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AGRIBUSINESS MANAGEMENT

ANOTHER VIEW OF LONG-RANGE MARKETING STRATEGIES FOR AGRIBUSINESS PROCESSORS

A recent review of the Pacific Northwest fruit and vegetable processing industry uncovered an interesting paradox. Those firms responsible for processing, packaging, and distributing the region's agricultural commodities displayed a commodity-oriented view of their current and future operations. Over time, processors have grown fewer in number, are located further apart, and are operationally more specialized by function or commodity. The commodity orientation, therefore, had an understandable "raison d'etre." The major concerns of firms appeared focused on annual variations in grower proceeds (pool settlements) and quality and volume of raw product. References to long-range marketing strategies were either vague or linked to such abstract goals as "meeting the competition" or "retaining market share." If this highly distilled environment were viewed by marketing theorists or students of classical marketing, they would no doubt wonder what had happened to industry's responsiveness to consumer demands. Hence, the paradox: Has an industry so impacted by variations in raw product production really lost touch with its consuming public? Have factors of consumer demand been excised from these firms' long-range marketing strategies?

It is both understandable and appropriate that grower-owned agribusiness firms reflect first and foremost the general economic well being of their producer members. The food industry infrastructure of the Pacific Northwest, however, always has been, and will continue to be, increasingly consumer-sensitive. Herein lies a dilemma of monumental proportions. An individual food processing firm, particularly one owned/governed by its growers, must react annually to the unique characteristics of the commodity pool with which it is confronted. That perspective focuses primarily on the quantity, quality, variety, and composite mix of that season's crop, with commensurate efforts undertaken to assure that the commodity pool is disposed of (marketed) in such a manner as to maximize grower returns. Marketing strategy decisions made within this perspective are necessarily short-run in nature and only indirectly sensitive to consumer preferences.

Long-range marketing strategies, however, can ill-afford the luxury of being concerned only with the disposal of a given season's production. When viewing longer range marketing plans, particularly those which might encompass major structural changes, agribusiness managers are forced to respond more directly to the changing tastes and preferences of those to whom their products are ultimately sold. Expanding one's horizon from seasonal concerns to concerns focusing on several years requires that grower accommodations be modified by a consumer awareness and a heightened appreciation of industry-wide trends and, of course, competition.

A single agribusiness food processor may view itself as such a small component of the total industry that it is thereby insulated from national trends in population and consumption. Others may view such externalities as phenomena over which they have no control and, therefore, treat them as inconsequential. Either view is fallacious,

particularly when long-range marketing changes are being contemplated. For this reason alone, the function of food marketing and its associated marketing strategies must, for the long-run, be closely aligned with, and perhaps even guided by, patterns of U.S. food consumption, population dynamics, technology, and competition. In the absence of any of these critical elements, marketing programs and strategies will follow an erratic, and ultimately unprofitable, course.

For these reasons, an overview of U.S. demography and food consumption trends is provided below. It is hoped that the overview will provide agribusiness managers with an expanded base upon which to formulate consumer-sensitive, long-range marketing strategies.

Demography

The role of domestic population dynamics on the food industry as a whole is indisputable. Marketing programs simply cannot succeed in the long-run if they are founded on factors contrary to these established and emerging dynamics. In essence, tomorrow's food demands are being shaped today through our children. The food industry, overall, and its marketing programs, in particular, must reflect and/or respond to those factors inherent in population dynamics. Such demand-sensitive factors as income, convenience, mobility, variety, taste, and nutrition have all come to the forefront. Each has logical or functional roots in a changing U.S. society and a bi-modal composition of our population. The subtleties of this relationship were vividly described by Frank Panyko, Vice President, The Food Institute, when he stated, "As we (the food industry) continue on the road to the future, we must keep in mind that the right-of-way lies on land borrowed from our children."

The Baby Boom/Bust

The well-known post-war "baby boom" lasted from 1946 to 1964, and was followed thereafter by a significant decline in the U.S. birthrate. Demographers define this "baby bust" period as encompassing the years 19651975. A so-called "echo boom" followed 1975 as births rose again. The echo, however, appears lesser in magnitude and duration than was the immediate post-war phenomenon. Understandably, birth control, abortion, delayed marriage and child bearing, as well as changing societal values are all factors which have combined to decrease the number of births in the United States.

As a result of the baby bust, the decade of the 1980s has experienced a notable change in population dynamics. For example, the number of teenagers (aged 14-17) has declined 11%, or by 1.8 million, since 1980. The number of children aged 5-13 is down as well, but only modestly (1070 or 336,000). Since the number of births rose again following 1975 (the echo boom), births last year were the highest since 1964 and the number of children under the age of 5 has risen 12% since 1980. This recent adjustment, alone, has added 1.9 million children to our pre-school ranks. Concurrently, Americans are living longer. The end result is that by the year 2030, more than 2007o of the U.S. population is expected to be over the age of 65, and individuals over age 85 who now total only 2.2 million will, by the year 2000, reach 5.1 million. Emerging from these well-established trends is a bimodal distribution of U.S. population; i.e., increasing concentrations of people above and below the normal childbearing ages of 20-45. Never before has America experienced such an age-related redistribution of its population. Analysts sometimes jokingly call this divergence the "sugar pops and oatmeal" dilemma, referring to the breakfast food prospects for the next decade and beyond. As to our youth, by the year 2000, those in the 5-13 age group will rise by 1 million, showing a 7% gain, while teens aged 14-17 will grow in number by 3.4 million, or a whopping 21% increase.

Racial/Ethnic Mix

Beyond the age-based population dynamics, an altering of the U.S. racial/ethnic mix is very

much in our future. Looking only at the 25-64 age group, our current population is comprised of 9 white non-Hispanics to 1 minority adult. As we look to our children under the age of 14, the ratio drops to 8 to 2. Such changes suggest an ever-greater diversity in our population mix. Cultural, economic, lifestyle, age, and lifetime experiences will be altered.

Other Changes

If one looks only at population statistics, one derives a rather sterile view of the future. Changes beyond numerical composition are occurring and will likely have an equally important impact on the food industry's future. What people do is almost as important as how many there are. For example, the entry of increasing numbers of women into the U.S. labor force has had a startling impact on the food industry. An increasing number of wives and mothers, by choice or by necessity, now work out of the home. Two-thirds of women with children aged 18 or less are now active in the labor force. Six out of ten mothers of toddlers are now working away from home. Just two decades ago, only one in four mothers with children under age 3 were employed, while today that number is 55%. Because of the interrelationship between economics, child-bearing age, and cultural influences, this trend is difficult to project. However, most experts agree that higher labor force participation for women is very likely to become a permanent feature of our society.

Such trends are not void of food industry marketing implications. For example, child care experiences gradually influence children by exposing them to a variety of mealtime situations. With nearly a third of our pre-schoolers now being cared for in a home other than their own, they are exposed to a wider variety of foods and means of preparation than would otherwise be afforded them. Children today come from a generally smaller family as the number of married couples with one or two children rose 20% between 1970 and 1986. Hispanic and black households are proportionally larger. Perhaps even more significant is the fact that some 7 million family units with children now contain only one parent. Of those single-parent groups, 28% contain a parent who has never been married.

Smaller households, children with fewer siblings, and increases in the number of single-parent households have major social and economic significance. When such features are combined with lower incomes, the result is an altering of a child's living conditions, a differing view of the family relationship, and a change in food consumption habits. Single-parent households and women in dual-earner households were found in a recent study to spend one-third less time on household activities than was true for their counterparts in the so-called traditional (two-parent, single earner) home. Women who raise their children alone have 40% less time to spend on such traditional activities as shopping, meal preparation, cleaning, etc.

If you think such factors are only remotely linked to food sales and marketing strategies, think again. This same study found that cooking nourishing meals received less attention as work pressures rose. A report published in *American Demographics* showed that in homes where both parents work, one-third of their children were fixing their own breakfast and 20% were making their own lunches. Most children are not yet to the point where they're making their own dinners, but for children of single-parent households, 8% already do so and also handle the family's grocery shopping. The impact these trends might have on future food marketing strategies is nearly cataclysmic. When carried to the extreme, the food buyers and preparers of the future could become youngsters hardly big enough to push a shopping cart or tall enough to see the surface of a stove!

DIMINISHING ROLE OF FOOD PREPARATION /CONSUMPTION

The traditional act of preparing a meal at home and consuming the end product as a family at a dinner table setting may already be an anachronism. Market research by Campbell Soup suggests, correctly I think, that cooking is gradually being viewed by the American family as a "non-essential task." "Heat-and-eat" foods, be they frozen, refrigerated, vacuum-packed, or shelf-stable, have come of age. And as a result, our children are growing up in a world where their attitude toward food, and toward mealtime, is rapidly changing. We have progressed beyond TV dinners and convenience foods. We are now entering an era of convenient feeding; meals, themselves, are viewed as a necessary convenience - a whole new response perspective to the basic human requirement of consuming food.

The microwave oven is not only being rapidly adopted by the American household, it is an appliance which appears to be uniquely well-suited to this newly emerging era of food consumption. Futuristic home designers are treating microwave ovens like indoor plumbing; "pods" of microwaves are being designed into numerous rooms of the house, signaling a time when the dining room or family kitchen will become a relic of a bygone period. Automobiles will soon have them, allowing the driver to prepare his/her meal as the car crawls along the crowded interstate going to or from work. Since microwaves are used more for "heating" than actually "cooking," the aromatic creations associated with old-fashioned food preparation are often lacking. But not to worry, food scientists are now reviewing ways in which microwaves can be used to release encapsulated aromas with the heating process. We'll soon have a three-minute meal *and* a kitchen full of aromatic essence to further excite the taste buds.

FOOD MARKETING AND THE HEALTH CRAZE

The current craze for improved nutrition and physical health is a real American phenomenon and one food marketers cannot ignore. But the future here is a very clouded one. While food consumers and marketers tout nutritional and dietary attributes, research has uncovered an interesting conflict. While food consumers demonstrate an enhanced nutritional and health conscientiousness, what we actually consume has not yet shown a general change. The National Cancer Institute recently found that 40% of people interviewed did not consume any fruit on a typical day and 20% hadn't eaten any vegetables! Fiber intake, for example, continues to be low, and is getting lower. That food which is readily available, convenient to prepare, and tasty to the average American palate appears at conflict with basic nutritional and dietary standards and recommendations. We are nurturing children today who by the turn of the century could be nutritionally worse off than their parents. It remains to be seen whether the U.S. food industry and the consuming public will rise to meet this challenge.

The next generation of food consumer will be linked to a lifetime of eating experiences generated away from home; i.e., childcare situations, school, and eating out with a parent. The science of food selection and preparation will be gradually lost as "fast food menus" replace "grocery store shopping lists" in the mindsets of the next generation of food consumers. Factors such as convenience, mobility, variety, taste, and nutritional value will become the bases for future marketing strategies, but it would appear that the exercise of these important values will rest less heavily on the consumer and more heavily on the raw product food procurer, processor, packager, handler, and server.

An all too common misconception is that the "average" U.S. consumer of food products is fickle and unpredictable. In reality, the

reverse is true. The average U.S. consumer of food products is sensitive to price, quality, availability, convenience, and numerous other factors. Long-term trends in U.S. food consumption are generally well known and long established. Those involved in the U.S. food industry can ill afford to ignore such trends. The entire food marketing sector remains highly consumer reactive and its future is linked directly to an ability to fulfill the changing tastes, preferences, and needs of the domestic consumer. The discussion which follows attempts to provide an overview of well-established trends in domestic food consumption. Whether it be for reasons of health, economics, personal tastes, convenience, or availability, such trends describe a changing future for U.S. food marketing strategies.

QUANTITY OF FOOD CONSUMED

Domestic per capita food consumption has increased only modestly in the past 20 years. When indexed by food prices, per capita consumption rose from 98 to 109 between 1965 and 1985. By and large, this reflects a U.S. population which is well fed and restrained in their consumption by a waist-line constraint; i.e., the average consumer will substitute one food product for another, while the actual quantity of total food consumed remains largely unaffected.

Yet within these narrow constraints on the quantity of per capita consumption, certain well-established trends become apparent. For example, caloric intake derived from the consumption of crop products is gradually supplanting that historically derived from animal products. While the per capita consumption of meat, poultry, and fish, in total, has remained stable; eggs and dairy products are losing the battle for the U.S. consumers' palate. While vegetable consumption has increased from an index of 96 to 119 over 20 years, the consumption of fresh vegetables has surpassed that in processed form. The same trend is associated with fruit consumption. Only in the consumption of processed potatoes has fresh consumption failed to make a relative gain. The per capita consumption of pulses, flour, and cereal products has stabilized; while sweetener intake rose and coffee/tea consumption dropped noticeably. If we look more closely at food groups, consumption trends become more identifiable. On a retail-weight equivalent, poultry consumption outpaced red meats over a 20-year history. The per capita consumption of eggs and dairy products diminished and vegetable fats are gradually replacing animal fats in our diets. Fresh vegetable consumption increased by nearly 33% since 1965, while the retail weight equivalent for canned and frozen vegetable consumption has almost stabilized. Reviewing selected period data, those data suggest a significant increase in fresh vegetable consumption since 1975, with a commensurate loss in the per capita consumption of canned vegetables. Because these data go back to 1945, well-established trends are very apparent; for example, dairy product consumption has declined steadily over 40 years and the recent supplementation of sugar (sucrose) by corn sweeteners (fructose) and artificial substances becomes startlingly obvious.

American's more recent attraction to the salad bar is evidenced in the data. Per capita consumption of fresh lettuce, onions, and tomatoes shows a healthy rise over 20 years. Other specialty vegetables enjoying a renewed popularity include fresh broccoli and cauliflower. Per capita consumption of canned vegetables peaked in the mid-1970s, followed by a decline in latter years for most products except those linked to pizza; i.e., tomato products. It appears that aside from pizza's influence on the consumption of tomato pastes, per capita consumption of canned vegetables (particularly snap beans, beets, peas, and corn) has declined rather steadily since the early to mid-1970s. Frozen vegetable consumption, on the other hand, has increased modestly but continuously every year since 1965. Frozen broccoli, corn, carrots, and onions show the largest proportionate increase, while spinach, beans, and other vegetables show stabilized

consumption data. Similar data provide a comparative analysis for fresh, canned, and/or frozen vegetable consumption by commodities. The success of frozen over canned commodities is very noticeable for corn, while beans and peas show that while canned consumption has declined, frozen consumption has not compensated for all the loss.

Reviewing the annual supply and utilization data for all vegetables and for beans, peas, and corn selectively, it appears that canned vegetable imports are erratic but show a strong recovery in the early 1980s as the dollar strengthened in world markets. Carryover or beginning stocks of canned vegetable products decreased to record low levels as 1983 production in the U.S. dropped below total use for the first time since 1969. Canned vegetable production decreases largely reflect the declining per capita consumption which began in 1974. With modest, but steady increases in the per capita and total civilian consumption of frozen vegetables, domestic production has grown slightly, imports remain negligible, and annual carryover stocks have stabilized.

VEGETABLE PRODUCTION/CONVERSION

A successful marketing strategy, even one which is consumer-sensitive, must be cognizant of production trends. For example, broccoli production (acreage and cwt.) in the United States has shown a healthy growth and prices, at the farm, have remained attractive. Carrot production has remained about constant at 22-24,000 (thousand cwt.) since the late 1970s. Cauliflower acreage has more than doubled since 1973 and an ever-increasing proportion has been destined for the fresh market. In response to the rising price for fresh market sweet corn, production of fresh corn is increasing. The value of the U.S. lettuce crop, for instance, has grown from $300 to 700 million in just 14 years. A close look at the data shows a doubling of production of strawberries, resulting primarily from a doubling in the yield per acre. Information such as this may appear trivial at first, but a long-range market plan must take such factors into consideration.

While the data are nearly five years old, sources show that although the Pacific Coast states contain about 15% of the U.S. population, their fruit and vegetable output accounts for 48% of total U.S. production in volume and just over 50% in value of farm receipts. Moreover, such proportionate shares have grown modestly in volume and stabilized in value. Food marketers cannot, therefore, overlook the role of transportation and distribution because West Coast producing areas remain nearly 2,000 miles away from the center of the U.S. population. While U.S. population continues to move south and west, regional income differentials show an even more pronounced shift in that direction. For example, annual income growth in the western United States was nearly double that of other regions. When measuring vegetable production vs. the retail demand for vegetables in each state, California and Oregon show a "sufficiency ratio" higher than all other states except Colorado. When viewed by region, the Pacific Coast states produce three times their retail demand for fruits and vegetables.

INCOME, EXPENDITURES, POPULATION, AND PRICES

When formulating future food marketing strategies, one simply cannot underestimate the importance of income levels, food expenditure patterns, population shifts, and changing price levels. They are all basic demand stimulators and require measurement and regular monitoring.

The widely-held proposition that ours is rapidly becoming a services-oriented economy is born out by current data. As per capita disposable income exceeded $10,000 in 1984, food expenditures comprised only about 15% of that total, and home consumption of food as a proportion of total expenditures had dropped to only 10.8%. The cost of services (including housing), however,

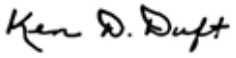
continued to rise to almost 46%. While these data are not available beyond 1984, it is probably safe to say that food consumed at home now comprises only 10% of total expenditures while the cost of services now accounts for half of per capita disposable income.

The concepts of income and price elasticities are long-favored measures commonly used by economists. They are not abstract in their impact, however. The concept of a negatively sloped demand curve for most products/commodities/services is evidenced by the negative values attached to the price elasticities of each commodity. As incomes (expenditures) rise, that portion spent on food decreases, as it does for most products. As the price of food and other products increase, the quantity demanded by consumers decreases. The relative measures between competing products/commodities/services and between income and price are important to those planning food marketing strategies. For example, in general, the quantity of food products demanded will be more responsive to declining prices than to rising incomes, given proportionate changes in each. More importantly, food marketers have little, if any, influence on incomes, but do have an impact on food product pricing. In general, the data confirm the proposition that food processors will, in the long-run, benefit more from reducing their costs of operations than by attempts to exploit added profits by selective price increases.

Compared to all items, food prices have risen less rapidly since the index year of 1967. Data show that the cost of medical care has outpaced all other categories of expenditures. Public transportation, education, fuel, shelter, and services have all exceeded the Consumer Price Index for all items since 1967. From 1981 to 1985, food prices rose from an index of 274 to 309.8. During that same period the CPI for all items rose from 272 to 322.2. Within the food category itself, fruits, fish, vegetables, sugar and sweets, nonalcoholic beverages, and food consumed away from home have seen price increases exceeding those for all food products. Poultry and egg prices have lagged all others during this same period. The prices to producers for fresh vegetables have nearly doubled since 1967.

CONCLUSION

A cursory review of Pacific Northwest food processing operations suggests an all-encompassing concern for production-based problems. The paradox is that the industry itself must remain highly consumer-sensitive. Long-range marketing strategies must encompass an awareness of continual changes in U.S. demography, population dynamics, lifestyles, socioeconomic patterns, and food consumption trends. This review was designed to draw the agribusiness industry's attention to consumer-based factors of demand. Long-range marketing strategies, if they are to be successfully designed and implemented must incorporate an enhanced sensitivity to these factors.



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