investments may be more suited to investors with longer time horizons, such as pension and sovereign-wealth funds.

f Develop commercial relationships. Investors should not ignore the importance of building relationships with suppliers, major multinational companies, and strategic investors. Instead, they should view these players as potential partners that can help execute investments, mitigate risks, and provide exit options.

f Develop operational capabilities in agribusiness. Investors should be prepared to build the capabilities needed to operate successfully in the agribusiness sector. Many of the capital-

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