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MARKET DEVELOPMENT PROGRAMS FOR U. S. COMMODITIES ABROAD¹

Market development as used here refers to those activities and programs organized and conducted to broaden the market and increase the consumption of U. S. products in foreign countries.

To develop markets effectively, the following conditions are essential:

1. A basic felt need for the product coupled with ability to buy.
2. A regular supply of the product priced competitively.
3. Market machinery and trained personnel for effective distribution.
4. A favorable government climate for trade.

If these conditions do not exist in a country, initiation of short-run market development programs as such may not be advisable. Instead, economic aid programs such as those discussed by the other task forces are needed to improve the economic status of consumers and enable them to become active customers for dollars.

Market development programs may include virtually all of the market promotion techniques employed here in the United States, including such activities as advertising campaigns; dealers' services; special sales campaigns; effective use of the public press, magazines, radio, television, and other visual aids; demonstrations and in some cases supplying introductory quantities of various commodities.

IMPORTANCE OF FOREIGN MARKET DEVELOPMENT TO U. S. AGRICULTURE

Maintaining and expanding agricultural exports are vital to U. S. agriculture and the nation. Foreign exports already provide an outlet for the production from one of every six of our cultivated acres. Foreign countries provide markets for one-third of our soybeans, tobacco, and lard; 40 percent of our cotton and tallow; over half of our wheat and rice, and increasing quantities of feed grains, poultry, dairy products, fruits, and other products.

Conditions for increasing consumption are improving in many countries, especially in Western Europe. Incomes are rising and pur-

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chasing power is increasing. Many people are seeking higher living standards and developing new tastes, and are looking for products to satisfy them.

In spite of the agricultural policy of the EEC and its emphasis on self-sufficiency, it is nevertheless highly important for U. S. producers to evaluate possibilities for increasing exports and to develop more aggressive programs to keep a large share of European markets. This is especially important in Western Europe, which is our largest market for dollars.

MARKET DEVELOPMENT UNDER PUBLIC LAW 480

Most prominent among programs to increase exports as well as to aid surplus disposal is Public Law 480 or the Agricultural Trade Development and Assistance Act of 1954. This act directs the Secretary of Agriculture to encourage and promote the marketing of U. S. agricultural commodities abroad as deemed necessary, including assisting farmers, processors, distributors, and exporters to adjust their operations and practices to meet world conditions.

Title I of this act permits sales of certain surplus farm commodities in exchange for local foreign currencies. The act also specifies various ways in which local currency received in payment may be used, such as to help develop new markets for U. S. agricultural products, to promote economic development in these countries, to conduct trade fairs, etc. This program has been especially important in the disposal of cottonseed and soybean oil, wheat and cotton, fruits, and many other products.

Most of the market development projects we will be discussing today are of the type conducted under Title I, Section 104A. Such projects emphasize market promotion, marketing assistance, research and surveys, and various activities to expand world trade for dollars. The policy of the USDA is to rely upon representative private trade groups (preferably industry-wide or nation-wide) in the U. S. and in foreign countries to organize and carry out various types of development projects. The trade groups receive guidance and assistance from the Foreign Agricultural Service, which is the agency of the U. S. government responsible for these matters.

Projects are financed in the following general way. The FAS contributions are paid in the foreign currency of the particular country. The U. S. cooperators, which are the responsible private trade groups or associations, make their contributions in dollars, personnel, goods for exhibit or demonstration, facilities, and various other services.

Contracts are made between these private groups and the Foreign Agricultural Service, with the private groups taking responsibility for supervising and conducting the work and with the Foreign Agricultural Service providing some guidance and cooperative assistance. Third party cooperators, consisting of responsible private trade groups or associations in the foreign country, also make contributions where they can to the program. The general rule is that the combined contributions of the private U. S. and third party cooperators equal at least 50 percent of the FAS contribution. Contracts usually require semi-annual progress reports for each program.

Currently, more than fifty agricultural organizations are working closely with the FAS and the agricultural attachés under Section 104A of P. L. 480 to maintain and expand markets for U. S. products. Some of the principal cooperators include organizations such as the Cotton Council International, the Great Plains Wheat Council, the Soybean Council of America, the U. S. Feed Grains Council, Western Wheat Associates, Tobacco Associates, National Renderers Association, some fruit and dairy groups, and many other commodity and trade groups. These private industries have committed to market development programs for fiscal 1961 approximately 7.5 million dollars of their money and the techniques, skill, and knowledge of experienced industry personnel. The U. S. government appropriated 13.8 million dollars for this program in 1961. Thus, a good beginning has been made in what can be a significant program to benefit American agriculture and the nation. Some programs such as those conducted by the cotton industry, the Feed Grains Council, Wheat Association, Inc., and the Soybean Council, cover many countries in most parts of the globe, while programs of other commodity groups such as poultry, specific fruits, hides and skins, and some other specialized crops are conducted in countries that offer the most promising possibilities for expanding markets for their product.

Programs observed by the extension teams ranged from the broad program of the Cotton Council International to the limited cranberry or red cherry programs. The Cotton Council, with several years' experience, has operations in 17 countries, which have 80 percent of the free cotton textile capacity and take three-fourths of the U. S. raw cotton exports. The activities include more than 200 campaigns for every major cotton product from sheets to work clothes and evening gowns. Programs are conducted in fashion advertising, merchandising, sales training, public relations, press services, and educational efforts for schools and women's clubs. Most of these programs are guided by the results of economic and market research to ascertain where the

best market potentials are, what the trends are, and how activities might be improved.

The Council has a local cooperator in each country to help finance operations. Last year it conducted 190 style shows, placed 69 pages of advertising in 16 top European magazines; arranged for 40,000 stores to feature cotton in show windows; published cotton stories in publications of 100 million circulation; and conducted 20 cotton telecasts. New markets for cotton have been created through the promotion of winter cottons and special clothing for leisure and work and the development of new designs and new finishes. Industry leaders give much credit to the foreign promotion programs for the improvement of the industry's relative position. More research and market analysis studies are needed, however, to provide information about which markets and which promotional activities yield best results for resources expended.

The soybean, feed grains, and wheat organizations are also very active. They are striving to improve the quality of products delivered, to increase the understanding of grade standards, to deliver products to meet the specifications of the buyers, and to assist in demonstrating use of the product.

Only limited activities are conducted under some of the projects supported by certain commodity interests. In France, for example, the agricultural attaché's office reported 27 projects on the books, but the majority of these are operating in a limited fashion. The activities included some surveys, some advertising, and making calls on trade people; but no effective organization was set up to service some of the market problems. However, effective market development is more difficult in France than some of the other countries because of her strong protectionist trade policy.

In some instances, too many separate programs are being conducted with inadequate financing, personnel, and follow-up to develop effective programs. If some programs of related products could be combined to reduce overhead costs and to correlate activities, better results could possibly be achieved. In the fruit field, for example, separate projects are underway for red cherries, citrus, cranberries, raisins, prunes, apples, etc. Some of these commodities may be moving on a seasonal basis with others moving during a different season. Unless finances are adequate to do a reasonable job, funds may easily be dissipated on overhead costs without much net result in increased sales.

Lack of complete market information on such items as income distribution, consumer preferences, distribution outlets, etc., hinders

promotional programs in certain countries. Most groups are aware of this and are striving to overcome it.

CHALLENGES IN DEVELOPING FOREIGN MARKETS

Contacts and observations made by members of the four extension foreign study teams indicate many problems and challenges ahead in maintaining and expanding our foreign markets.

The market situation for U. S. products in Europe is influenced by several new and dynamic forces. Among these are:

1. The rapid economic growth of Western Europe and the impetus given by the Common Market.
2. Higher incomes per capita.
3. Greater numbers of women employed in the labor force, resulting in increased emphasis on convenience items.
4. Better communications and travel, bringing more exchange of ideas and some breaking down of tradition.
5. Increasing production of food in all countries and a drive for more self-sufficiency under the Common Market agricultural policy.
6. More competition in the market:
 - a. Between products.
 - b. Between producing areas.
7. More aggressive merchandising programs to meet market preferences.
8. Increasing intervention by governments in a variety of ways.

Some of the noticeable trends in consumption habits that influence the demand for food are as follows:

1. Impulse buying is increasing. Consumers are more discriminating and buyers are looking for better quality.
2. Per capita consumption of red meats and poultry is increasing in all European countries. Better quality products are being demanded.
3. Consumption of fruits and vegetables of higher quality is increasing.
4. Consumption of processed items and convenience goods is increasing.

5. In all countries, home refrigeration to handle convenience items has increased noticeably.
6. Some decline is noticeable in the per capita consumption of potatoes and other starchy foods as incomes rise and a greater variety of foods become available.

An increasing trend toward central buying activities was noticeable in many areas including:

1. Group buying by independent retailers.
2. Increased group buying by wholesalers.
3. Joint buying activities by importers in several of the countries to improve their efficiency and reduce overhead costs.

In some parts of Europe, direct marketing from farmers and country points to central buying groups has increased. The buying groups contacted indicated the need for educational work with farmers and trade representatives to improve production and preparation of products to meet the specifications of central buying agencies. This trend toward specification buying will continue.

These new forces operating in Europe and elsewhere emphasize the need for evaluating and modifying some of our marketing practices. The common agricultural policy and the variable levy system, which were initiated in the Common Market August 1, puts all third-country suppliers on an equal basis for Common Market trade. To meet the growing competition there, we must either "fish or cut bait." Increased trade abroad will depend upon keeping U. S. products competitive in price. Likewise, if market potential is to be expanded, farmers must generally produce and deliver products of a type and of a quality desired by foreign consumers. Handlers must maintain the quality of these products as they pass through market channels. When specifications are not met and inferior products are allowed, or if the timing and other terms of trade are not met satisfactorily, other competitors will take over the market. The ability to deliver consistently commodities of the quality and quantity desired is a very important asset in the expansion of U. S. agricultural exports. This ability will be more important in the future.

International market development is a big and growing field. Denmark, Australia, Canada, and Israel are particularly known for their promotion of agricultural products. We must be prepared to compete with such efforts. We must keep alert to programs of these nations, else we may arrive in the market with too little too late.

More research projects should be conducted concurrently with the promotional activities to evaluate their effectiveness and to devise improved methods for increasing consumption of our products in existing markets.

EDUCATIONAL WORK NEEDED AT HOME

An equally important aspect of market development is understanding what the foreign market wants in terms of quality, grade, and other characteristics. Too often, our farmers are encouraged to produce for domestic market specifications with less attention given to quality or other requirements of foreign consumers. Too often complaints were heard that the moisture content of our grains was too high, or that sufficient uniformity of quality was not maintained, or that crops from two different years were mixed. Other complaints were that our size of package did not meet their specifications, that labels were not in the local language, that weights of specific products such as poultry lacked uniformity, or that the color or protective coating of the product was not desirable, etc. Where complaints are legitimate, we must act to correct the situation.

As extension workers, and representatives of the USDA, we should bring these problems to the attention of producer groups, marketing agencies, and exporters and work closely with them on educational programs designed to meet the growing competition in world trade. The marketing channels must be serviced all the way through to the ultimate consumer to avoid slip-ups and breaking down of confidence. Perhaps this side of market development has been neglected too long. Some world markets are shifting to a "buyer's market" instead of a "seller's market," especially in the hard money countries. A dissatisfied customer today may mean the loss of the market tomorrow, perhaps permanently.

More research and extension of results is needed to provide specific information to producers, the trade, and exporters with regard to the requirements of foreign consumers. Perhaps port facilities and equipment need to be improved to facilitate more efficient and proper handling of export commodities. The storage and handling in transit of export products and their distribution from ports of entry are all very important to the acceptance of the product by the foreign consumer. Every effort should be made to line up with handlers who have trade connections with the better distribution outlets and the know-how to merchandise effectively within the foreign country. A good job at home in production and preparation for market and adequate follow-up throughout the channels of trade will greatly facilitate the job of selling our products in overseas markets.

PROBLEMS AND OPPORTUNITIES FOR THE FUTURE

According to reports of the FAS, 31 percent of the total exports of 5.1 billion dollars moved under government-financed programs of one sort or another, while 69 percent were commercial sales for dollars. Two-fifths of the increase in exports over the previous year consisted of government program shipments and three-fifths of sales for dollars.² The major commodities that were assisted by government programs were those receiving price supports and in surplus supply. This continued heavy reliance upon government aid in moving exports suggests that our progress in developing dollar markets for our farm products has not been as rapid as the total volume of exports would suggest. After some seven or eight years of experience with Public Law 480, it would appear that foreign currency sales and dollar-assisted sales have not yet generated significant expansion in purely commercial sales.

Part of our problem in moving exports may be attributed to price. Contacts with foreign traders indicated that many of our products were priced too high relative to those of competing countries to move readily. Unless our commodities are priced competitively for comparable quality, our promotion programs may merely develop a market for some other exporting country. Many products that have moved under P. L. 480 programs have gone to underdeveloped countries and have not been sold for dollars. If we are to expand our trade for dollars, we must organize and conduct more aggressive market development programs to take advantage of the growing opportunities in hard currency countries.

Efficient foreign market development is a very responsible job and has many facets. Individual firms, trade associations, and the government all have major roles to play, and each has its respective responsibility. One of the responsibilities of government, of course, is to negotiate continuously for trade liberalization to break down trade barriers, exchange controls, and other government regulations which constitute major problems faced by most commodity groups. Although this may primarily be the responsibility of government, trade and producer groups can make important contributions through better understanding and well-coordinated approaches.

In the field of trade relations we have a continuing job of education and public relations with importers, processors, and distributors of U. S. products. One key aspect of this public relations job is handling trade complaints. This is the area where individual firms and trade associations, which have control of the products through the marketing

²*Foreign Agricultural Trade of the United States*, August 1962, p. 7.

channels, have most important responsibilities. More follow-up is needed back through the channels of trade.

Most foreign buyers are international traders, with considerable experience in the art of marketing. They are sharp businessmen. These buyers have a surprising knowledge of local, U. S., and world prices and conditions. The very fact that many countries must procure a very high percent of their food and fiber from foreign sources makes it paramount that they know world markets. They are out to get the best bargains possible; and if they can trade with Eastern "satellite countries" and get the commodities they want, they do so to the disadvantage of our U. S. products. Trade carried on by Western Europe with Eastern Bloc countries is usually done with the governments of those countries. Goods are priced to sell. The quality of their products has been upgraded in recent years and is well received by the Western trade. Satellite countries are anxious to receive machinery and industrial products from Western Europe in exchange for agricultural commodities. Thus, our competition from the Eastern Bloc is increasing.

In general, foreign consumers are more conservative than those in the United States and thus slower to change. For this reason, a marketing program on new products may be more difficult to establish. However, people in Western Europe, Japan, and elsewhere are responding more quickly to new products and ideas than in the past, and as incomes increase and communication improves, they will accept new products more rapidly. In many instances, European consumers would like our premium quality grades, but they cannot afford them. Thus, it is essential to establish a quality and pricing structure which fits the market for volume sales.

The European and other commercial markets, country by country and commodity by commodity, have certain marketing preferences. We need to know each market if we are to develop an effective merchandising program. However, if the Common Market reaches its ultimate objectives, Western Europe will eventually become one market with more common standards.

The growing competition in market promotion makes it especially important to have well trained personnel employed in the key spots. U. S. market promotion officials will be matching wits with sharp traders and highly trained personnel in many foreign countries. They must be able to deal effectively with situations as they arise. Personnel of the agricultural attachés' offices are doing a very commendable job in view of the limited time they can give to promotional activities because of the many additional important duties they perform. More

personnel with training for specific jobs are needed to give adequate follow-up.

If we are to look at market development from a longer-time viewpoint, it would be highly desirable to set up an "in-service training program," with commodity groups, the export trade, and the government participating jointly to train personnel for specific jobs. We should strive to substitute new and improved activities for some that are not paying off well. Once certain activities are started, they tend to be maintained, even though we may not be able to evaluate them effectively. More research is needed so that we can place emphasis in those areas which will yield best results. Sometimes activities are conducted on too broad a scale—a sort of shotgun approach which is difficult to organize and measure. Specific and measurable objectives should be established for each of the important market development projects so that their effectiveness can be measured.

Any major market development project requires a well-organized and well-financed imaginative program. Also required are continued financing and support from the industry group and the services of skilled technical manpower. After all, any foreign market promotion organization can be no stronger than its staff. The challenge ahead is great. Good planning and positive action will help us develop and keep our share of the world trade.