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AGRIBUSINESS MANAGEMENT

## WHAT IS YOUR FIRM'S "EXPORT-ABILITY?"

Attempting to review Washington's agribusiness export activity is much like peering into a kaleidoscope. With each passing day and turn of events, the view changes in eye-startling fashion. As is true of the kaleidoscope, each review of export activity appears as an almost random event, never to be repeated in like fashion. Little wonder that the export market continues to entice us, to frustrate us, and to challenge us. At the very moment when your firm's export potential appears most promising, something is altered and your attempts to capture that potential are rendered useless. At other times, an export opportunity is successfully accessed, only to be lost again to the vagaries of the world economy, institutional constraints, and competition from unsuspected sources. Yet the basic incentives of trade and the economic law of comparative advantage persist. In addition, almost every agribusiness firm operating today continues to seek an export market for its products or services. We remain a nation of traders operating in a world market. At least this has not changed.

This paper has several objectives. First, I attempt to describe briefly the nature and composition of agribusiness export activity. Second, I attempt to separate fact-from-fiction as it relates to the export market. Third, I address the "good news/bad news" characteristics of all export operations. Finally, I provide a type of "checklist" by which agribusiness firms can self-analyze their own export market potential.

### Surplus or Deficit?

I'm sure most agribusiness managers profess to at least a basic understanding of the terms "surplus" and "deficit." In its simplest form, a trade deficit exists when the value of products/services purchased in a market exceeds the value of products/services sold in that market. However, beyond this elementary perception, our use of these terms is plagued with ambiguities. For example, what if a firm buys and sells in many different markets? What standards of value are used when the currencies of traders differ? In addition, at what level of trade activity aggregation you calculate the surplus or deficit?

Pick up and read the business section of any major newspaper or magazine and you will find reference to the so-called, "U.S. balance-of-payments deficit." As the world's largest trader, the U.S. persists in buying more abroad than it exports and the resulting deficit plagues more than just our automotive industry. However, this, too, is a gross over-simplification because not all sectors of our economy contribute equally to this imbalance. U.S. aerospace and agriculture, for example, are notable exceptions to this generalized perception. On a monthly basis, agriculture, alone, generates a $1-2 billion trade <u>surplus</u>. Our ability to produce and successfully market agricultural commodities in the world market remains notable. Few nations have achieved and maintained this accomplishment. Yet, an even closer look at the data reveals further surprises. For example, the export market has not proven to be equally accessible to the U.S. producers of all agricultural commodities. At one extreme we find that, 85% of Washington's annual wheat crop finds its way into the export market. Conversely, vegetables, floriculture products and red meats have achieved only modest success at accessing the world market. Marketing characteristics impacting a product's firm, function, and space have impacted our agribusiness firms in differing ways. In addition, while the export market may provide an attractive opportunity for the U.S. producers of all commodities, not all have successfully accessed this opportunity.

An analysis such as that suggested above is also wrought with "good news/bad news" results. The good news is that our agribusiness industry remains the envy of most other traders in world markets. Our ability to produce food and fiber products of high quality and reliable quantity



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remains unsurpassed. In addition, our ability to produce, package, and market such products "efficiently" assures us continued access to export markets. Such institutional forces as the European Community Free Trade Agreement and G.A.T.T. may alter certain terms of trade between nations, but the "good news" is that our underlying ability to produce will continue to serve well the long-term interests of U.S. farmers and ranchers.

Now for the "bad news." Since the beginning of time, the ability to produce food and fiber was based largely on the pre-existing bundle of basic resources provided. Soil, water, and climate were major determining factors and the U.S. has historically been afforded a wealth of each. Capital, managerial skills, and biotechnology now represent critical additions to this bundle of productive skills. What is even more interesting is that unlike soil, water, and climate, these latter three resources are not location-specific. Colorado River water, for example, will never reach Mexican tomato fields, but capital, production skills, and gene-altered tomato seeds readily cross the Mexican border. Quite simply, the bad news is that the contemporary components of production capacity are themselves, exportable.

As managerial skills, capital, and biotechnology grow increasingly more important, nations are better able to compensate for inherent constraints to their soil, water, and climate. The end result is that competition in the world markets for food and fiber grows more intense. Cumulatively, the value of U.S. agricultural exports reached a record $22.5 billion during the first half of fiscal 1992. October-March exports were $2 billion above year-earlier levels and the highest since 1981's record $24 billion. Yet, the bad news is that agricultural imports rose even more impressively. In March 1992, for example, exports fell $111 million while imports rose $227 million. The result was that U.S. agricultural trade surplus fell $300 million in that month alone. Perhaps even more troublesome is the fact that in fiscal 1991, the exported share of U.S. agricultural production fell to an estimated 16%. This was the second consecutive decline for export's share of domestic U.S. production, and, for the second consecutive year. Ten years earlier (1981), the share of U.S. agricultural production exported was 22%. Quite clearly, the export market potential remains volatile and our performance record is mixed when viewed from a broad perspective.

**What Is Your Role in Current/Future Export Markets?**

This "mixed" track record for U.S. agricultural exports, suggests that our access to export markets remains difficult and uncertain. Yet, incentives to access these markets abound. During recent years, much encouragement has been given to small agribusiness firms to enter foreign markets. This encouragement has manifested itself in generalized forms such as a softening of the U.S. dollar in financial markets. In more specific instances, encouragement has surfaced in the form of voluminous literature complete with advice to agribusiness firms on how to make the leap into international markets via direct exporting, joint ventures, or export management companies. Accompanying this advice, you find listings of sources of available information/assistance from government agencies, educational institutions and from the banking, insurance, or other related export-services industries.

In short, the agribusiness industry has almost been bombarded with encouragement, incentives and assistance for entering the export market. Stories of legitimate successes are being written and circulated. Yet, in the midst of all this creative activity there appears to exist an area of concern receiving inadequate attention. This vital concern revolves around each specific agribusiness firm's current state of "export readiness." Too often we fail to fully assess a firm's capacity to follow the complex process required to access international markets and cope with the many managerial challenges this creates. In reality, your firm's true "export ability" is based on a broad complement of business variables; some you can control or alter, and others are outside your direct line of influence. Regardless, every agribusiness firm must first approach the export market decision based on information concerning the potential of the foreign market place and their specific firm's capacity as a business entity to pursue that potential. In brief, even where a viable foreign market is identified, your own firm may lack the capability to access it successfully. Too often, our efforts focus on the former, and we fail to recognize the latter constraint.

**Export Readiness Criterion**

As noted, government, universities and private interests are already focusing vast and diverse resources toward identifying and quantifying foreign markets. We analyze Japanese consumer tastes. We assess foreign grain storage and handling capacities. We even alter and/or package our products to better fill a niche uncovered in a European market. All such actions rest on the presumption that the U.S. agribusiness would-be exporter is capable of serving well those markets thereby identified. Such is not always the case and for every export success story, you can find an equally noteworthy failure based largely on the firm's lack of export readiness.

Listed below are several export potential readiness criteria. Each criteria references a simplistic acknowledgement of a very complex matter. Yet, this simplistic checklist of items can later be used to assess your agribusiness firm's export potential and state of readiness:

1. Business history and profile
2. Motivation to engage in exporting
3. Management attitude towards real market development
4. Market activity sophistication
5. Product characteristics
6. Domestic competitive position
7. Operations, technology, and facilities
8. Financial condition and stability

Each item on this readiness checklist is addressed in the following discussion. Each reader is encouraged to answer the various questions and issues posed as they apply to your agribusiness firm. While we have no way to quantify or score your responses, the checklist, alone may resolve some concerns or raise other concerns not fully considered.

**Business History and Profile**

It has always seemed strange to me that few agribusiness firms have ever undertaken a detailed self-analysis. While these firms can quantitatively describe their operations (length of time in business, full-time employment base, gross sales volume, etc.) such data do not adequately address questions related to export potential. How would your firm best describe itself? Are you a product- or a service-oriented business? Is the firm linked to a specific product or commodity, or are there options not yet explored? While such questions appear naive, the answers have direct export relevance. For example, consider that your firm packs and markets fresh apples and that you have operated in this capacity for many years. Are "apples" (as a product) the major focus of your business, or is marketing and packing (as a function or service) more descriptive of what your firm does? While the product and the function may be highly interdependent, your true export market potential cannot be accurately assessed until it is determined which (the product or service) is most exportable. If your firm seeks to capture a comparative advantage in a foreign market, should it focus on the unique characteristics of the product, or on the "bundle of services" that product encompasses; e.g., its quality, packaging, and availability?

While we produce our agricultural commodities within a distinct seasonal environment, many agribusiness firms fail to recognize that world markets abide by few seasonal limits. The composite of northern and southern hemisphere producers and other worldwide climatic variations serve to remove those seasonal characteristics with which we have grown accustomed.

In addition, what about your product, itself? Can that product be custom-designed to meet specific customer needs and preferences? Apples are apples you might answer and they are a rather homogeneous product. Not necessarily! Exporters have already discovered that different sizes, shapes, and colors of apples are preferred by differing world markets, and they have altered their export activities to reflect these discoveries. In addition, how would you describe your domestic market activities? Are you operating in a new product market, a mature and well-established market, or a saturated market with some decline in demand? Like domestic markets, foreign markets can also be described with regard to longevity, viability, and sustained levels of demand. Your firm's export potential may rest on the type of market you are most comfortable with. For example, if your domestic market is one characterized as a mature market with well-established market shares, then developing for a new product foreign market may prove to be too volatile for your firm.

And what about your firm's sales characteristics? Are you accustomed to dealing mostly with one-time customers with few repeat sales or do you deal with a well-established base core of customers? Are your sales concentrated such that a few regular buyers account for a high proportion of your annual sales? Answers to these questions create a firm's marketing profile and that profile may inalterably affect your firm's export market potential.

Finally, you must assess your firm's management team. Are they experienced and capable, are they deeply entrenched in a successful but focused mode of operation, do they function as a loosely knit dynamic team, or do they function best under strong central leadership? Since your marketing personnel will play such a critical role in accessing an export market, their experience, capabilities, and attitudes must be thoroughly evaluated. Accessing an export market for the first time will place an added burden on your management team. Their skills may be tested beyond levels previously experienced. Your firm's export market potential, therefore, may not be defined only by the size of the export market. Your firm's potential may be prescribed more by its own history and profile, and by the human constraints under which it now operates.

**Motivation to Export**

I have worked with several firms seeking to enter or expand export trade. I am almost always met with shock or surprise when I ask, "Why is your firm motivated to sell in the export market?" Answers to this question are numerous and, sometimes, surprising. Reasons given for a desire to develop or expand exports may, in fact, reflect on that firm's eventual success. For example, if the export market is viewed solely as a "dumping ground" for a surplus of supply or a temporary excess of inventory, the risks are great and the prospects are poor. Excess productive capacity is also cited as a common response to this question, but if this productive capacity is not, itself, efficient and proficient, then the export potential is suspect. Some firms seek to respond to unsolicited product inquiries from abroad while others are faced with a leveling-out of their domestic markets and are seeking expansion options.

More commonly within the agribusiness industry, a firm discovers that their product is already being exported (indirectly by a third party) and seeks a more direct involvement. Other legitimate motivations include: (1) supplement domestic sales with a "limited" export market, (2) compensate for seasonal fluctuations in domestic markets, (3) spread business risks by developing a broader and more diverse market for a product, and (4) more fully exploit a technological advantage currently enjoyed by the firm.

A firm's true "export potential," therefore, may be further constrained by its underlying motivation to export. Reasons, both legitimate and opportune, may not always complement the parameters of the export market that is being identified. Consider this example. A local mill had achieved extraordinary high levels of efficiency in producing standard dimension lumber. Local demand had declined in our recessionary economy and the firm began to look toward Japan as a temporary market for surplus disposal. The firm's motivation and its underlying comparative economic advantage were both legitimate. Unfortunately, the Japanese export market potential was discovered to be a poor prospect when it was realized that standard dimension (2" x 4") lumber was not readily accepted by Japanese builders.

**Management's Export Attitude**

It was earlier noted that export trade imposes a new and demanding burden on agribusiness managers. Under the circumstances, it would seem obvious that management must support export-marketing efforts if they are to be successful. Yet, that support may require much more than tacit approval. Management must begin an organized effort to collect and analyze foreign market opportunities. Management must demonstrate its willingness to accept new risks and make a long-term commitment (in capital and human resources) towards the export activity. Is management responsive to making those changes in product design, operations, and marketing required to access foreign markets successfully? Is management willing to establish long-term relationships with foreign buyers and distributors, and is management willing to accept possible hardships and lower profit margins during the period in which a foreign market presence is being established? These and similar questions must be answered in an attempt to measure management's attitude towards export market access. Those professionals involved in export market development and identification often speak of their frustrations with a firm's unwillingness to carry through with the long and tedious tasks of export market access. More often than not, this lack of persistence and carry through can be traced to a reluctant manager and/or overly cautious and suspicious management personnel. In the absence of dedicated and supportive leadership, no agribusiness firm can be expected to long survive and prosper in the export business.

## Marketing Program Characteristics

It has been argued that any agribusiness firm with an innovative marketing program and a strong track record in the domestic market can expect to do equally well in the international market. There certainly exists an exhaustive supply of business school case studies to further propagate this point-of-view. However, that which succeeds so well at home will not always assure success in the world market. While remaining highly respected, the U.S. no longer retains an image in world markets for its marketing program "pizzazz." Other nations and numerous non-American corporations have developed export-marketing programs that have captured both respect and substantial sales volumes.

On a relative basis, most U.S. agribusiness firms are small and restricted in their ability to develop a massive export market presence. There are exceptions, of course, and the Cargill's, Case Internationals, and Con-Agra's have international marketing programs of massive scope and complexities. Smaller agribusiness firms, however, must rely less on their magnitude of resources and more on pure market cunning, ingenuity, and opportunism.

For example, a company which lacks its own extensive knowledge base in international marketing may have to draw on resources otherwise available; e.g., government agencies, university-based expertise, and publicly-supported export development institutions. Those agribusiness firms, which rely totally on internal sales staff, may find it beneficial to work with export commission merchants, foreign distributors, and export trading companies.

Agribusiness firms must recognize that advertising, merchandising, and promotion programs, which have served them well in a local, regional, and national market, will likely prove ineffective in the world market. Marketing programs based largely on American consumer tastes and shopping patterns provide for poor returns in other countries. For example, the Washington sweet cherry industry promotes its fresh product as a "health food" and markets it bulk through retail supermarkets. This marketing strategy failed, however, in Japan. It was soon discovered that American sweet cherries are purchased in Japan in small portions and packaged in small quantity as "gift boxes" to be exchanged as a courtesy between visiting family members. The Japanese consumer shops often and buys in small quantities. Their restrictions on residential space, mobility, and domestic refrigeration capacity require that fresh food products be packaged well and of such high quality, that wastage is minimal.

## Product Characteristics

A common cliché states that when it comes to the success of a marketing effort, it's the product that makes the difference. Clearly, when marketing locally, nationally, or internationally, a quality product is critical. However, a product is characterized by factors other than pure quality. Product differentiation, for example, can also be important in the international market. Northwest seafood exporters, for example, have long recognized Japan's demand for the highest quality fresh product; e.g., salmon. One exporter, itself a cooperative firm, soon discovered that by recognizing the product's cooperative origins on the labeling, Japan shoppers at retail food cooperatives differentiated this product from all others.

Another often-overlooked product characteristic is that related to patents and/or trademarks. Domestic patents and trademarks are often not protected in international markets. Is the nature of your product design or package flexible enough to incorporate modification required for export? Packaging, for example, may or may not be adequate to withstand the rigors of lengthy shipment. What about the regulatory restrictions impacting the product? Are there import/export restrictions you may have overlooked? In addition, does your product require after-the-sale support or service? Foreign consumers may be unaware of special handling, and cooking requirements of U.S. food products that enter their markets. Is the food product compact, storable and economical to ship? Many of our fresh food products are difficult to package, require special handling, and have short shelf lives, thereby, limiting their entry into the markets of lesser-developed nations.

## Competition

Few agribusiness firms would enter a new domestic market without first assessing thoroughly the competitive environment. Accessing a foreign market is even more critical in this regard because the international market place is so much more diverse and complex. Does your product have competing substitutes or does it convey significant advantages over competing products? More importantly, does the foreign buyer/consumer recognize and appreciate these unique advantages? Remember that fresh products are highly perishable and many world markets lack storage and refrigeration capacity. Competitive pricing is always critical, but again different markets comprise differing price thresholds. Price, alone, may not represent a prohibitive barrier to markets in Saudi Arabia, Singapore, and Hong Kong. However, accessing markets in Kuala Lumpur, New Delhi, and Cairo cannot be accomplished in the absence of price level assessments. More specifically, agribusiness firms must assess their willingness to adjust prices and profit margins during their attempt to establish a foreign market presence. Finally, you might look more closely at your domestic market competitors. Have they attempted to sell in the international market and what have their experiences been?

**Operations, Technology and Facilities**

Does your company produce a product made to fit identifiable customer specifications or do you produce a standardized product requiring foreign market adaptation? Your current operations, technology, and physical plant may incorporate rigidities that do not lend themselves to production by various specifications. Your production technology may or may not represent state-of-the-art. Always remember that technology, in general, has few export restraints and international competitors likely have access to equipment comparable to yours. Does your ability to fund further product improvements through research and development provide a competitive edge or troublesome burden?

At the very minimum, the agribusiness firm must review its own current productive capacity to determine if export sales could be sustained once initiated. Do you have the location and the physical capability to expand production should the foreign market prove attractive? Because of the commitment and expense associated with accessing a foreign market, such actions are not easily reversible. Does your firm possess the staying power required, or do you have a contingency plan on line to cover unexpected reversals?

**Financial Considerations**

Many would argue that "financial considerations" should be addressed first, rather than last. Firms having financial difficulty in their domestic market are highly unlikely to find financial relief in the export market. Successful export examples generally accrue to firms with sound financial footings and strong records of performance in the domestic market. It's clear that your firm's export potential is enhanced if your domestic sales are growing steadily and your profits are healthy. When dealing with international sales transactions, cash flow becomes a critical factor because most sales involve credit arrangements. Credit collection periods may be lengthy and your firm must be in a position to support these credits without adversely impacting your domestic business. In addition, don't forget the heavy investment in inventories required as your product is shipped to all corners of the world. Administrative expenses as a percentage of sales may rise dramatically as your product is introduced into foreign markets. Does your firm have a reserve fund to invest in a specific market when that market is found to comprise a very promising future? Do you have ready access to external funding to expand foreign operations and can your current banking relationships accommodate this added dimension to your firm's activities?

Finally, agribusiness firms with export market aspirations must take into account an added financial consideration that is not generally prevalent in domestic market operations, i.e., international exchange rates. Currency volatility in many foreign nations imposes an added risk that few American agribusiness firms understand or appreciate. Expert advice and council are required if export market participants are to protect or buffer themselves from the devastating effects of exchange rate risk. Ways and means are available and they do afford some protection, but international markets can thoroughly "thrash" the financially unprepared and unprotected participant. Precaution will pay!

**Summary**

Vast sums of energy and resources are devoted annually toward identifying and developing international markets for U.S. agricultural products/services. We survey foreign consumer tastes, assess competitive substitute products, and even create financial services to foster and support foreign trade. U.S. agriculture has been successful and generates a trade surplus each year. That trade surplus has narrowed recently and other political actions at the world level suggest that our agribusiness exporters will be challenged to maintain or enhance their international presence. Everyone wants to find a viable export market to bolster production efficiency and stimulate bottom-line performance. However, finding such market opportunities, alone, is not adequate because many U.S. agribusiness firms lack the ability to serve such markets on a sustained basis. This paper provides a checklist for judging the export market potential of the agribusiness firm, separate and apart from the singular act of identifying a foreign market.

Before leaping into the export market area, agribusiness firms must assess their own business history and profile. They must critique their own motivation to export. Management's attitude toward export activity must be reviewed. The nature and composition of their market and product must be evaluated within an international criterion. Competition, productive operations, technology and physical facilities must be assessed and judged relative to export capabilities. Finally, the firm's financial position must be structurally sound and healthy enough to withstand the rigors of foreign market entry.

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