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RESEARCH UPDATES

"A Pilot Study of Plans That the United States Food Industry Has for Participating in the Asian Republics of the Former Soviet Union." R. R. Cangemi (Pace University) and R. H. Lopez (Pace University)

Problem: Continuing the authors' investigation of the largest U.S. food processing companies' plans to participate in countries that were once part of the former Soviet bloc, a survey of these companies was carried out. The six newly formed nations investigated in this study have a total population of about 65 million people and represent more free enterprise business opportunities than before the breakup of the Soviet Union.

Methodology: Six former Soviet Asian Republics were covered in this study (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). At the end of August 1993, a mail survey of chief executive officers of the 100 largest food processing companies in the United States (with a follow-up mail out three weeks later) were asked to indicate if they were:

1. currently participating and planning to continue to participate.
2. not participating now but planning to over the next five years.
3. not participating and not planning to over the next five years.

Each group of respondents was asked to identify the major concerns regarding carrying out business in these nations, and for those doing business or planning to do business, the means by which they are participating or will participate.

The total food sales of these 100 companies represent approximately 65 percent of the value of shipments in food processing in the United States or just under \$300 billion in 1993.

Results: Thirty-seven percent of the sample responded to the survey and 23 percent completed the questionnaire. The companies that did not complete the questionnaire stated it was company policy not to participate in surveys. Of those that answered the questionnaire, only 31 percent are either conducting business now or planning to carry out business in these countries over the next five years.

Major Findings and Implications: Nine percent of respondents are presently doing business only in

Kazakhstan. The means employed are independently owned businesses and joint ventures with local companies. The products of interest are beverages. One of the companies is planning to expand its interests in the rest of the subject countries except Tajikistan either through joint ventures with local companies or through independently owned companies. The other company is planning to expand into all of the remaining countries either by exporting from the United States or through joint ventures with local companies. The major concerns these companies have for participating in these countries are 1) unstable governments, 2) safety of investments, 3) lack of banking systems and hard and convertible currency, and 4) poor distribution system including packaging, waste, and spoilage.

The 22 percent of the respondents who are not presently participating in these countries are planning to do so in all of the subject countries over the next five years. The means they plan to employ are to export their products from either the United States and/or other countries. The other countries identified are Poland, China, Mexico, and Turkey. This group of respondents had many concerns about conducting business in these countries but the ones mentioned most are: 1) unstable governments, 2) lack of banking system and hard and convertible currency, 3) poor distribution system including packaging, waste, and spoilage, and 4) lack of infrastructure (e.g., hotels, restaurants, roads, hospitals, schools, and colleges).

The overall number of respondents (69%) are neither presently nor planning to participate in the subject countries over the next five years and cited many concerns for not doing so. The ones that were overwhelmingly mentioned in the order of importance are: 1) more near-term opportunities domestically and in other foreign markets, 2) lack of banking system and hard and convertible currency, 3) lack of business culture, and 4) lack of protective commercial laws, including food safety supply.

Overall, the U. S. food processing industry does not view the Asian Republics of the former Soviet Union as a significant area of opportunity to expand their global business over the next five years for the reasons mentioned in this paper.

References:

- Cangemi, R. R. and Lopez, R. H., "A Pilot Study of Plans That the United States Food Industry Has For Participating In Former Soviet European

Republics," *Journal of Food Distribution Research*, Volume XXV, No. 1, February 1994, pp. 105-106.

Cangemi, R. R. and Lopez, R. H., "A Pilot Study of Plans That the United States Industry Has for Participating In Eastern Europe," *Journal of Food Distribution Research*, Volume XXIII, No. 1, February 1992, pp. 155-156.

"Using Supermarket Scanner Data to Assess the Impact of Value-Added Produce on Purchases of Uncut Produce," John Brooker, David Eastwood, Morgan Gray, Brian Carver (all at University of Tennessee)

The May 1994, issue of *Supermarket Business* featured a ten-page section on precut produce. The lead sentence noted that with "its explosive growth, the precut produce industry is starting to cut into sales of traditional commodities" (p. 55). Also, a prediction was made that sales of precuts will jump from the current 4 percent to 25 percent of retailers' produce sales by the year 2000 (p. 60). The produce industry's foremost trade paper, *The Packer*, presents articles discussing precut produce in nearly every issue. For instance, the front page article of the May 9, 1994 issue focused on the demographics of the typical precut customer and the rapid expansion in sales during the past couple of years

The impact of precut produce sales on uncut produce sales may vary among products. Some retailers contend that precut salad mixes are attracting shoppers who rarely buy bulk lettuce (*Supermarket Business*, p. 56). Naturally, retailers are concerned about the bottom-line profit in the produce section, so a positive shift in the demand for produce (precut and uncut) would be an attractive reason for handling precut items. Within a particular product line, expansion of sales of precut packages may reduce sales of the uncut products. The substitution impact may benefit retailers if profits are greater from the value-added precut product versus profits from the uncut product. Growers should benefit in all cases if the overall demand shifts in a positive manner. However, as the uncut product becomes an "input" into a value-added processed product, an important question exists regarding the pricing behavior of merchants. From the precut items examined thus far, retail prices are held constant over long periods of time. Holding precut product prices at a constant level may entice the processors to press the grower/shippers to absorb variations in "raw" product prices that are usually evident in the retail/wholesale/grower prices of uncut produce products. The extent of the symmetry between retail and farm-level prices for fresh produce is the primary

focus of this study and will be unique in the use of weekly scan data and weekly grower/shipper data to test for symmetry and asymmetry in price movement.

Scan data from five retail stores in the Knoxville area were used to search for seasonal patterns and long-run trends or adjustments in the item movement of selected uncut and precut produce products. Initially, carrots were selected because of the clarity of the substitutability of precut carrots for whole, unprocessed carrots. Within the salad category, the number of products being advertised by the large distributors certainly demonstrates the concept of product proliferation. One of the most intriguing "new" products is broccoli coleslaw. Of course, tracking one particular vegetable will become increasingly difficult as broccoli, carrots, lettuce, etc., are combined together in different "formulas".

The retailer in this study sells fresh carrots in six forms - two as traditional uncut carrots (bunch and in 2-lb bags) and as precut carrots in four packages (carrot sticks, supreme carrot sticks, bunny luv carrots, and as shredded carrots). Item movement of the uncut carrots exhibits a cyclical pattern with a seasonal high each winter and was relatively consistent from year to year until 1991. Beginning in 1991 for bunch and 1992 for 2-lb packages, item movement exhibited a downward trend. Scan data for the four precut items began in late 1991 and 1992. All four products exhibited upward trends in sales; however, the movement per 1,000 customers is still quite low compared to the bulk carrots. Prices for these products were remarkably steady. Weekly variation in item movement is not attributable to price variation. Retailers would prefer a steady price from their supplier, so the merchants adding the precut value to the products will probably place pressure on their raw product suppliers to provide the product at a steady price. With the variation in supply associated with production of perishable products, an interesting question remains regarding the absorption of variations in the market-clearing price at the first handler level.

"Supermarket Meat Manager Perceptions of Washington's Strategic Alliance Beef Project." Thomas Worley (Washington State University) and Jason Baumberger (Washington State University)

Introduction: Washington's Strategic Alliances (WSA) is a multi-disciplinary research and extension project to create closer working relationships among the vertical sectors of the Pacific Northwest beef industry. The project will create awareness among Pacific Northwest beef producers and marketers of the advantages of vertical alliances within the industry. Strategic alliances provide a coordination mechanism among the

production and marketing sectors through sharing of information and financial risk.

Objectives: The overall objective of WSA is to incorporate guidelines set by the National Beef Quality Assurance program. These guidelines specifically seek to reduce the incidence of, and the resulting cost from, carcass defects and nonconformities throughout the production chain from cow-calf producer to retailer. WSA demonstrates a value-based marketing approach specific to the Pacific Northwest, by valuing each carcass based on individual merits. Functional integration within the Pacific Northwest beef industry through increased communication between sectors is aimed toward the common goal of improving retail beef products.

Our research focuses on the retail merchandising of WSA beef. Uniformity and consistency of the WSA retail products, and the impact on the color of lean meat and shelf life of feeding vitamin E for 100 days prior to slaughter are being evaluated. Carcass defects occurring in the WSA beef were also monitored for comparison to commodity beef supplies at the retail level.

Procedures: After each shipment of WSA beef was received and processed at the retail stores, retail cutting tests were performed on selected sub-primal cuts. Costs, cutting and purge losses, percentages of salable meat, and profit margins will be calculated from these tests. In-store visits were conducted with retail meat managers of the supermarkets who handled the product. During each interview, retail meat managers rated WSA beef relative to their usual beef supply concerning shelf life, uniformity, quality, and color.

Preliminary Meat Manager Opinions: Preliminary results of retail interviews show that the meat managers recognized the improved uniformity and consistency of the WSA beef. Forty-eight percent said that WSA beef is more uniform and consistent than commodity beef, 50 percent said it is the same as commodity beef, and 2 percent worse. Regarding shelf life, 32 percent responded that WSA beef has improved shelf life compared to commodity beef, and 64 percent saw little difference in shelf life. Concerning the color of lean, or appearance, 52 percent of the managers felt that color was improved, and 43 percent rated it the same as commodity beef. When asked about the incidence of defects found when cutting WSA beef, 91 percent reported no defects, 75 percent rated this better than commodity beef, and 20 percent rated it about the same as commodity beef.

Further Research: Future research will include laboratory analysis using Warner Blatzer shear force test for tenderness and a controlled environment shelf life study of ground beef from the study carcasses. Further research is also aimed at finding the economic value of WSA beef at the retail level and evaluating the effectiveness of value-based beef marketing.

