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# **Multinational Food Marketing: Competitive Strategies of U.S. Firms**

by

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## **Introduction**

There is a tremendous interest by researchers, policy officials, and food industry participants in issues of globalization of the food system and in factors causing structural change in food marketing industries world-wide. In fact, I participated in an Organization for Economic Co-Operation and Development (OECD) in October 1992 to discuss establishing a permanent working group to monitor, analyze, and identify the policy implications of "structural adjustment in the OECD agro-food sector." Hopefully, this OECD activity will become a valuable source of data for researchers.

This audience is well aware that firms use a mixture of strategies for accessing and serving foreign markets. Strategies include: exporting; licensing; joint-ventures; alliances; and wholly-owned foreign affiliates. In this paper I will focus on exports and foreign direct investment (FDI). Very little data is available on licensing and joint-ventures. More specifically, the objectives of this paper are to:

- Examine the role of U.S. multinational firms in world trade of manufactured food and beverages
- Set foreign direct investment in the context of alternative strategies to access foreign markets

- Quantify U.S. out-bound and in-bound foreign direct investment in food manufacturing industries
- Explore sources of strategic advantage in foreign direct investment

## **World Trade in Manufactured Food**

According to United Nations trade data, the value of world trade in manufactured food and kindred products (U.S. Standard Industrial Code 20) reached \$206 billion in 1990 (Table 1). Exports account for about 14 percent of the total value of world-wide production of manufactured foods. World trade in manufactured foods is about three times the value of world trade in unprocessed agricultural commodities. In real 1987 dollars, world processed food trade grew an average of 9.4 percent from \$48 billion in 1962 to \$181 billion in 1990.

Trade in processed food is highly concentrated among the industrialized economies. Japan is the largest importer of processed food accounting for 12 percent of world imports in 1990. West Germany accounted for 11.8 percent, followed by the United States (11.7%), France (8.6%), and the United Kingdom (8.6%). Nearly 90 percent of all imports are accounted for by just 19 countries.

**Table 1. World Trade in Manufactured Foods and Beverages,  
1962 - 1990 (million US\$)**

| Year | Nominal Value | Value in 1987 Dollars |
|------|---------------|-----------------------|
| 1962 | 16,219.9      | 49,749.7              |
| 1967 | 21,973.3      | 62,496.5              |
| 1972 | 38,033.8      | 88,801.3              |
| 1977 | 89,084.7      | 133,083.6             |
| 1982 | 120,838.7     | 132,318.4             |
| 1987 | 167,916.1     | 167,916.1             |
| 1990 | 205,955.6     | 181,298.9             |

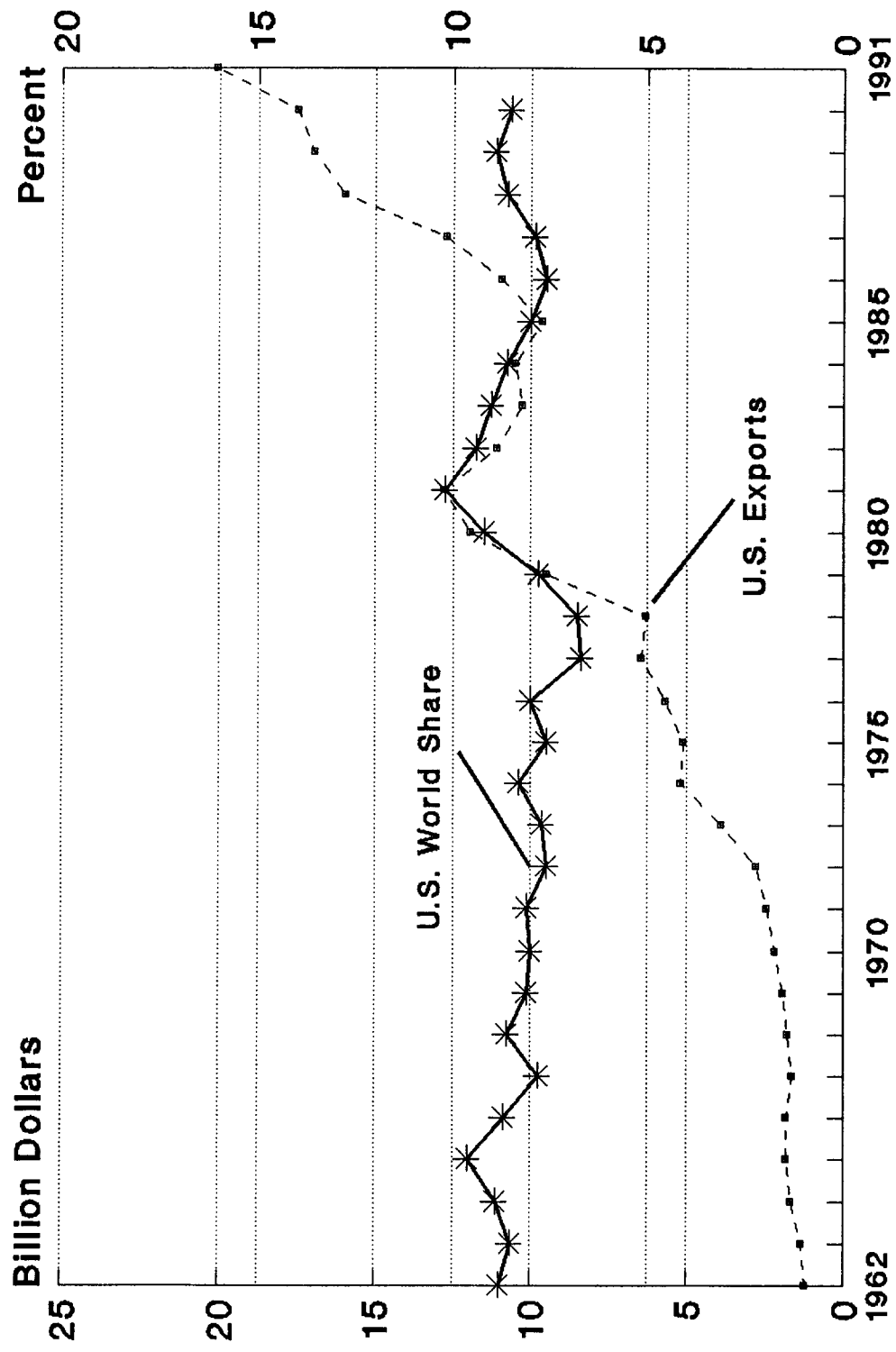
**Table 2: US Exports and Imports of Manufactured Foods, 1988 - 1992.**

| Year  | Exports<br>(million \$) | Imports<br>(million \$) |
|-------|-------------------------|-------------------------|
| 1988  | 16,414.2                | 19,399.9                |
| 1989  | 17,111.7                | 19,681.8                |
| 1990  | 18,585.5                | 20,876.7                |
| 1991  | 20,084.4                | 20,806.7                |
| 1992E | 22,500.0                | 21,100.0                |

Exports are also highly concentrated. In 1990, France was the leading supplier of processed foods with a 9.8 percent share of world exports. In second place was The Netherlands with a 8.9 percent share, followed by the United States (8.5%), West Germany (6.7%), and the United Kingdom (4.3%). Contrary to what many believe, the United States's share of world exports has remained relatively constant over the past 30 years--declining slightly from 8.8 percent in 1962 to 8.5 percent in 1990 (Figure 1, right hand vertical axis). Figure 1 also shows that the dollar value of U.S. exports declined during the early 1980s after rising rapidly during the 1970s, and then resumed their rapid growth during the late 1980s and early 1990s.

In terms of a trade balance, Table 2 shows that U.S. processed foods exports have grown much faster than imports. U.S. exports grew at an annual rate of 12.4 percent from \$16.4 billion in 1988 to \$20.1 billion in 1991. Exports are estimated to grow another 14 percent in 1992 to \$22.5 billion. In contrast, imports grew slowly from \$19.4 billion in 1988 to an estimated \$21.1 billion in 1992. This will result in a trade surplus in 1992 for the first time in many years. We now turn to the role of U.S. multinational firms in exporting processed food products.

**Figure 1: U.S. Exports of Manufactured Foods and  
Share of World Total, 1962-91**



**Table 3. Processed Food and Beverage Exports of U.S. Firms with Foreign Affiliates**

| Firm                                  | 1988                  |                                 | 1991                  |                                 |
|---------------------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|
|                                       | Exports<br>Million \$ | Share of U.S.<br>shipments<br>% | Exports<br>Million \$ | Share of U.S.<br>shipments<br>% |
| Philip Morris/<br>Kraft General Foods | 264                   | 1.5                             | 1,324                 | 5.8                             |
| Archer Daniels Midland                | 979                   | 16.5                            | 925                   | 14.0                            |
| ConAgra                               | 215                   | 3.0                             | 726                   | 4.5                             |
| Anheuser Busch                        | 282                   | 3.5                             | 561                   | 5.9                             |
| Chiquita Brands                       | 86                    | 3.6                             | 223                   | 10.6                            |
| Tyson Foods                           | 153                   | 4.4                             | 187                   | 4.9                             |
| Coca Cola                             | 94                    | 2.6                             | 163                   | 4.0                             |
| General Mills                         | 74                    | 2.2                             | 148                   | 2.3                             |
| Procter + Gamble                      | 124                   | 4.3                             | 142                   | 4.0                             |
| Hershey Foods                         | 39                    | 2.0                             | 128                   | 5.0                             |
| Universal Foods                       | 36                    | 5.5                             | 127                   | 17.1                            |
| H. J. Heinz                           | 61                    | 2.0                             | 121                   | 3.3                             |
| Mars                                  | 45                    | 1.0                             | 120                   | 2.0                             |
| PepsiCo                               | 21                    | 0.4                             | 111                   | 1.2                             |
| Sara Lee                              | 38                    | .7                              | 104                   | 2.2                             |
| <b>Total, 34 U.S. Firms</b>           | <b>2,912</b>          | <b>2.6</b>                      | <b>5,810</b>          | <b>4.1</b>                      |

Source: Company reports and ERS estimates.

#### *Exports by Multinational Firms*

The Economic Research Service, U.S. Department of Agriculture, maintains a data base on over 70 U.S. food processing firms--34 of these firms are multinational corporations (MNCs) on which we have consistent data between 1988 and 1991. I first discussed MNCs and exporting at the FDRS meetings in Houston five years ago. There have been big changes since then.

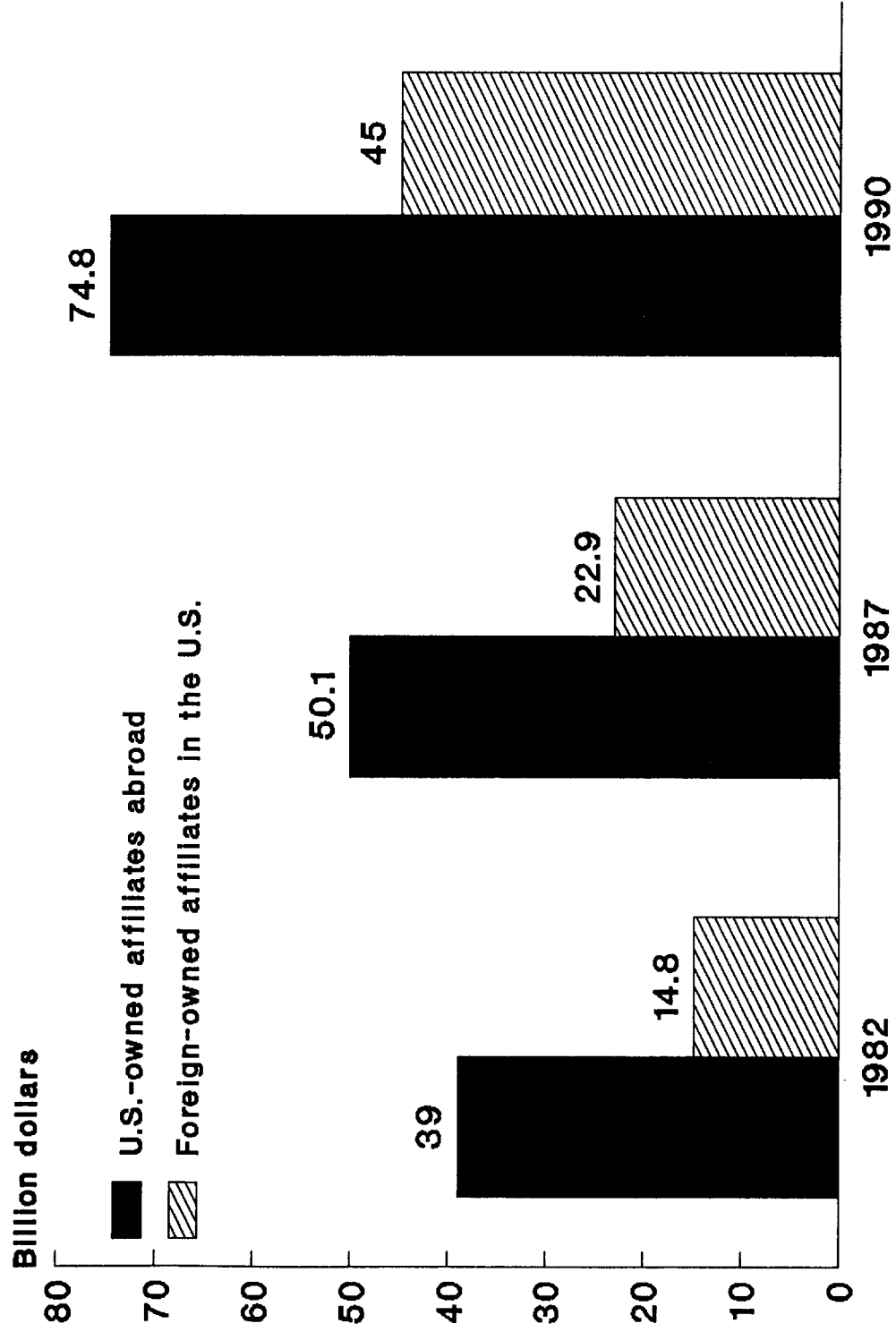
Export propensities of MNCs are still relatively low, but are rising. For example, Table 3 shows that, for all 34 U.S. MNCs, exports averaged 2.6 percent of sales in 1988. By 1991,

export propensity for these firms rose to 4.1 percent of sales--a huge increase. In dollars, exports rose from \$2.9 billion to \$5.8 billion, up 100 percent. These 34 MNCs accounted for 29 percent of U.S. 1991 exports of processed food.

Each of the firms listed separately in Table 3 had over \$100 million in exports. Kraft General Foods, owned by Philip Morris, was the largest exporter in 1991, replacing Archer Daniels Midland, the largest exporter in 1988. Universal Foods had the highest export propensity in 1991, again replacing number one Archer Daniels Midland in 1988. ADM was also the only firms that experienced a decline in exports.

**Figure 2: Sales from Food Processing Affiliates**

**Abroad and in the United States**



**Table 4. Sales By Foreign Affiliates of U.S. Food Manufacturing Firms**

| Firm                                  | 1988              |                         | 1991              |                         |
|---------------------------------------|-------------------|-------------------------|-------------------|-------------------------|
|                                       | Exports           | Share of U.S. shipments | Exports           | Share of U.S. shipments |
|                                       | <i>Million \$</i> | <i>%</i>                | <i>Million \$</i> | <i>%</i>                |
| Philip Morris/<br>Kraft General Foods | 8,556             | 33.2                    | 9,297             | 28.8                    |
| Coca Cola                             | 4,319             | 54.0                    | 7,401             | 61.4                    |
| Mars                                  | 2,295             | 34.0                    | 4,000             | 40.0                    |
| CPC International                     | 2,656             | 56.5                    | 3,891             | 62.7                    |
| PepsiCo                               | 2,030             | 24.9                    | 3,572             | 28.6                    |
| H. J. Heinz                           | 2,192             | 41.8                    | 2,379             | 39.3                    |
| Kellogg                               | 1,762             | 40.5                    | 2,376             | 41.0                    |
| Sara Lee                              | 1,740             | 23.9                    | 2,211             | 31.3                    |
| Quaker Oats                           | 1,584             | 35.1                    | 1,868             | 34.0                    |
| ADM                                   | 184               | 3.0                     | 1,855             | 21.9                    |
| Campbell Soup                         | 1,503             | 26.5                    | 1,774             | 28.6                    |
| Ralston Purina                        | 1,140             | 24.1                    | 1,700             | 36.2                    |
| ConAgra                               | 331               | 4.4                     | 1,687             | 9.5                     |
| Castle & Cook                         | 917               | 40.4                    | 1,436             | 48.4                    |
| Borden                                | 1,480             | 27.5                    | 1,351             | 25.4                    |
| RJR Nabisco                           | 2,981             | 30.2                    | 1,200             | 18.6                    |
| <b>Total, all 34 firms</b>            | <b>39,635</b>     | <b>25.8</b>             | <b>52,089</b>     | <b>27.0</b>             |

Source: Company reports and ERS estimates.

At the other end of the spectrum, 9 of the 34 MNCs had very low exports (less than 2% of sales). In fact four of these firms had exports below one percent of sales (Quaker Oats, Campbell Soup, RJR/Nabisco, and Clorox). These large, brand-oriented firms obviously use strategies other than exporting for accessing foreign markets.

#### Foreign Direct Investment

The Bureau of Economic Analysis, U.S. Department of Commerce, publishes aggregate industry-wide data on U.S. investment abroad and

on foreign direct investment in the United States. The latest available data is for 1990. Figure 2 shows that sales from U.S. affiliates abroad grew from \$39 billion in 1982 to \$75 billion in 1990. Seventy-five percent of U.S. affiliate sales abroad are concentrated in Europe, Canada, and Japan. This figure also shows that sales from foreign-owned affiliates in the United States are smaller than sales from U.S.-owned affiliates abroad. Sales from foreign-owned food processors in the United States (such as Pillsbury or Carnation), grew from \$15 billion in 1982 to \$45 billion in 1990—an average growth rate of 25 percent.

Turning again to the Economic Research Service data for the 34 U.S. MNCs, we see that these large firms received 27 percent of their sales from their foreign affiliates, up slightly from 25.8 percent in 1988 (Table 4). Foreign affiliates sales grew from \$39.6 billion in 1988 to \$52.1 billion in 1991. Thus, sales from U.S.-owned affiliates abroad were 9 times larger than their U.S. exports (\$52.1 billion compared to \$5.8 billion). Table 4 lists the 16 of 34 U.S. MNCs with over \$1 billion in sales from their foreign affiliates. Two firms (Coca-Cola and CPC International) received over 60 percent of their sales from their foreign affiliates. Another 7 firms received over 30 percent of sales from their affiliates.

### *Location of Affiliates*

While U.S. foreign direct investment is targeted largely to developed countries, the number of U.S. affiliates in developing countries is growing rapidly. In 1991, 42 U.S. MNCs in the ERS database had 802 food manufacturing plants abroad. About one-third, or 284, of these plants were in developing countries. At least 187 plants were in Latin America--mostly Brazil, Mexico, and Venezuela. Another 43 food processing affiliates were located in Asia and 23 in Africa.

The U.S. is also leading the way to becoming a major investor in food processing in Central and Eastern Europe. At least 9 U.S. firms had over 22 affiliates in this area as of 1992. Sara Lee acquired Compack Trading, Hungary's third largest food manufacturing firm. Gerber acquired Alima SA, Poland's largest infant food and juice firm and plans to greatly increase its production capacity. Kellogg is building a RTE cereal plant in Latvia.

### *Trade Links with Affiliates*

First we look at trade links between the United States and its affiliates abroad. In 1989, the United States exported \$2.2 billion of processed food to its foreign affiliates. This accounted for 13 percent of total U.S. exports of processed food. U.S. imports of processed food from its foreign affiliates, on the other hand, accounted for only \$900 million--or 4.6 percent of total imports. Furthermore, U.S. foreign affiliates

exported on average only two percent of their sales to the United States. Therefore, U.S. parents do not maintain affiliates abroad primarily as export platforms to the United States.

Most of the trade with affiliates is intra-firm trade. That is, most U.S. exports to affiliates (\$1.7 billion, or 71%) are shipped by U.S. parents. Likewise, most U.S. imports from affiliates abroad (\$760 million, or 85%) go to U.S. parents.

Similar trade links exist between foreign-owned firms (FOFs) in the United States and their parents abroad. Foreign-owned food processors in the United States exported \$2 billion, or 5 percent of their 1989 sales. This accounted for 12 percent of total U.S. exports. These FOFs also imported \$2.7 billion or 6.5 percent of their sales, accounting for 13.7 percent of U.S. imports.

Again, most of this trade is intra-firm. Of the \$2 billion exported by FOFs in the United States, nearly one-half went to their foreign-based parents. And of the \$2.7 billion imported into the United States, by FOFs, 58 percent came from their parents.

### *FDI as a Strategic Response*

In this section we examine available data to determine to what extent foreign direct investment is a strategic response to perceived profit opportunities. Dennis Henderson and the NC-194 core group at Ohio State University compiled data for this analysis from company annual reports compiled. A panel of 144 food processing firms from around the world was constructed. Of these 144 large firms, 70 are U.S. and 74 are non-U.S. firms. Annual reports provide data on net income as a percent of assets for all 144 firms.

Table 5 shows net income as a percent of assets for MNCs versus non-MNCs for the complete sample of firms as well as for the 74 non-U.S. firms and the 70 U.S. firms. For each group of firms, MNCs have lower profit rates than non-MNCs. For example, for the full sample profit rates for the 26 non-MNCs was 6.6 percent of assets compared to 5.7 percent for the 118 MNCs. Since data from Table 5 suggest that firms that follow FDI strategies receive lower



profit rates, this raises the issue of motivation for FDI in food manufacturing.

**Table 5. Earnings of Leading World Food Manufacturing Firms, 1989/1990**

|                                 | Net Income as % of Assets, Total for Group |
|---------------------------------|--|
| All 144 Firms                   | 5.79                                       |
| 118 Multinational firms         | 5.74                                       |
| 26 Firms w/o foreign operations | 6.61                                       |
| All 74 Non-US firms             | 5.91                                       |
| 68 Multinational firms          | 5.88                                       |
| 6 Firms w/o foreign operations  | 7.92                                       |
| All 70 US Firms                 | 5.63                                       |
| 50 Multinational firms          | 5.55                                       |
| 20 Firms w/o foreign operations | 6.36                                       |

Source: Original data

**Table 6. Earnings of Leading Multinational Food Manufacturing Firms, 1989/1990**

|                            | Net Income as % of Assets, Total for Group |
|----------------------------|--|
| All Multinational firms    |  |
| 35 Foreign-oriented firms  | 8.08                                       |
| 83 Home-oriented firms     | 4.42                                       |
| Non-US multinational firms |  |
| 22 Foreign-oriented firms  | 6.03                                       |
| 46 Home-oriented firms     | 5.79                                       |
| US Multinational firms     |  |
| 16 Foreign-oriented firms  | 10.67                                      |
| 34 Home-oriented firms     | 3.69                                       |

But further sub-dividing the MNCs into "foreign-oriented" and "home-oriented" classifications reveals a different story (Table 6). Foreign-oriented MNCs have higher than average shipments from their foreign affiliates; while home-oriented MNCs have lower than average

sales from their affiliates. For each group of MNCs, foreign-oriented MNCs have higher profit rates than do home-oriented MNCs--the difference is particularly pronounced for the U.S. MNCs (10.7% versus 3.7%). MNCs with relatively low levels of foreign operations are less profitable than *either* MNCs with very large foreign operations or food processors with no foreign operations (non-MNCs). The implication is that for foreign direct investment to be profitable, firms must invest aggressively in their foreign affiliates--they cannot just dabble in foreign direct investment and be successful.

### Summary and Conclusions

- For large food manufacturers, foreign direct investment is by far the dominate strategy for accessing and serving foreign markets.
- World-wide, sales from foreign affiliates are three times larger than processed food exports. But for U.S. multinational food processing firms, foreign affiliates sales are nine times larger than exports.
- From 1988 to 1991, however, exports by U.S. MNCs have grown much faster than sales from their foreign affiliates.
- In general, foreign affiliates are not export platforms: most sales go to the host country.
- Multinational corporations with high levels of foreign direct investment are more profitable than either non-MNCs or MNCs with low levels of foreign investment.
- In the final analysis, we still have very little empirical data or conceptual models to help explain why firms choose a particular strategy or combination of strategies for accessing foreign markets. The Economic Research Service and Agricultural Canada are currently developing a joint research project to further explore this topic.

