

# Strategic Initiatives



**Discover.**

**Analyze.**

**Strategize.**

**Implement.**

**Measure.**

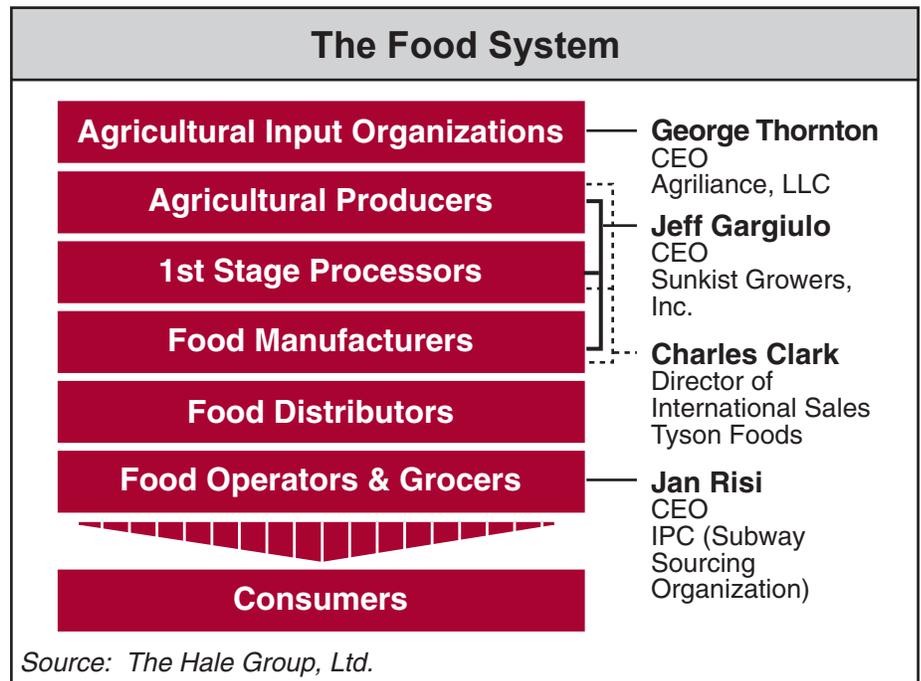
## Globalization and the US Food System

Commentary from Leading Company Executives

*George Thornton, CEO of Agriliance, LLC; Jeff Gargiulo, CEO of Sunkist Growers, Inc.; Charles Clark, Director of International Sales for Tyson Foods; and Jan Risi, CEO of Independent Purchasing Cooperative (IPC), the sourcing company for the Subway sandwich chain, all shared their thoughts on globalization. Excerpts from their conversations with me follow.*

**Question: First, how do you view globalization and what has been its greatest impact on your business?**

**George Thornton - Agriliance:** As we speak, we are on the front line of dramatic changes resulting from global shifts in raw material economics, the impacts of technology and its changing *continued on page 2*



value on products and players, and the resulting unprecedented level of consolidation. We are seeing both a repositioning and a reconstruction of our entire system. Our two primary products, Crop Protection products and Crop Nutrient products, are fundamentally different industries today compared to 48 months ago. In light of these significant structural changes in how we buy and how we compete, we are making investments that will allow us to take advantage of the opportunities provided by these changes.

**Jeff Gargiulo - Sunkist:** We continue to see expanded export opportunities, particularly in the Pacific Rim. The investments we and the US have made in this area have built strong brand recognition and product preferences of which we have taken advantage. While we see increased competitive pressures from places such as South Africa, we believe that, going forward, we have an opportunity to leverage the investments made in market development to support attractive growth.

**Charles Clark - Tyson:** Globalization is viewed as two distinct areas – the first defined as export sales

opportunities and the second as operational investments in specific markets. Tyson has concluded that investment within a market to reach a market, rather than through exports, is the most dependable way to expand globally.

**Jan Risi - IPC:** Previously, we had been acting globally in some areas without realizing it. Today, we are spending much more time thinking about international opportunities, and our actions are made within a defined strategic framework. We are excited about the possibilities. As our North American business begins to mature, international markets take on increased attention.

**Q: What changes have you made to your business to adjust to globalization?**

**Thornton:** As a result of the changes in our core product areas, we are now faced with a much longer and complex supply chain. Previously, we relied on domestic supply, and those players, to handle everything from inventory to risk management. Today, those functions are part of our areas of responsibility. We have had to make investments in hard assets to

## Globalization: Outlook for the Food System

### Future Growth Requires International Expansion

Future value creation for US food and agribusiness organizations will increasingly depend on successful growth beyond the US borders.



*Take a hard look at your competitive advantages on the global stage and plan your long-term strategy accordingly.*

### Globalization Driven by Customer Requirements

Participation in the global marketplace is driven by the demands of strategic customer requirements, not by the general desire to be a global player.



*Consider the implications to your business strategy and your competitive position when making tactical decisions driven by customers' demands.*

### Success Demands Investment

Success in the global marketplace requires firms to make investments in hard assets and highly skilled employees to handle the complexities of an extended, international supply chain.



*Conduct a self assessment of if and how to participate in global initiatives through sound analysis, research, and planning to minimize the distraction to your organization's core business.*

Source: The Hale Group, Ltd.

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handle products and in people with experience in global supply chain logistics, energy markets and commodity risk management.

**Risi:** Operating in a global market requires a host of considerations never before considered. There are distribution and logistics issues, communication hurdles, information technology requirements, and menu variations that demand new supply chain adjustments. These new considerations are placing demands that will likely require us to make investments in knowledge, expertise, and experience to help us navigate in the global market.

**Clark:** We have created a Business Development Department within our International Division. We have asked that our export development partners shift from a market stimulation strategy and concentrate on trade access solutions. Our International Division has over 70 professionals and 14 global trade offices.

**Gargiulo:** Recently, our Board of Directors made the decision to create Sunkist International LLC, the first non-cooperative structure in our organization, in an effort to remain competitive. The purpose of this venture is to strategically source production from other areas of the world so that we have a secure, steady source of the kinds of products our customers are demanding. For example, one of the products we are pursuing is Chilean lemons for the Asian market.

**Q: What parts of the world are focus areas for your company, either as market opportunities or sources of competition?**

**Thornton:** Our farmer customers are impacted by a more liberal, global competitive market. Players from South America, China, and other countries have forced competition to a new level. Therefore, the American farmers must focus on their advantages and we must help. In terms of supply sources, the US crop nutrient industry has basically moved off-shore, closer to sources of energy (natural gas). Today, we rely on the Middle East, the CIS, and other areas. New partnerships are being formed, and new investments are being made.

**Gargiulo:** South Africa is the most formidable competitor for Sunkist. The combination of smart people and low-cost labor will be a force. In the long term, other competitors include Spain and China. As for focus customers, Asia remains the priority. Our job is

to ensure that we enjoy strong brand recognition and that the trading rules are fair and balanced.

**Clark:** Russia, China, Japan, Korea, and Mexico have had the most impact on Tyson's business both from an export and investment position. Tyson trades heavily with all five of these countries, and we have invested in Mexico, Russia, and China. South America could be an important focus area for us in the next five years.

**"Future value creation for US food and agribusiness organizations will increasingly depend on successful growth beyond the US borders."**

**Michael Richard**

**Risi:** The Subway brand is most recognized in Western Europe and the Pacific Rim; therefore, in terms of management of the supply chain, we are further along in those areas. It's important to remind ourselves that while we call these areas one region, they are, in fact, multiple countries, each with their own operating conditions. Going forward, Latin America will likely be a focus.

**Q: Do you see anything on the horizon that might halt further globalization? What are some of the critical issues that will require further consideration to ensure success?**

**Thornton:** The changes I described earlier are permanent. We are all operating on a global scale and the rules have changed. These shifts are forcing us to become better at what we do. We are now focused on areas like risk management and how we transfer that knowledge to our customers for their benefit. We will be operating in a more consolidated industry and to do so will require that we become world class supply chain experts.

**Gargiulo:** International sales have been increasing 5-10% annually. We remain positive, particularly in Asia. We do, however, see different and unique challenges that we must stay ahead of. For example, exchange rates can now have a tremendous impact on Sunkist. Food safety is also an *continued on page 4*

area that will require additional scrutiny. With respect to exports, each trading partner has a different set of requirements. And on the import side, we must continue to assure our customers that what we handle meets or exceeds the toughest standards. That will require investments similar to what other export-oriented countries have done, e.g., Chile and Holland.

**Clark:** Trade globalization has already reached a plateau (exports). Investment globalization should continue in this industry. We see nothing on the horizon to halt that. Globalization of investments will require that we change our profit evaluation to be a consolidation of financial results inside of the countries in which we operate instead of the repatriation of cash. -

**Risi:** The only possibility I see in slowing global opportunities would come from government intervention designed to protect an industry, but I think things have progressed to a point where we cannot go back in any significant manner. Our challenge will be to collate and disseminate the knowledge we have about global opportunities in a way that ensures we are realizing the value we are building. Staying on top of food safety and formulating strong global standards will also require a time commitment on our part.

**Q: Lastly, are you optimistic or pessimistic about the impact of globalization?**

**Thornton:** While we are undergoing tremendous structural change in how we do business, and are being forced to make investments in areas never dreamed of three to four years ago, we are looking forward to the chance to create a global supply chain that will enhance our position and our customers' ability to compete. Recent projections indicate an ever increasing need for more calories on a global scale. American agriculture has advantages in areas of technology and knowledge that will be important to leverage. We are very bullish on the future.

**Risi:** The Subway brand is a global one. Therefore, we must be well coordinated in our global activities to support and grow the brand. Our suppliers must be able to support us, our sister IPCs overseas must be well coordinated, and our products must meet global gold standards. Our global business will be good for us – convenience, freshness and value are international consumer desires. We plan to continue playing on a global basis and having fun at it!

**Clark:** Meat production and marketing in the US is saturated, but globalization is an investment that will drive shareholder wealth. The scale of the US meat industry is so gigantic, relative to any other country, that dollars which can be spun off for foreign investment are more plentiful from the US than from any other country in this food sector. For top-line and bottom-line growth to continue, global investment will have to take place.

**Gargiulo:** Our mission is to build our brand and deliver value back to our growers, and our ability to find that value internationally is a high priority for us. There will be wins and losses, but the global market train has left the station and we must be on it. I believe the impact of globalization will be positive for our growers, our employees, and our customers.

## About The Hale Group

*The Hale Group is a consulting and advisory partner assisting companies develop fact-based strategies to contend with an evolving landscape. The underlying philosophy of the firm's efforts on behalf of its clients, and in collaboration with them, is to formulate strategies that enable clients to break through the market clutter and identify platforms for growth.*

*The Hale Group has developed proven processes and tools to help organizations gain perspective on the opportunities and challenges within an industry. The level of The Hale Group's participation can take many forms from addressing the overall process or an individual part of the process. However, in whatever capacity we participate, the desired outcome is for our clients to be successful.*

*Our products and services include:*

- Strategy
- Organizational Effectiveness
- Market Research
- Operating Efficiencies
- Opportunity Analysis
- Mergers & Acquisitions

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