



LIFE AFTER THE ROLLER COASTER RIDE

By Robert Ludwig and Kent Sisson



Robert Ludwig



Kent Sisson

The last two years have been an incredible roller coaster ride for participants in the food and agricultural sectors. Agricultural prices began to rise in

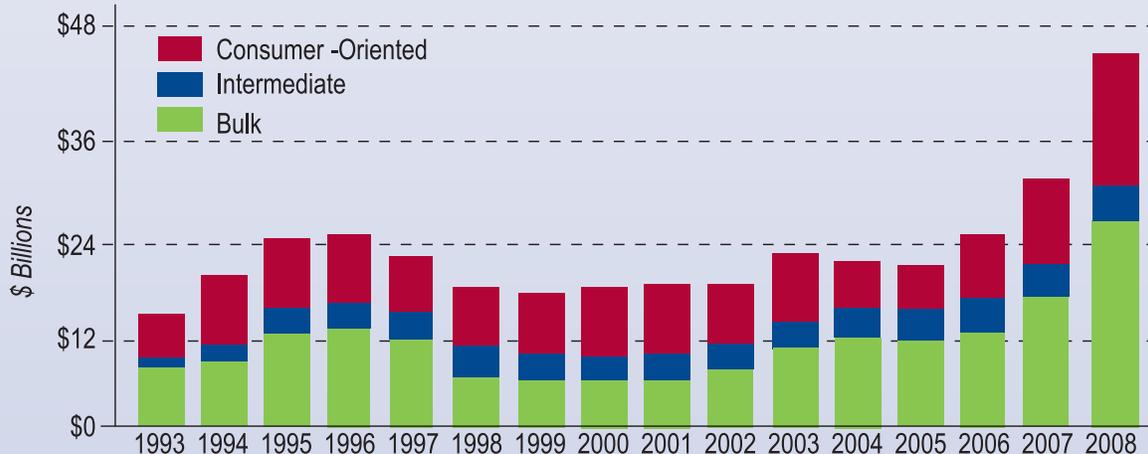
2006 and culminated in record levels by 2008. The economies of China, India, and other countries have grown rapidly which gave rise to a rapidly growing middle class with growing disposable income. The emerging ethanol industry grew at an astonishing rate with government incentives and petroleum prices well above \$100 per barrel. Speculation mushroomed in both the petroleum and agricultural commodity markets. Reduced harvests in several major exporting countries exacerbated the supply / demand balance. The weak U.S. dollar stimulated large agricultural exports from the U.S. All of the above factors drove agricultural prices to extremely high levels.

But, the precipitous drop in the price of petroleum, the U.S. financial crisis, and economic slowdown across the globe caused demand to drop and prices to fall dramatically for many commodities. According to the USDA, the 2009 trade forecast for U.S. agricultural products predicts a 17 billion dollar decline in exports. U.S. import growth for 2009 will shift downward as well due to weaker demand.

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Although recent events have been dramatic, somewhat similar conditions have occurred in the past. As a point of reference, we can look at the impact the Asian financial crisis had on U.S. exports in the late 1990's. In 1996, U.S. agriculture exports to East Asia totaled approximately 26 billion dollars and by 1998, this figure had dropped to 19 billion dollars. It took nearly ten years to recover from this shock; it was not until 2007 that export levels reached 32 billion dollars.

U.S. Food & Agricultural Exports to East Asia



Note: Some of the countries in East Asia include: Australia, China, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Thailand, Taiwan and Vietnam
Source: USDA - Foreign Agricultural Service

Developing a Plan for the Rebound

How should the U.S. agricultural sector position itself for the future rebound given the world economic situation and other shocks experienced in 2008? Though the timeline and the pace of recovery are uncertain, the demand for food will grow again as the world economy recovers. This year is certainly a time to tighten one's belt, but also a time to reposition for what will be a burgeoning export market when the economy recovers. The following are suggestions that export promotion organizations could employ to assist their industry to prepare for the future beyond the immediate challenges.

- **Build on Strengths:** Taking a broad look at the U.S. food industry, we can cite several areas of major competence. While not perfect, the system is transparent. It is designed to discover problems quickly; trace back to the source of the problem; take corrective action; and when necessary, take action against those responsible.

Furthermore, we have driven the cost of food down in this country as a result of our efficient production and distribution systems. The rule of law and the use of sound legal and financial institutions gives importers more confidence and reduces their risk when sourcing food and agricultural commodities from the U.S.

- **Focus on Population Growth:** The U.S. is not a major growth opportunity. Furthermore, we are beginning to be recognized as an obese nation. The U.S. needs very few additional calories, but our food industry has not yet come to grips with this reality.

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Today, 95% of consumers live outside of the U.S. and generally speaking, they are younger than U.S. consumers. The U.S. median age is 36 compared to the world median age of 28. According to the U.S. Census Bureau, the world population is estimated to increase by more than 1.9 billion people to 8.4 billion from 2005 to 2030. The U.S. will account for only 78 million of that growth. The Asia region will experience the largest population growth of an additional 942 million people, with India as the largest contributor with 439 million people. In contrast, the population in Eastern Europe, the Baltics and the Commonwealth of Independent States is expected to decline.

World Population Projections (millions)			
	2005	2030	Increase from 2005 - 2030
World	6,476	8,379	1,903
Less Developed Countries	5,267	7,121	1,854
More Developed Countries	1,209	1,258	49
Select Region Breakdown			
Sub-Saharan Africa	752	1,300	548
Asia (excl. Near East)	3,648	4,590	942
China	1,306	1,462	156
India	1,094	1,533	439
Northern America	328	412	84

Source: U.S. Census Bureau

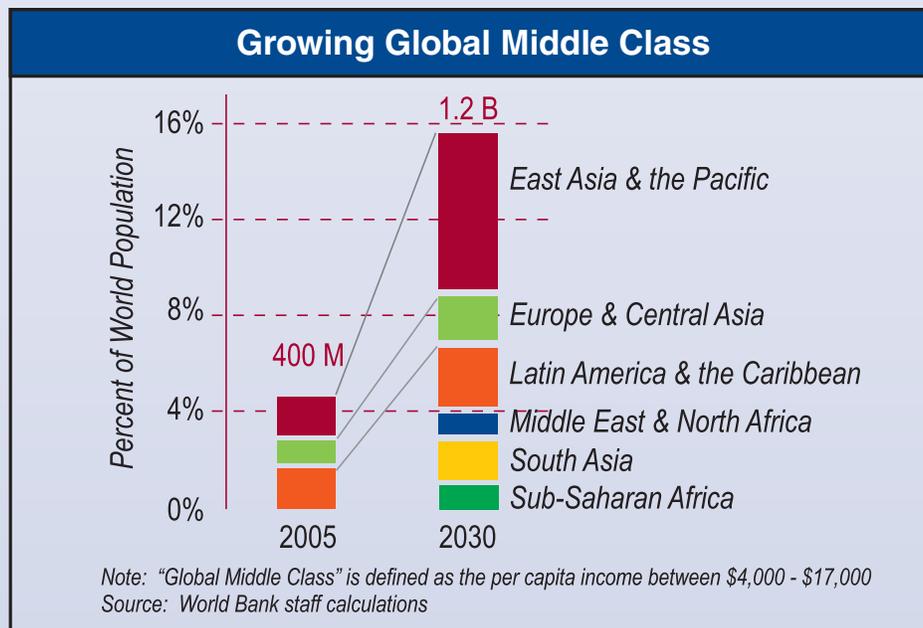
- Target the Growing Middle Class:** An opportunity for U.S. companies to realize meaningful growth lies in the growing population of emerging economies, particularly in their middle class. The middle class in those countries is expected to rise sharply. **In 2005, the size of the middle class in developing countries represented roughly 400 million people. By 2030, this number will triple to 1.2 billion people, according to the World Bank.** This extraordinary growth in the global middle class will greatly increase global food demand. As incomes rise, people also shift their food consumption habits toward more meat, fruits, and vegetables. According to an estimate by the Centre for World Food Studies, as income rises by 10 percent, meat consumption is estimated to increase 15 percent.

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- Tailor Products for International Customers:** The U.S. food and consumer product industry is highly advanced in meeting U.S. consumer preferences, whether for convenience, taste, or dietary needs. However, the same is not necessarily true when serving our foreign customers. Some U.S. food companies still view export markets as incremental sales on the margin. Exports are little more than a way to get rid of excess volume. International customers should no longer be treated with a “take it or leave it” mentality.

New food products should be tailored for international customer segments, just as the industry does for different U.S. customers. If companies stopped viewing foreign markets as “dumping grounds” and started viewing them as valuable markets with customers of growing affluence, the U.S. would enjoy even greater opportunities in foreign markets. A recent study conducted by The Hale Group and SIAM Professionals for an East Asia client reaffirmed the opportunity that lies in foreign markets.

While food exports from the U.S. may decline in 2009, now is the time to prepare for the turnaround. **Instead of just being a time to gut it out, this should be a time to reposition your industry and your firm for growth and success when economic conditions improve.**



Turning Information into Strategy

The world is overwhelmed with data; however, companies fail despite massive amounts of data.

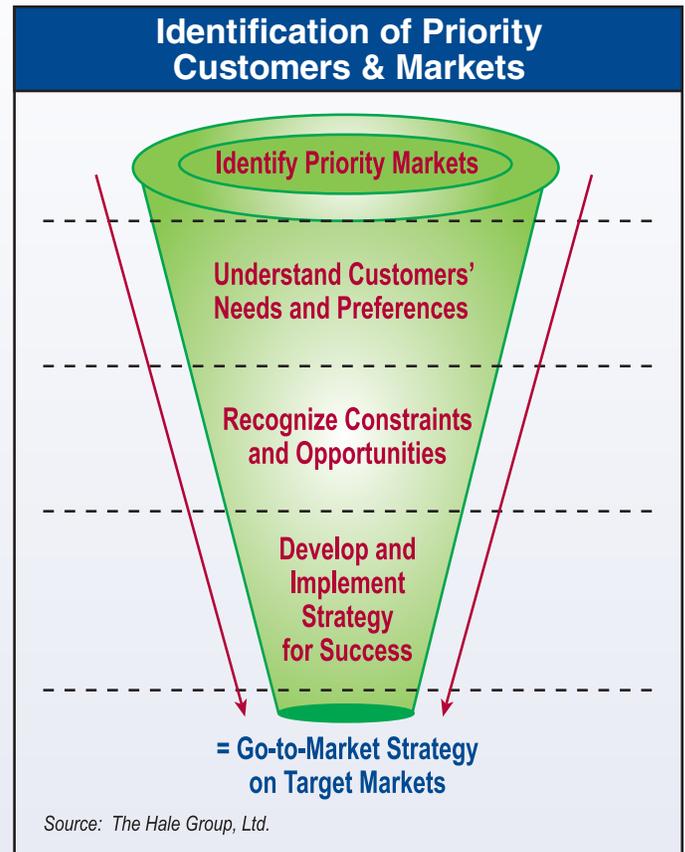
The biggest challenge is not gathering information, but rather sorting through it and keeping what is useful and relevant. Next is the task of analyzing the data and turning it into useful intelligence. It is only intelligence if it can be used to make informed decisions and develop sound strategies.

For your industry, it is critical to identify and prioritize markets, know your customers, understand the constraints and opportunities in meeting their needs, and finally, develop and implement a strategy for moving forward. Some of the steps in that process include:

- *Identify foreign markets with the best export sales and growth potential.* The first step is identifying priority markets by reviewing supply and demand data; overall economic growth; population level and growth; per capita income levels and growth; size and growth of the middle class; consumer demographics; local and third country import competition; size of tourism industry; etc.

Is your current strategy appropriate or flexible enough to realize your goals and objectives over the next few years?

- *Understand customers' needs and preferences within identified priority markets.* The second step in the business development process examines customer trends, preferences, tastes, needs including food safety; health and nutrition; trend toward Western style food and restaurants; eating out *versus* eating at home; growth in modern supermarkets, hotels, restaurants, and tourist resorts; the demand for organics; perception of products made in or originating from the U.S., etc.



- *Recognize the constraints and opportunities in meeting your customers' needs.* The third step is an assessment of the potential limitations as well as the areas of greatest promise in addressing your customers' needs. When resources are limited, it is critical to focus on the areas that will have the greatest impact in reaching your marketing objectives. For example, corruption at the ports creates inefficiencies and adds to the cost of doing business, but it is not a constraint that you can realistically expect to change.
- *Develop and implement a sound strategy for success.* Once you identify the constraints/opportunities in meeting the needs of your key customers in your priority markets, the last step is developing and implementing the right strategy. There are many things to consider in developing your strategy. The resources available to you and the current economic environment are just a few. At a time when both of those key variables are changing, or are likely to change, it is a good time to assess whether your current strategy is appropriate or flexible enough to realize your goals and objectives over the next few years.

Key Questions and Conclusions

Some key questions organizations in the food and agricultural industries should be asking themselves given the current economic environment include:

- **Markets**
 - How important is the domestic market versus the export market for our industry in the future? For example, what share of our production is consumed in the U.S. versus exported? Today versus 3-5 years from now?
 - Which markets will be hit the hardest by the decline in the world economy? The least?
- **Customers**
 - To what extent are we currently meeting the needs, tastes and preferences of our overseas customers?
 - Should we be investing more R&D in new products to better meet the needs of international customers?
 - Which customers will be most impacted by the economic tsunami?
 - Which consumer groups will recover quickest?
 - How will customer needs and preferences change?
 - When the economy recovers, will consumers return to previous habits?
- **Constraints/Opportunities**
 - What will the U.S. stimulus package mean for agricultural and trade programs?
 - What will be the domestic impact on production and farmer/producer income?
 - Are there any new constraints/opportunities that we can foresee (in the U.S. or internationally) that will impact our ability to export?
 - How can we get a jump on the competition when the world economy begins to turn around?

- **Strategy**
 - As a trade association dependent on multiple funding sources, what will we stop doing if our funding resources fall by 25 percent? Or 50 percent?
 - Which marketing themes and strategies will remain relevant to the target audience and which will not?
 - Knowing the U.S. cannot compete on price in some markets, what role will food safety play? Will overseas consumers pay a premium for a safer product?
 - What lessons can we learn from similar recessions or economic crises in the past?

Accurate research and a planning process that results in a well-thought out business plan will serve as a guide for making tough funding decisions and decisive repositioning. Without a strategy, decisions are reactive and aimed at short-range solutions. It is important to identify where to focus your limited resources of: (1) capital, (2) staff time, and (3) member time; and equally important to identify where to make cuts – at least in the interim.

In a contracting economy, there is a tendency to wait and see. That is precisely the wrong approach to the current downturn. The time to act is now.

To discuss this topic further or learn how The Hale Group and SIAM Professionals can help you position for the economic rebound, please contact Robert Ludwig or Kent Sisson.

The Hale Group

Robert Ludwig, Principal

8 Cherry Street, Danvers, MA 01923

978-777-9077 / Fax: 978-774-7883

rludwig@halegroup.com / www.halegroup.com

SIAM
PROFESSIONALS,
LLC.

Kent Sisson, President

46786 Snow Hill Way, Suite 200

Potomac Falls, VA 20165

703-444-5330 / Fax: 703-444-5330

siam_prof@yahoo.com