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STRATEGIC CHALLENGES FOR U.S. PRODUCER ORGANIZATIONS IN A GLOBAL MARKET

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Today, I'd like to take a few minutes to describe for you the competitive predicament of a farmer-owned agricultural organization – like the Sunkist Growers marketing cooperative – and the strategic difficulties that must be successfully navigated to effectively respond to a dramatically changed – now globally sourced – marketplace.

While today we are the largest fresh citrus marketer in the world, until the mid-1990's, Sunkist Growers experienced only limited foreign competition in the sale of our fresh citrus in the U.S. market and in many of our major foreign markets like Japan, Canada, and Hong Kong. We have also been a dominant citrus exporter into other Asian markets like Korea.

As it is for other American-sourced agriculture marketers and suppliers, that is now changing. We're facing increasing competition, requiring us to respond with new strategies to maintain and enhance market share in both the U.S. and foreign markets.

This challenge has been precipitated by a number of developments – some economic, some due to government policy, and some the result of successful U.S. educational and technical assistance programs that have advanced the capabilities of foreign producers enabling them to compete head to head with American agriculture.

Now I'd like to offer a <u>snapshot of the competitive challenge</u> many of us are experiencing –

<u>First from imports -</u>

The import share of fresh fruit consumed in the U.S. market has steadily increased from 25% in 1975, to 35% in 1985, to over 44% in 1999, and upwards of 50% in 2001.

For fresh citrus, U.S. consumption of imported product grew from a value of $25 million in 1991, to $91 million in market share in 1996, to nearly $250 million in 2001.

- Fruit and juice imports now total more than $4.9 billion a year.

- The value of vegetable imports jumped 60% between 1995 and 2000.

- Overall, U.S. imports of agriculture commodities and products reached $39 billion in FY 2000 – a 72% increase in 10 years.

This incredible growth in imports can be attributed to a number of factors:

- A robust and sustained U.S. economic expansion when much of the rest of the world struggles economically.

- Low commodity prices resultant from increased production.

- Strong U.S. dollar vis-à-vis other currencies (between '95 and 2000, the dollar increased 15% in real value against the currencies of major source countries)

- Recessions in Asia and Latin America and sluggish growth in Europe.

- And finally, the effects of trade agreements whereby the U.S. has reduced its tariffs and opened its markets – often without reciprocal benefit in the markets of many of our trading partners.

With agricultural product imports of $39 billion, the U.S. is experiencing its lowest agriculture trade surplus since 1987 ($11 billion, down from $26 billion).

Agricultural imports come from relatively few sources – 90% of imports come from only 20 countries:

- Canada, Mexico, and the EU provide nearly half;

- 1/3 comes from Latin America – this will likely increase with adoption of proposed free trade agreements.

- the remaining 15% comes from Asia.

U.S. producers – like our California and Arizona citrus growers – will likely face continued and increasing competition from lower cost offshore production. This trend will continue to put downward pressure on prices. However, based on current experience, this won't necessarily translate into lower prices for consumers as retailers seek greater profit margins.

The net effect – U.S. consumers are becoming increasingly dependent on imported food products – particularly for fruit and vegetables.

<u>With imports, have come more produce varieties and products</u>

To further demonstrate the competitive challenge in the marketplace – in 1965 there were <u>160</u> products found in the produce department of the typical American supermarket, today there are <u>600</u> items.

Demands of Customer

For American producers, another challenge is the consolidation at the retail level, which has reduced the number of customers with which to do business. This has given big retailers significant leverage – today expressed by demands for slotting fees and other requirements, price point purchasing with little regard to issues like actual cost of production.

These large retailers, the top 10 control 50% of the retail food business in the U.S.; the top 4 control 60% in Canada; the biggest 10 control 80% of the food business in Europe. And the food service industry is consolidating just as rapidly.

These large retailers, driven by increased efficiency, look to suppliers like Sunkist to take on the role of category manager. This means having the ability to meet the retailer's entire needs year 'round for a specified product area – in our case, citrus fruit.

This 12 month-a-year role, demands that we be able to provide quality product all the time, no longer limited by seasonality. This was also the vivid picture described by our luncheon speaker today, John Mason, Vice President for Produce Procurement for Ahold. Ahold, with its 9,000 stores and 35 million customers per week is a major retail customer. To meet their needs, we're required to source product outside the U.S. growing season to satisfy both the retailer and consumer, and not just in the U.S. marketplace, but in key consumer markets where they operate around the world. This means we have to consider sourcing product counter-seasonally, and by market region.

For a marketing co-op like Sunkist, to gain approval from our 6,500 grower-owners in California and Arizona to source and market lemons or oranges from other than their own groves, from outside the U.S., from Asian, Southern Hemisphere or Mediterranean producers – who have been competitors – requires a substantial sales job to be successful.

The natural inclination of a co-op's grower-owners is to resist this strategic alignment. Their first thought is that competitor fruit is being enhanced with *their* brand, which they've long nurtured and supported, and that other's product is now being marketed by *their* co-op in displacement of their own fruit.

To overcome this, the challenge is to help them think strategically of the practical benefit of alignments that can increase market share rather than run the risk of abdicating shelf space to a competitor and failing to meet the demands of the customer.

Understanding the nature of the new economic environment and the implications of increasing global interdependence will be crucial to making realignment decisions that place co-operatives and their farmers in the best position to succeed.

How do you promote this understanding and the radical adjustment required by a global marketplace?

- Start trying to build relationships with prospective alignment partners.
- Inform growers of the realities of this new marketplace – provide as much information as possible to help establish a new realism about the market.

- Identify common ground objectives and concerns shared by new partners – perhaps by teaming up to more effectively counter a common threat.

- For years, the biggest threat to prosperity in our industry was fragmentation – domestic producers undercutting one another to secure sales. With a larger share of the market now competitively enjoyed by foreign producers, realignment to include those producers is essential to overcome the new fragmentation.

- Ultimately, there is the need to provide unassailable evidence of bottom line advantage to a strategic alignment.

- Finally, you must have a well thought out assimilation and implementation plan so the realignment, once adopted, proves successful for all parties involved.

Conclusion

Certainly change is always difficult, particularly for those who have long benefited from the way things have been.

For a very successful, 108 year old farmer-owned marketing cooperative, these kind of changes required by the dynamics of the new marketplace I've described, are particularly difficult. But to successfully compete today, organizations like the Sunkist cooperative are compelled to consider also sourcing from outside traditional production areas to satisfy the demands of retail and food service customers and survive in the modern marketplace.