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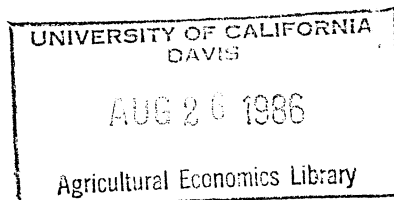
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HOW TO SUCCEED IN EXPORT ~~WITHOUT~~ REALLY TRYING



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Now that you have me here in Reno, I would expect you to expect me to say something enlightening --- something provocative --- perhaps something new and different, or at least a different approach to our way of doing things. If I were simply to tell you that agriculture is in trouble from the Atlantic Ocean to the Pacific and from the Canadian border right down to our border with Mexico, I don't think there would be anyone in this room who would feel they had been enlightened. Perhaps I should say, I would hope nobody would feel enlightened after remarks like that.

If I could borrow for a few moments some words from my good friend Jim Kendrick, Vice President of Agriculture and Natural Resources for the University of California, he would say that there are two undisputable facts about the current U.S. agricultural scene: First, the productive capacity of U.S. agriculture is one of the highest in the world. Second, because of this great productive capacity, U.S. agriculture produces food and fiber far in excess of the demands of our domestic markets. Consequently, for economic survival, it is imperative that our major crops and many of our specialty commodities find receptive and rewarding foreign markets.

Those two "facts" probably don't come as startling new news to anyone in this room either. We in agriculture here in the United States, it seems, like those in agriculture in many other parts of the world, must recognize that we are producing for export. We must recognize further that if we don't want to produce for export, and compete in export markets, we must on average reduce our production in this country by at least one-third. But that doesn't fit with our mentality or the way we do things.

We have been taught over time that more --- bigger --- larger --- is better. So the farmers mentality is to produce more --- and the processors mentality is to process and sell more --- and our country's basic interest, particularly considering the huge trade deficit, is served best by producing and selling more.

Up to this point in time, I still haven't told you anything new, provocative or particularly thoughtful. I am, of course, tempted to say that you get what you pay for and considering what the American Agricultural Economics Association paid me to come and make this speech I should sit down --- and you should all be very, very happy.

Of course, I don't intend to do that --- I just wanted to have some fun. I promised to tell you something about how to succeed in export, and I shall. Before going into our thoughts on that, however, it might be useful to give you a little background information on the California Almond Growers Exchange. CAGE, or as some now call us Blue Diamond®, is a marketing cooperative headquartered in Sacramento, California. We celebrated our 75th Anniversary last year and have some 5,500 members, stretching over the entire Central Valley of the State of California, from near Bakersfield in the south to Red Bluff in the north. An area about 375 miles long and up to 60 miles wide. That valley I have just described is where 60% or more of the world's almonds are produced each

year. The California Almond Growers Exchange, coincidentally, processes and markets about 60% of that production. There are no almonds produced anywhere in the United States outside of California and the major producer outside of the United States is Spain, which can produce up to 30% of the world's supply. Spain is followed by a combination of Italy, Portugal, Iran, Australia, Israel, Tunisia and a few more that combined produce 10% of the world supply. Almonds, I might add, are the world's favorite tree nut in terms of both pounds produced and pounds consumed. The runner-up would be hazelnuts, or filberts, followed by walnuts.

In the first six months or so of this year, our success in marketing, particularly our success in export, has been the subject of articles in THE NEW YORK TIMES, LOS ANGELES TIMES, WALL STREET JOURNAL, FORBES MAGAZINE and THE JAPAN TIMES of Tokyo, to name just a few. And while it may seem self-serving, rather braggadocio for me to say it, I will nevertheless say that the huge growth in the consumption of almonds, both in this country and throughout the world, is one of the outstanding food marketing success stories of the second half of the twentieth century. Twenty-three years ago, we were marketing about 65 million pounds of almonds produced in California annually. Sixteen years ago, that number jumped nearly 40% to nearly 93 million pounds --- and we sold it all. In the early 70's, California produced roughly 145 million pounds, or so, each year, or roughly 56% more than the 1965-69 period, and we marketed all of it. But the numbers kept growing, as I suggested earlier, and as we continued to find new products and new markets, growers continued to grow more almonds. In the second half of the 70's, just 8 or 9 years ago, California was producing on average 245 million pounds per year, or 58% more than in the first half of the 70's, 5 years earlier. And we continued to market it all --- and growers continued to plant. So, in 1981, we produced the largest crop in history, up to that point in time, some 56% more than what was produced on average in the second half of the 70's, 3 or 4 years earlier and we marketed it all. By 1981, we were being asked to sell, and we did, 6 times as many almonds as we were just 18 years earlier. By this time, though, two things had happened that were major changes. First, the dollar had started to strengthen dramatically, making the price of our product more expensive overseas,

despite reduced prices to growers. Secondly, it started to take us more than a year to market what was being produced each year, but we were still marketing the entire crop, without any diversion, under our Federal marketing order program. Then came the all-time record 1984 crop, 586 million shelled pounds, almost 2-1/2 times what we were being asked to market in the second half of the 70's, (just 5 or 6 years earlier) and then, right on top of that, some 465 million pounds this last year, more than twice as much as we were being asked to market in the late 70's. One billion, one hundred million pounds to sell, harvested in just two years, or 17 times the amount that was harvested and sold, 23 years ago.

To put it another way, going back just a few years, we had the largest crop in history in 1977, followed by a poor crop in 1978, followed by the largest crop in history in 1979, which was followed in 1980 by the second largest crop in history, which was followed in 1981 by the largest crop in history. This was followed in 1982 by the third largest crop in history and then by a very poor crop in 1983. But we were off and running again, in 1984, with the largest crop ever and it in turn was followed by the second largest crop ever in 1985. Obviously, we don't have an awful lot of time to rest on our laurels in increasing consumption, both here and abroad, before they throw a new challenge at us.

And while the sex appeal --- the sizzle --- the media interest --- seems to be with our export sales successes, I can't ignore at least mentioning our success here at home. From 1970 to 1984, according to the Economic Research Service of the United States Department of Agriculture, total U.S. per capita nut consumption has increased from about 1.8 pounds per capita in 1970 to 2.2 pounds per capita in 1984. That's a 24% increase in the consumption of almonds, filberts, pecans, walnuts, pistachios, macadamias, brazils, cashews, and all the rest of the tree nuts combined. During the same time, however, per capita almond consumption has increased by 79%, or more than three times as fast as the whole tree nut category. Today, according to these figures, U.S. citizens are eating nearly 10 ounces of almonds, just under 8 ounces of walnuts, and just over 7-1/4 ounces of pecans. Since 1970, that's a 79% increase in per capita almond consumption, a 26% increase in walnut consumption and a 24% increase in pecans.

But turning back to export, the main subject of my talk tonight, what we have succeeded in doing (perhaps we should say more appropriately, what we have been forced to do by our growers) is to make almonds the number one food export from the State of California. That surprises a lot of people because they think in terms of oranges, lemons, grapes, lettuce, peaches or any one of the many other crops grown in California. But the facts of the matter are that the number one food export from California is almonds. I might also add that we are the number one horticultural export for the entire United States of America, even though the crop is grown only in California, and the number seven food export for the entire United States. We now sell Blue Diamond® almonds in more than 90 countries around the world. The most important export markets, in descending order of importance, in the last few years have been West Germany, the Soviet Union, Japan, France, United Kingdom, Canada, The Netherlands, Sweden, Switzerland, Norway, Belgium and India.

Each of these markets I have mentioned, as well as all those I haven't mentioned, are different. Each takes a different marketing approach --- a different strategy. And so, I would come to my first lesson on how to sell abroad. Don't think of all those markets overseas as one --- or all pretty much the same. We have 159 countries recognized in the world today, as compared to 59 countries recognized as such 35 years ago. Why? Because they all have differences -- religious, ethnic, geographical, diet, etc. If anyone really thinks people in the same area of the world are pretty much the same, one need only look at the Middle-East or just the city of Beirut to prove there are differences --- and these are differences the sophisticated or successful marketer must deal with. It all seems very elementary, but it is something that many, many American marketers have totally ignored.

So now that we have made the step forward of not assuming all markets are the same, how do we find those differences. At Blue Diamond®, we begin with basic research, with our own research materials, with the library, with sources in the region or neighboring regions, (international banks) and with contact, usually by letter or telex, to the United States Embassy, particularly the Foreign Agriculture Service at that Embassy, and the U.S. Commerce Department representative. We will probably also contact the Foreign Agricultural Service in Washington and perhaps the Department of Commerce. We'll write the Chamber of Commerce in the area. In other words, before we spend very much money on a potential new market, we try to learn everything we can through basic research. Assuming that research indicates there is potential in the market we are studying, the next step is to make contact with brokers, agents, and potential customers in the area. This can usually be done by a combination of mail, telex and telephone.

The next step is to get out from behind that desk, or get someone out from behind his or her desk, and into the potential marketing area. You can only learn so much --- get only so much "feel" for a market from your office. There is no substitute for being in the region, asking questions, listening, asking more questions --- listening --- and asking still more questions --- and listening.

There really are two lessons to be learned here and one is, it's pretty rare that you open a new and important market or region by sitting on your butt. There is absolutely no substitute for going into the market asking questions, appointing an agent or agents and trying to make some sales.

The second part of that lesson, of course, is to listen, listen and listen. To begin with, that seems very elementary but I don't know how many times we have seen American companies lose the order by attempting to sell exactly what they sell in the United States --- with no modifications allowed for the local market. Remember, again, these people are different --- all people are different --- and if one will just listen, one will not only learn how they are different --- but they will also tell you how to modify your product to sell it in their particular market.

We need to learn to adapt our products for foreign markets and to even invent some new ones for those markets if we are serious about being exporters. Just to give you an example, we have a Blue Diamond® almond butter in Japan that is totally different than the almond butter we sell in this country. We also have a soy flavored almond in cans under the Blue Diamond® label in Japan that we don't even sell anywhere else in the world. It was conceived in Japan, by our people there, developed, tested and is now being marketed by our people there. Someday it may sell in this country, Germany or Egypt, but right now our belief is that it can sell only in Japan --- and that's the only place we intend to sell it, at least for now.

Finally, on the subject of succeeding in export, I would warn that you should not expect the government to do your job for you. Neither the Federal government in Washington, D.C., the United States Department of Agriculture, the Foreign Agricultural Service (which is probably the best thing in the entire U.S. government), the Department of Commerce, your own State Department of Commerce or Agriculture, the offices of your state, or our Foreign Agricultural Service offices overseas are going to have much success in selling your product. They can be facilitators. They can be researchers. They can be extremely helpful. But it's not up to them to sell for you and even if it was they probably wouldn't do a very good job of it. Just for starters, they don't know your product or service like you do and they certainly don't know how you can adapt it like you do, and they certainly don't know about shipping schedules, order times, prices, priceflexibility and terms --- as you do. That's why you have to get into that market.

On the other hand, we do need our Federal government to negotiate on our behalf with the governments of the countries with which we wish to do business, on matters of tariff and non-tariff barriers. We need to help our government representatives. I have seen a tendency over the years, particularly in recent years, for companies to lean on the government and suggest that our government is the answer to their export problems. They can help, as I have just suggested. In fact, they are the only folks who can help when it comes to negotiating with another government. But if we don't go in and do our homework first, if we don't follow the basic steps I have talked about earlier, the government simply can't help.

As an example, I might mention the American automobile industry. They complained over and over again about not being able to sell our American cars in Japan. Their complaint, years ago, was the very high duty. It was a legitimate complaint and I understand our negotiators have succeeded in getting that duty reduced. But our American cars, for the most part, are too big for Japanese streets and the steering wheel and setup are all wrong for Japanese drivers. You can't expect our government to force the people of Japan to buy a car that is too big for their streets, by putting pressure on the government, nor can you expect our negotiators to get the Japanese government to change from right hand drive to left hand drive and in the process change all their highways throughout the country. Our government can help though, in fact is the only game in town, with regard to tariff problems and legitimate non-tariff barriers.

Export isn't easy -- it is a lot of fun. Let's face it, selling your product in Bombay, Berlin or Tokyo can be a lot more interesting than selling it in Cleveland, Des Moines or Los Angeles. It can also be a lot more challenging. And, it can be a good deal more frustrating. It is terribly important, then, that there be a real and continuing commitment to be in the export business. That commitment must be there, day in and day out, year after year, good crop or bad crop. Overseas buyers will not be the buyers of our products only when we have surplus --- and forgotten when we have shortage. That commitment to export is also important in working one's way through the red tape and paperwork that can be thrown in your face legitimately, to protect the people of whatever country they happen to be protecting, or illegitimately to protect some industry or factor that wants protection.

Finally, I would like to say a few words about cooperatives and the commitment of cooperatives to develop markets for their growers. In 1955 the California Almond Growers Exchange was the major factor in the California almond business. We exported less than 5% of our crop. Today, we remain the major factor in the almond business, though we are a much larger company than we were then. Today we export up to two-thirds of our production. And while we have many competitors in the almond business in California, every single export market to which California almonds are now shipped was first developed by the California Almond Growers Exchange. We did it because we had new production coming on in the future and we had to have more markets. In other words, it was our commitment to our growers to market whatever they produced, at a reasonable return to them, that forced us first into the export market and then into markets as far away and diverse as the Soviet Union, India, Taiwan and Saudi Arabia. Without that commitment to our growers to market profitably whatever they produced, today we probably would be selling 90% of our product in the USA and our industry would be less than half its present size.

Our co-op has also been the leader in the development of new products, through our Almond Research Center. As a matter of fact, every single meaningful new product that has been developed in the almond industry has been developed at our Almond Research Center or its predecessor research and development section. That includes things as elementary as shelled almonds, to things like slivered and sliced almonds, as well as Smokehouse®, Barbecue and Cheese Flavored almonds. It includes developing an almond butter that was salable and an almond beverage that is now selling very well in Japan. It includes helping the major cereal manufacturers develop formulas that have made almond cereals one of the hot items of 1986. Here again, it was those growers developing, planting and growing more and more almonds that forced us to develop more and more new products. If we hadn't been a co-op, and were simply buying almonds from growers, I am sure that many of the almond products that are on the market today would not be there. Rather than go out and find new ways to use almonds, if we were a non-cooperative, we would simply tell growers that the market was saturated and that we couldn't take all their almonds in the years when they had a bumper crop. That's the major difference.

In recent years, co-ops have been getting a bad rap --- some folks have lost confidence in co-ops because of a failure here or there. We have read stories about FCX, Agri Industrires, or Farmers' Export. We have heard of overpayments at the Rice Growers Association of California, once the dominant rice co-op in California and of overpayments at Sun Diamond Growers. We have seen the failure of California Cannery and Growers and Valley Nitrogen. But one should not come to the conclusion that co-ops are bad or wrong --- as a form of business --- because a few overpaid --- or failed totally. The same thing has happened with non-cooperative handlers in agriculture --- and it's happened in business. W.T. Grant/Penn Central/Braniff/Continental Airlines/ John Mansville/Storage Technology Corporation/Knudsen/LTV. It's happened in banking with some major Savings and Loans and some major banks. There were more private bank failures last year, 120 to be specific, than in any year for a long, long time.

While some would like to dwell on the co-op failures --- on the co-ops that got their growers in trouble. I would like to talk about the successes. We can talk about the W.T. Grants, Penn Centrals or the Braniff Airlines or we can talk about the Safeways, Nabisco Foods or the Proctor & Gambles. If you want to talk about co-ops, you can talk about Ocean Spray, Land O'Lakes, Sunkist, Calcot or Blue Diamond® --- to name just a few of the very successful and well known U.S. farmer cooperatives.