

Agribusiness Organization for a More Volatile World

Independent Agri-Food Policy Note
April, 2026
Al Mussell



The Issue

Just as there are periods of pronounced trends and style eras in elements of culture- like music, art, and fashion- there are also trends in pervading thought on topics, both among academics and practitioners. Approaches and philosophy in economics and business is no exception.

Turning back to the 1980's and 1990's, a central topic engrossing the economics profession was the "make-or-buy" decision in determining the structure and extent of a firm. Economists were building on a base initially laid by eminent scholars such as Ronald Coase and Oliver Williamson, focusing on the idea of transaction costs as being the salient factor determining what activities a company would conduct in-house, versus others that could be outsourced. The idea, sometimes referred to as the property rights theory of the firm, was that a company could achieve focus and scale by deploying its assets in aspects that were difficult or expensive to outsource, with other activities and associated assets spun off and the products purchased on contract. As transaction costs decreased, companies would de-integrate, release assets, and outsource some aspects of their activities. It spawned both theoretical work, such as incomplete contracts theory, as well as extensive applied work.

Around the same period, business theorists became interested in the performance analysis of companies according to individual divisions or segments, consistent with the work of Michael Porter, who had a dominant influence on business thinking at that time. It caused executives to ask themselves why their companies were doing what they were doing, and whether each of the individual activities undertaken in the business were truly profitable. If they were not, logically they became targets for outsourcing or discontinuation. A variety of analytical processes,

such as Activity-Based Costing and enterprise analyses, were adopted. Transfer pricing within the multi-divisional firm came under the microscope. It was the beginning of the turn against the conglomerate, multi-divisional firm and toward its breakup into a leaner, more focused corporate organization. In turn, for a given level of capitalization, the leaner, more focused firm could attain a greater position of dominance and share within its market channel.

The influence of these developments in economics and business theory- among other developments, such as improved technology to collect and share information and sharper competition for capital- led to businesses organized more around their focus areas, less redundancy, and more outsourcing.

Prior to the early 1990's, "supply chain" was a fringe or academic concept; by the early 2000's, it was ubiquitous, and is now a central element of a company's strategic and risk management agenda. The liberalization in trade policy, especially after 1995 and WTO Agreements, better integrated global markets and economies and allowed for the development of international supply chains.

But just as there are periods in which particular philosophies and approaches are popular, they are a product of their time. When times change, these approaches and philosophies change as well. The remarkable changes we are currently experiencing suggests just such a potential shift.

This policy note provides some perspective of how we got to where we are, and how this is challenged today.

Shifting Context for Business Organization

The make-or-buy decision and performance evaluation of business is impacted by multiple factors, including the broader risk environment. Williamson (1979, 1985) focused on the frequency and idiosyncratic nature of business transactions- the higher the frequency and the less idiosyncratic, the easier and less costly it is to establish a robust contract to outsource (“buy” in the make-or-buy continuum). Conversely, for low frequency and highly idiosyncratic transactions, structuring a robust contract to allow for outsourcing is expensive or impossible, so companies will conduct these transactions internally (“make” in the business organization continuum).

This has proven to be a robust, highly useful and indeed critical distinction, and lays out the essential economics of the extent of the firm. It is also open to the influence of multiple parameters, such as the technology available to monitor and verify contractual obligations in outsourcing arrangements (typically, improved technology reduces transaction costs and makes outsourcing more feasible).

As the level of systemic risk or general volatility in the world increases, it must greatly impact the feasibility and costs of contracting that facilitates outsourcing. The more risk, the greater the likelihood of default or disagreement with an outsourcing entity, and associated opportunity costs and direct costs of dispute resolution. Under these conditions, resilience should thus push business structure toward “make”.

The lens of divisional performance in a multi-divisional firm was well developed by Porter (1985) and elsewhere. It essentially tells us that, from an operating perspective (i.e. ignoring tax considerations) there should be no divisions of a company that are not individually profitable (i.e. no cost centres) under any reasonable definition of transfer pricing between divisions. Unprofitable

divisions should be discontinued or, if they represent a significant customer or supplier to another division of the company, they should be sold and then accessed through an outsourced contractual relationship.

This logic appeals to basic economics; and it supports a prevailing view built up over the last thirty-plus years that the conglomerate or multidivisional firm is worth more broken up into its parts than it is as a whole.

However, the validity of the all-divisions-profitable view draws upon implicit assumptions regarding the sensitivity/dependencies of divisions, and systemic risk environment. How would we assess the value of a corporate division that was somewhat unprofitable three years out of five, broke even in one year, and was highly profitable in the other? Or conversely, internal stress testing could reveal extreme situations in which a division that was outsourced due to its lack of profitability could end up undermining the results for other “profitable” divisions of the company that consumed its production or sold to it as an internal customer. In such cases, if the extreme situations were perceived as becoming more realistic and probable, holding on to the “unprofitable” divisions could be seen as a prudent hedge against risk.

In a relatively low-risk environment, companies structured toward “making” and retaining divisions of dubious or inconsistent profitability as hedges against risk are probably penalized in competition for financial capital.

Indeed, financial considerations and the strong desire to make shareholder value more tangible have overtaken the make-or-buy and divisional performance lens of economics and business strategy. Breaking up a multi-divisional firm sheds light on, or monetizes, the value of corporate divisions otherwise obscured as they are engaged in, or focused on, internal transfers. A current search of the grey literature on decline of conglomerate food companies

Independent Agri-Food Policy Notes provide non-commissioned, independent perspectives on issues in agri-food

Agri-Food Economic Systems 5225 7th Line RR#4 Rockwood, Ontario N0B 2K0 (519) 827-6239
www.agrifoodecon.ca

overwhelmingly returns financial motivations for splitting up divisions to “unlock shareholder value”.

But the integrated firm has its own form of financial advantage. In a market extreme, internal transfers mitigate the strain on a company’s working capital. While others must financially stretch themselves to secure outsourced supplies at very high prices, or buy ahead and store to secure availability, the integrated firm can transfer internally somewhat unabated by these extremes.

It may only be after exposure to extreme shocks that the value of owning the assets and having access to internal transfers that their value becomes more evident to an external audience.

Larger, More Focused, More Efficient, and More Brittle Agribusiness

The development in business organization philosophy has taken us to today- a larger, more concentrated, and focused agribusiness environment. When a business sheds divisions to focus on its core, the capital released can be deployed to deepen its position in the core market- increasing both its market share but also its risk in the focus market. If the multi-divisional firm presents a portfolio, the focused firm shed of its adjacent divisions has its risks more narrowly focused.

As this motivation to de-integrate and focus replicates itself across firms, logically it results in higher individual market shares more concentrated markets. Table 1 provides some perspective on concentration.

The data in Table 1 is based on shares of sales, with the exception of estimates made from Carlberg (2020) which are estimated shares of slaughter capacity, and the CGC data which are shares of licensed elevator capacity. While the table does not provide an evolution over time, clearly major segments of Canadian agri-food are quite concentrated, with the four largest firms dominating

Table 1 Concentration in Canadian Agri-Food Market Segments

	Top 4 firms Mkt Share %
Dairy	63
Baked Goods	42
Processed Meats and Seafoods	40
Ready Meals	34
Savory snacks	52
Confectionary	48
Fruit and Vegetable juices	57
Carbonates	80
Bottled Water	62
Supermarkets	87
Hypermarkets	100
Discounters	84
Federally Inspected Beef Slaughter*	89
Commercial Grain storage capacity**	68

Source: Gaucher-Holm *et. al.* (2023); data are for 2021
 * Calculated from Carlberg (2020); data are for 2020
 ** Canadian Grain Commission (2026) data are for February 2026

grocery retail, beef slaughter, soft drinks, grain handling, dairy, and other segments. And viewed anecdotally over the long term, this concentration has increased.

The evolution of agribusiness to larger and more concentrated entities has involved the casting off of adjacent or contributing divisions and activities. This shift is difficult to measure empirically, and typically there were multiple motivations for the shedding of business units, including financial performance/restructuring. But it is also consistent with the pervading economics of make-or-buy, and greater focus on divisional profitability performance.

A Canadian agribusiness example illustrates the point.

Independent Agri-Food Policy Notes provide non-commissioned, independent perspectives on issues in agri-food

Agri-Food Economic Systems 5225 7th Line RR#4 Rockwood, Ontario N0B 2K0 (519) 827-6239
www.agrifoodecon.ca

Canada Packers

Canada Packers was formed in 1927 through a merger of Canadian meat companies. In addition to expansions in Canada and abroad in meat products, over time it developed through expansion into a wide range of associated businesses, such as rendering, feed, oilseeds processing, processed fruits and vegetables, dairy processing, leather, and chemicals. In turn, the divisions were supported by a dedicated research division and an international trading division that traded the products of all divisions, as well as grain.

In 1991, Canada Packers merged with Maple Leaf Mills, and the company was renamed Maple Leaf Foods, initially under the control of Hilldown Holdings. Shortly after the merger, Canada Packers beef division was sold, and instead beef was purchased by the company for its prepared meats. Oilseed processing, dairy processing and peanut butter operations were also quickly sold off. The research labs, fruit and vegetable processing, leather, and chemicals units were broken up or sold off shortly thereafter. Some acquisitions also occurred, notably to expand pork processing.

By the time that the McCain family and the Ontario Teacher's Pension Plan acquired control of Maple Leaf in 1995, many of its previous divisions had been sold or activities otherwise discontinued, and its primary operations were in pork and poultry processing, fresh and processed meats, feed, and rendering. Maple Leaf has since sold its retail feed business and its rendering division. It has made acquisitions in non-meat protein. Most recently, Maple Leaf has spun off its fresh pork business (which includes its internal feed and hog production operations) in a new venture, ironically named Canada Packers Corporation, in which Maple Leaf retains minority ownership.

The evolution of Canada Packers was, first, to build the company into a conglomerate of divisions, in which many of the divisions were complimentary and

could buy and sell internally. An obvious example is research, where the outputs of the research labs could be accessed by multiple divisions within the organization, even as the research division had its own business line. Ownership of assets arrayed in the feed-animal production-primary processing-rendering chain is another.

Complementarity (or synergy) can be obtained from the access through internal transfers. While competitors are scrambling to access products in an extreme period in which a product is in short supply, an integrated firm can access the product internally. High prices and the associated stress on cash flow and earnings can be blunted through internal transfers, at least temporarily. It is especially valued when extreme situations leave products literally unavailable from markets. Owning assets in an adjacent stage and transferring internally is a type of natural hedge.

A complication with internal transfers must be acknowledged, especially when the management of a division is compensated based upon divisional performance and internal transfers are valued at non-market price. A selling division forced to price its internal transfers to a buying division at below market price will eventually claim that its contribution is undervalued; the opposite is true of a buying division purchasing from a selling division at a price above current market price. This is referred to as the "transfer pricing problem" which is a challenge for senior management to align.

The specific motivations for Canada Packers to shed itself of many of its divisions were probably several—with financing, and restructuring a company so that it could be sold at a profit, key considerations. But this is just an indication that the thinking at the time was that conglomerates could be profitably broken up to focus on a core, and that purchasing externally could readily substitute for internal operations.

The implication is that the focused firm that has outsourced what others can produce cheaper and rid

Independent Agri-Food Policy Notes provide non-commissioned, independent perspectives on issues in agri-food

Agri-Food Economic Systems 5225 7th Line RR#4 Rockwood, Ontario N0B 2K0 (519) 827-6239
www.agrifoodecon.ca

itself of its unprofitable divisions to better compete in its market focus is expected to be more efficient and profitable- but it will be less resilient to systemic shocks.

Return of the Conglomerate Agri-business?

It seems abundantly clear now that the general situation of volatility in the world has shifted, with some likelihood that the shift relative to the last 80 years is permanent. The Middle East conflict has given rise to profound disruption in the global petrochemical complex, which would apparently last months or years even if the hostilities ended immediately. This theatre of conflict threatens to merge with the Ukraine-Russian Black Sea theatre of conflict, and there are additional conflicts in Lebanon, Afghanistan/Pakistan, and multiple African countries.

Hot wars cause further decline in international institutions and trust, and the re-emergence of geopolitical rivalry and resource nationalism. Tariffs and sanctions exacerbate conflict in short circuiting integration of markets and the global economy-generating price volatility, and in some cases impact product availability regardless of price. Some countries are taking desperate measures in response, like rationing and restricting exports. It is a fluid situation.

The prospect of disruption- leading to greatly improved productivity- from the deployment of multiple artificial intelligence (AI) systems in agribusiness management- seems imminent. The horsepower presented by these models is capable of detecting complex patterns and outliers previously unobserved, that could upend many aspects such as operations, marketing, and logistics. Eventually, it may lead to reduced transaction costs and major restructuring. But initially its disruptive effects seem more apt to increase broader economy volatility and add to systemic risk.

With all of this acknowledged, we still have functional international markets, which reflect the opportunity costs and costs of transfer of products from regions of relative surplus to regions of deficit through price arbitrage. Thus, for example, oil prices in Canada have increased sharply, reflecting scarcity and high prices in the Middle East, Asia, and Europe- even though Canada is a net exporter of oil. Farm and food prices tend to follow energy prices closely.

This is not the risk environment that generated the approach to corporate structure in agribusiness (and elsewhere) that we see today. The volatility of commodity/market prices that impact a company's operations are now much higher- leading to higher risks of breach of contracts from outsourcing. Those who "make" are insulated from these risks; those who "buy" are more exposed.

There are specific new risks that exaggerate transaction costs. Some of these appear simple- the sudden establishment of, or change in, a tariff. The tariff is inherently paid by the importer, but the situation is prone to disputes regarding the incidence and who bears the ultimate burden of the tariff between exporter and importer.

Another is sudden and even protracted product shortages that occur due to tariffs, sanctions, and transportation constraints, and production facilities destroyed by war. In some cases, *force majeure* in a contract protects the seller and perhaps also the buyer. But for the end user holding the risk, having previously established investments to "make" the affected products internally could prove invaluable.

Agribusinesses have become highly adept at managing the distributed supply chains that evolved as buying came to dominate making, and internal analyses of the profit contribution of individual divisions and activities pointed toward outsourcing. Their focus has allowed for size economies and market concentration in many agri-food segments. This will not come to a screeching halt nor reverse itself abruptly.

Independent Agri-Food Policy Notes provide non-commissioned, independent perspectives on issues in agri-food

Agri-Food Economic Systems 5225 7th Line RR#4 Rockwood, Ontario N0B 2K0 (519) 827-6239
www.agrifoodecon.ca

Yet, the magnitude of departure from past stability in the business and geo-political climate that ensconces Canadian agriculture and food suggests some pause and reflection on business structure and its rationale. It should force a risk weighting and re-analysis of divisions/activities in a business, and also the full set of risks from outsourcing and the resulting the extent and degree of disaggregation in supply chains. Doing so is likely to result in a movement toward integration of more activities within agribusiness firms. Owning assets and conducting activities internally is a natural hedge against systematic risks.

References

- Carlberg, Jared. 2020. *Vulnerabilities and Benefits of Megascale Agrifood Processing Facilities in Canada*. The Simpson Centre for Agricultural and Food Innovation and Public Education; University of Calgary School of Public Policy SPP Briefing Paper 13:30
- Gaucher-Holm, Alexa, Benjamin Wood, Gary Sacks, and Lana Vanderlee. 2023. "The structure of the Canadian packaged food and non-alcoholic beverage manufacturing and grocery retailing sectors through a public health lens", *Globalization and Health* 19:18 <https://doi.org/10.1186/s12992-023-00917-w>
- Porter, Michael E. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press
- Williamson, Oliver E. 1979. "Transaction-Cost Economics: The Governance of Contractual Relations", *Journal of Law and Economics*, Vol. 22, No. 2 (Oct., 1979), pp. 233-261
- Williamson, Oliver E. 1985. *The Economic Institutions of Capitalism*. New York: The Free Press