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The Changing Face of Agriculture and Lessons from Corporate America



We often put agriculture into its own category, separating it from, instead of including it in, the world of business. Yet in many ways, agriculture is just an example of another American industry vying for survival in a world that has undergone dramatic and rapid changes over the past three decades. Here we show how the movement from a production, supply-driven system to a consumer, demand-driven system experienced by corporate America is paralleled by similar changes in agriculture.

Changes in corporate America

U.S. auto manufacturers, one of the great icons of corporate America, had little trouble making money in the sixties, a fact that seemed to foster a false sense of security. They simply did not foresee how the Japanese automobile could possibly hurt the big U.S. cars. As a result, the new and very competitive Japanese auto industry broadsided U.S. manufacturers in the late 1970s and early 1980s when increased fuel prices found consumers looking for more fuel-efficient and often better-made cars. It took some major shifts in product line, following a period of disastrously low sales and large inventory build-ups, before the U.S. auto industry was able to respond to consumers.

Although it was not until the 1970s and 1980s that big U.S. auto manufacturers rethought their business and marketing strategies, Lee Iacocca and the team at Ford that developed the Mustang were thinking along the right lines during the 1960s. From its inception in the 1920s up to and includ-

ing the 1960s, the auto industry had managed to remain very successful and profitable. Manufacturers produced cars under a relatively stable cost and competitive environment and did not consider the values of the consumer as a necessary driving force behind their decisions. Iacocca and the new Mustang were venturing into new territory. Rather than take the traditional approach of building a car that fit the needs of the producer and then finding consumers to buy the car, Iacocca and the team at Ford discovered, through their research, a market "out there" waiting for an inexpensive sports car.

During the early 1960s economic and demographic factors primed the market for an economy-priced sports car. Increasing income levels and a general outlook of optimism increased the number of two-car families, resulting in people spending more on transportation and entertainment. The car-buying market now included more women, more single people, and better-educated individuals. In addition, the baby-boom buyers of the mid 1960s wanted a car with a youthful image. All of these factors combined to create a market for a sporty car. Iacocca pointed out that a car with good styling, strong performance, and a low price would be a major success. Not surprisingly, the Mustang set first-year sales records.

Iacocca was moving the traditional business orientation away from a cost-driven structure to a consumer value-driven approach—a new tactic for the auto industry. This move is even more noteworthy because, at the time, many industry experts thought Iacocca's marketing ploy could go "bust," as had

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the Edsel. This time, however, an important discovery had been made:

Whereas the Edsel had been a car in search of a market it never found, *here was a market in search of a car*. The normal procedure in Detroit was to build a car and then try to identify its buyers. But we were in a position to move in the opposite direction—and tailor a new product for a hungry new market (Iacocca, p. 69).

This example illustrates that successful business decisions must be based on customer needs. The Mustang success story changes to one of disappointment, however, as company executives misjudged



Ford's demand-driven Mustang of the 1960s.

customer interests. Presumably in the spirit of "bigger is better," Ford added a larger engine, increased the size of the car, and raised the price tag. Sales of the Mustang fell from 550,000 in 1966 to 150,000 in 1970. Even with its successful experience with the Mustang, Ford had succumbed to the philosophy of the day in the auto industry to produce what the company perceived as important, which was obviously not what the customer saw as important.

In fact, it was only when the U.S. automobile industry as a whole began to focus its attention on the basics of marketing and pricing that it was able to make a comeback. The industry developed new products that the consumers valued. Chrysler's introduction of the mini-van illustrates the return to a consumer focus. During the 1980s, buyers were ready and willing to purchase an attractive vehicle that could house the whole family, and Chrysler effectively met the need (and revived the company).

Ford's "Quality is Job 1" program provides another classic example of consumer-based business success. During the 1970s, customers perceived Japanese cars to be better made and therefore a better value than comparable U.S. cars. Ford's response was to emphasize what the customer valued—quality. As a result, the campaign was very timely and effectively positioned.

Any automobile manufacturer that knowingly disregards the importance of consumer preferences will have a hard time succeeding in today's extremely competitive and changing environment. A recent article by Fields in *Businessweek* illustrates this point. When asked about American car manufacturers, one customer said, "A lack of comparable quality, and unwillingness to stand behind their products, and arrogant attitudes drove me away." Unless U.S. manufacturers take care of this situation, foreign automobile companies may once again be the sales winners.

Other American industries have discovered the importance of a consumer-driven focus. The banking industry provides one of many possible examples. Well into the 1970s, U.S. multinational banks led the world in terms of size, number, and profitability. Between 1983 and 1990, however, these large multinational banks lost out to a new world of competition. Bank of America dropped from a ranking of second to forty-second worldwide and Chase dropped to a position of forty-ninth. Citicorp, the only multinational bank to remain in the top ten during the 1980s, dropped to seventeenth by 1990. This dramatic loss in market share occurred as the result of a two-front assault. The growth of competition in commercial paper, negotiable certificates of deposits, nonbank banks (such as Sears and J.C. Penneys), and mutual funds and investment services had a strong impact on bank earnings. On the international front, customers found that multinational banks in Germany, Japan, and Great Britain offered very competitive products.

U.S. banks were suddenly faced with an astonishing fact: perhaps just like the business customers that they served, the banking industry was simply another form of American business. If these large institutions were to succeed in a newly competitive global environment (similar to the situation facing the auto makers), U.S. banks needed to operate like a business. They began to offer services that their customers requested and received from the competition. By 1992 U.S. multinational banks had regained their status as the most profitable banking group in the world (Hine).

The new face of agriculture

Although many authors acknowledge the role of the consumer in the agricultural system, including

the authors of several recent *Choices* articles, they often describe these changes as "industrialization of agriculture." We associate this term with capital, technology, production, and efficiency—all of which tend to evoke a sense of production or supply-driven change as opposed to consumer or demand-driven change.

Changes in the hog sector illustrate some of agriculture's dramatic change. Hurt and Rhodes describe how a significant portion of hog production initially moved out of the Hog-Corn Belt to North Carolina and more recently to regions in the southwest part of the country. Now, however, producers in the Hog-Corn Belt have refocused their hog production into fewer, larger firms that extensively use production contracts. These changes have increased efficiencies and lowered production costs through economies of scale, use of newer and more efficient capital inputs, and increased coordination in the system.

Rhodes goes on to discuss production versus consumer-driven change. He argues that the changes in hog production have been motivated by new production techniques rather than demand. Hurt shows, however, the important role of consumer demand. Packers have adopted a new pricing system which differentiates the value of each carcass according to the characteristics that provide value to the consumer. While no one will deny that changes in technology are influencing the business of agriculture, the evidence increasingly supports the argument that the consumer is becoming the driving force.

The notion that the consumer is "in the driver's seat" is also prevalent when we observe how, over the past couple of decades, market share for chicken has been increasing while market share for beef has been decreasing. These changes have been attributed to consumers' preference for convenience, lower cholesterol and healthier food, lower prices, and increased variety.

Examples of consumer-driven change may not be as immediately obvious in the grains and oilseeds sector since the product is often further removed from the consumer than it is for livestock. Nevertheless, demand for specialty grains such as high oil corn, amulos corn, and waxy corn represent demand for specific feed attributes and starch characteristics and can be traced back to consumer demand. The use of stress fractures as a grading criteria enables the processor to ensure larger-sized corn flakes, another consumer-driven example. In the case of soybeans, clear hilum soybeans result in tofu without brown specs.

Two previous studies support our claim that consumer-driven change is becoming the driving force in agriculture. Senauer, Asp, and Kinsey examine the impact of changing consumer demographics on the food system. Doering, Boehlje and Tyner also capture this shift of focus in the recent *Food System 21* publication. According to them, resources and technology, international trade, infrastructure development, and government policy previously drove agricultural production. In the future, demand/consumption/demographics, productivity and technology, government regulation and policy, and resources and environment will govern agricultural production.

We want to stress that this common force is acting upon both agriculture and the rest of corporate America. Changing times require all sectors to base production not just on what the producer can easily supply but rather on what the consumer wants. Many firms have already adopted this mode of operation, and our view of the future suggests others must also follow if they are to be successful in an ever-changing environment. ■

■ For more information

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