B-1666

Texas Agricultural Extension Service

International Marketing of Food and Agricultural Products — An Introductory Guide

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The world represents a rapidly expanding global market. As international marketing opportunities increase through the current round of negotiations in the General Agreement on Tariffs and Trade (GATT), there will be a crucial need for managers who can operate effectively in the global economy. Recent trends toward increasing international trade and success at lowering trade barriers should be a signal to reassess marketing strategies and consider exporting as an alternative. The time has come to focus on the world as a market–to begin to think globally. This publication is intended to serve as an introductory guide for food/agribusiness firms new to exporting, and to assist them in expanding sales to international customers.

In order to take advantage of market opportunities and to be well-positioned to contend with international competition, agricultural firms must consider themselves an integral part of this fast-changing global market. U.S. citizens already are global consumers–buying the best and the lowest cost items from a worldwide selection. The National Foreign Trade Council reports that 80 percent of U.S. industry faces some form of international competition. Management must become as globalized to be successful in the future. Managing for tomorrow means becoming an insider in every market–both here and abroad. Foreign customers demand a supplier who meets buyer specifications for quality and service, offers products at a competitive price, and above all is a reliable source of supply.

Why Export?

World trade in food and agricultural products exceeded $250 billion in 1988 (Figure 1). The most impressive growth has occurred in consumer food products, which have increased 15 fold since the early 1960s to $160 billion. Major products traded have been meats; poultry; dairy products; dried, frozen, canned and fresh fruits and vegetables; tree nuts and beverages. Intermediate product trade in items such as vegetable oils and meals, flour, live animals, and hides and skins has increased to more than $50 billion. After increasing during the 1960s and 1970s, bulk commodity trade in wheat, coarse grains, rice, soybeans, cotton and tobacco stagnated and declined during the 1980s.

Growth in world trade of consumer and intermediate products is expected to exceed growth in trade of bulk products during the early 1990s. The U.S., with exports of $12.0 billion in consumer products, captured only about 7 percent of world trade in 1988, leaving most of the market to France, the Netherlands, West Germany and the United Kingdom (Figure 2).

In 1989 the U.S. exported $2.9 billion in consumer food products to Japan, compared to $1.3 billion to Canada, $384 million to Hong Kong and $296 million to West Germany (Figure 3). Major food exports to Japan were: fresh or frozen beef; pork; variety meats; broilers; fresh grapefruit and oranges; and beverages. Canada is the leading U.S. market for fresh fruits and vegetables, with export sales exceeding $500 million in 1989. Exports of fresh fruits and vegetables to Hong Kong reached $123 million. Opportunities exist to expand exports of meats, fruits and vegetables, nursery products and bakery goods to many foreign markets.

Export marketing opportunities are expected to outpace growth in the domestic market over the next decade. World population will expand from the current level of 5.3 billion to more than 7.2 billion by the year 2010. Almost 90 percent of this population increase

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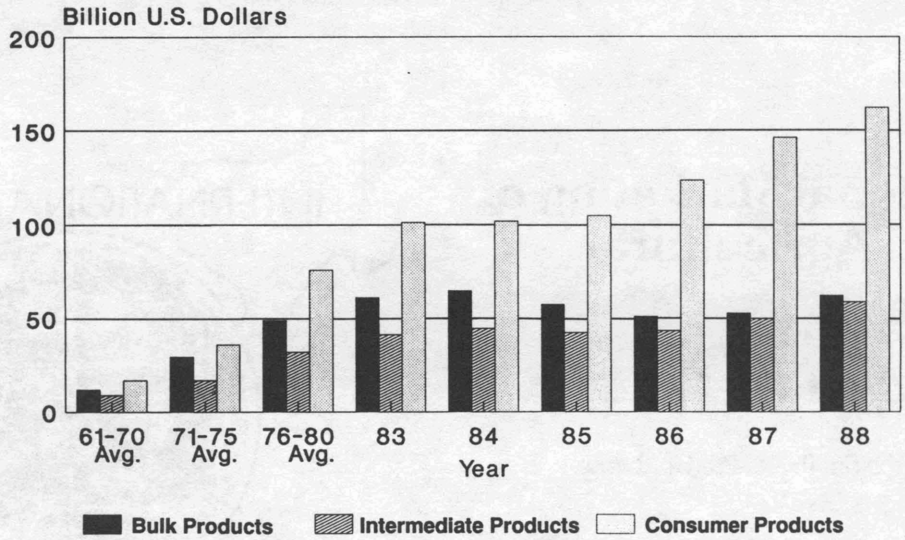
Figure 1. World trade in agricultural products, 1961-88.

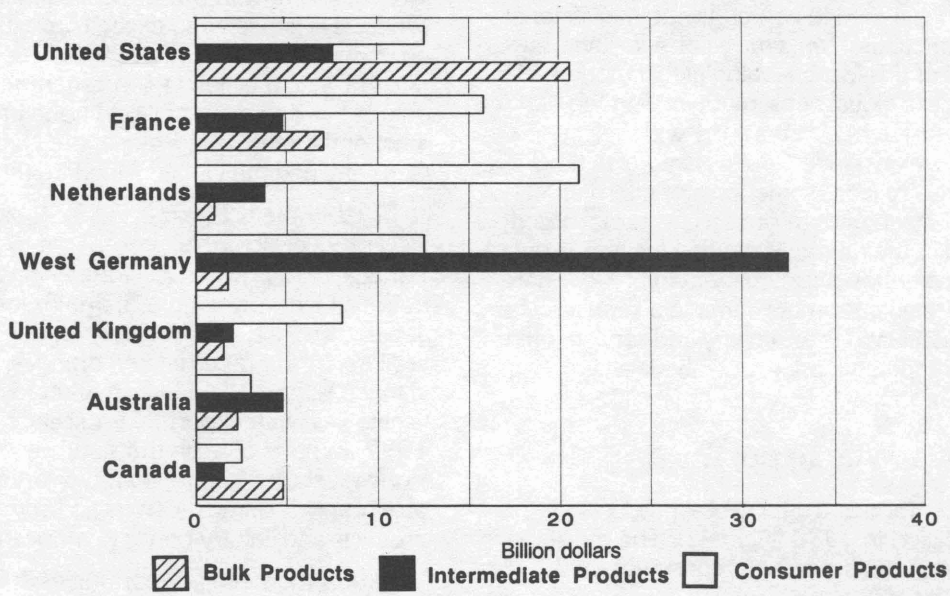


Source: United Nations, Food and Agriculture Organization.

will occur in developing countries. With stagnant or even declining food consumption in most developed economies, developing countries represent the future market for U.S. food and agricultural exports. In the developing world 35 to 70 percent of the labor force is in farming, so agricultural development is a key to improving economic growth in those countries. Political changes in Eastern Europe signal additional export marketing opportunities, particularly as improvements are made in infrastructure, pricing and trade policies, and as wide-scale food distribution becomes more feasible. Without broad-based income growth, however, this market potential will not be realized.

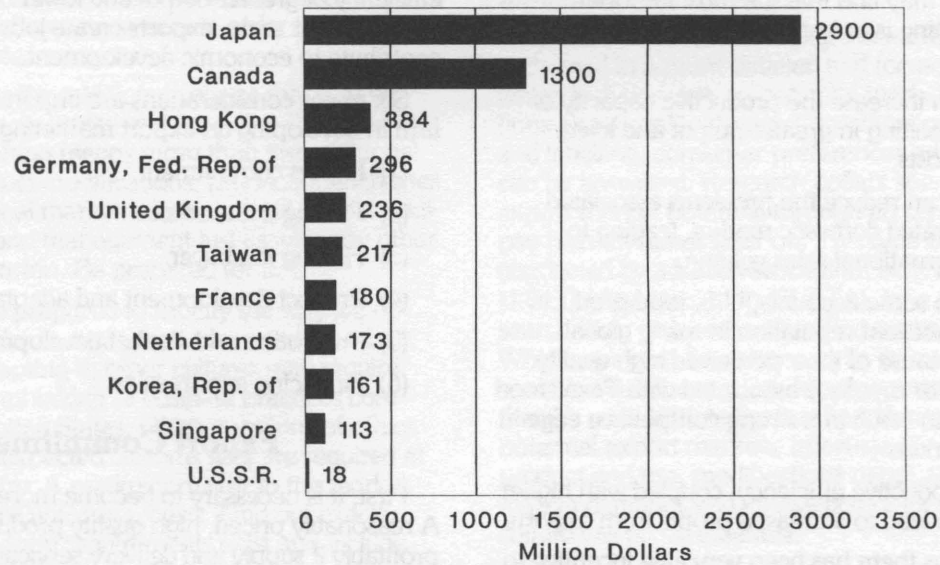
Foreign economic growth is expected to increase 2 to 2.5 percent each year during the 1990s, well above growth rates of the early 1980s. Coupled with popula-

Figure 2. Major agricultural trading countries, 1988 exports.



Source: United Nations, Food and Agriculture Organization.

Figure 3. U.S. exports of consumer-oriented agricultural products, 1989.

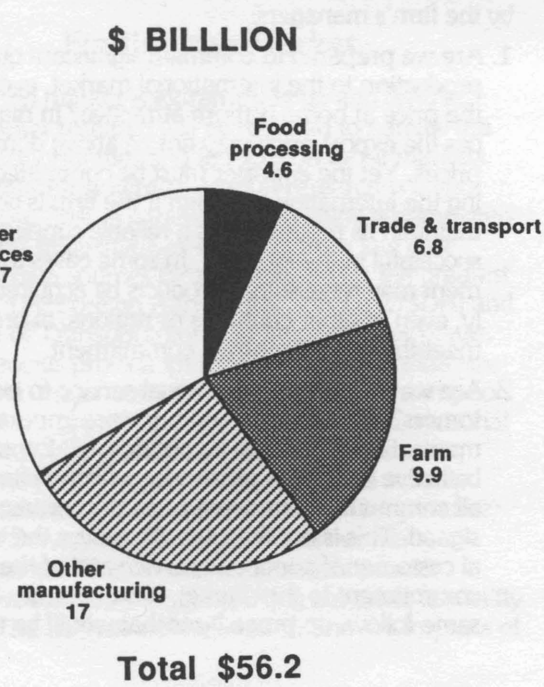


Source: U.S. Department of Commerce.

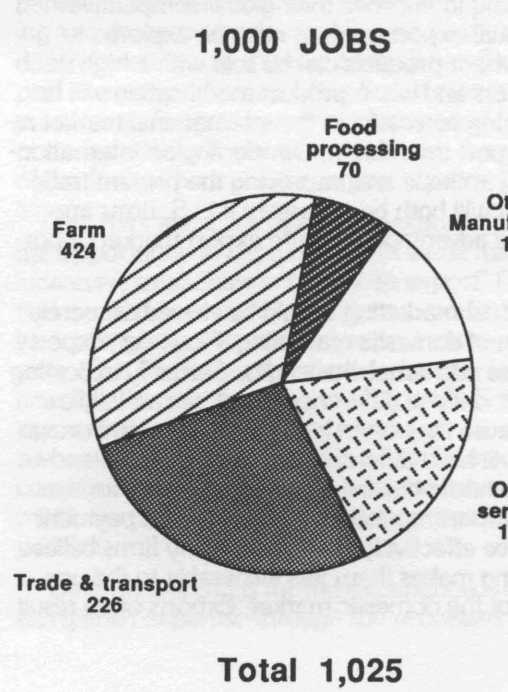
tion growth, these conditions should lead to foreign import demand growth of 1 to 1.5 percent each year. World trade could expand 2 to 3 percent each year during the early 1990s, leading to a modest increase in the annual growth of U.S. agricultural exports. Future prospects for export growth will be heavily influenced by changes in the value of the U.S. dollar, Third World debt levels and, most certainly, the success or failure of the current round of GATT negotiations.

Food and agricultural exports benefit the U.S. economy. In addition to generating a trade surplus for the past two decades, and partially offsetting the trade deficit, U.S. food and agricultural exports provided employment for more than one million full-time workers in 1988. While 424,000 workers were employed on farms producing for export, an additional 601,000 people held jobs in food processing, transportation and other services and manufacturing (Figure 4). In 1988 food and agricultural exports also generated $56.2 billion of additional business activity in the U.S. economy, or $1.51 for each dollar earned from food and agricultural exports. Each $36,000 in exports creates one additional full-time job.

Figure 4. Food and agricultural exports benefit to the U.S. economy, 1988.



Business activity generated by exports, 1988.



Employment generated by exports, 1988.

In addition to these overall benefits to the economy, agricultural firms may find that the most important reason for exporting is to improve their own profit margin.

- Exports can increase the productive capacity of the firm, resulting in greater output and lower overhead costs.
- Exporting can reduce the problems associated with a saturated domestic market, leading to greater international sales volume.
- Contrary to some accounts, U.S. food products enjoy an excellent reputation in many global markets because of their perceived high quality. The image or mystique associated with Texas food products can result in a strong competitive edge in foreign markets.
- Greater productive efficiency, coupled with higher quality, can lead to increased profits from exports.

For many firms there has been very little incentive to make the transition from domestic marketer to international trader. The size of the U.S. market and its immense purchasing power, coupled with the additional risks of exporting, have caused many firms to focus inward, not outward. The export market has too often been viewed as a dumping ground for unwanted surpluses or low quality products. Some businesses have developed an order-taker mentality rather than an export marketer mentality. These attitudes must change if progress toward expanding export markets is to be made.

U.S. firms must devote time and resources to the study of foreign languages and cultures and to an understanding of the needs of other countries, and must be willing to modify their products to meet those needs. A long-term commitment to exporting is necessary if U.S. firms are going to improve their global competitive edge. Potential export markets must be explored to determine where products can be sold with a high degree of success and when product modification will be required. Being successful in the international market requires an export orientation. Developing an international marketing aptitude and improving the present trade environment will both be necessary if U.S. firms are going to take advantage of future export market opportunities.

International marketing should be viewed as merely an extension of domestic marketing. However, exporting does pose additional challenges. Certainly exporting is different and those differences must be carefully examined because they often lead to greater risk. Foreign customers will have different needs and quality standards than domestic buyers. Culture, language, foreign exchange, import regulations, transport and payment terms must be effectively dealt with. Many firms believe that exporting makes them less vulnerable to the ups and downs of the domestic market. Exports often result in additional profits for the firm due to the increased efficiency of greater output and lower overhead costs. On a broader scale, exports create jobs and income and contribute to economic development.

Six major considerations are important for a U.S. firm in developing an export marketing plan:

(1) Export commitment

(2) Finding the market

(3) Finding the buyer

(4) Product development and adaptation

(5) Promotion and market development

(6) Financing export sales

Export Commitment

First, it is necessary to become more export oriented. A reasonably priced, high quality product can sell profitably if supply and delivery services are maintained. Foreign customers expect and demand a reliable supplier. Firms which export only when the domestic market is weak will not be successful in the long run. Quality, service and commitment to the international market must be maintained. The firm which dumps only inferior goods on the export market will reduce its chance of success. Above all, exporting takes commitment. Firms need to reassess goals to ensure that top management is fully aware of the additional requirements for successful export marketing. Turning a quick "buck" in the export market should not be expected. A long-term commitment to the market is necessary for success. Foreign travel, additional staffing costs and other expenses should be allowed for. In fact, it is not unusual for a firm to spend 2 to 3 years and $35,000 to $50,000 to become established in international marketing. Several important questions need to be answered by the firm's managers:

1. Are we prepared to commit a significant quantity of production to the international market, even when the price at home is more attractive? In many instances the export price may not be above domestic prices. Yet the exporter must be committed to serving the international market if the firm is going to maintain its reputation as a reliable supplier and be successful in the long run. In some cases this commitment may require that products be acquired externally, even in other countries or regions, in order to meet the export contract commitment.
2. Are we prepared to give equal service to export customers? While quality and price are important, communications also must be considered. Exporters must be active communicators. Many firms believe that all communications cease once the contract is signed. This is not the case. To assure the international customer of continued service and of the firm's commitment to the market, it is necessary to use the same follow- up procedures that would be used with

domestic sales. Firms should make use of telephone, telex and FAX communications with international customers whenever necessary in order to facilitate personal service.

3. Can we handle the additional volume that is to be exported? Labor, capital and financing should be examined. Exporting means more than just additional revenue. Product modifications, production increases and international market adaptation will require additional capital and management just as with any other business expansion. Be prepared for it.

4. Finally, are we prepared to modify the way we do business in order to meet particular needs in other countries? Adapting to other cultures may require considerable rethinking of business practices common in the United States. Often questions of ethics arise when unexpected customs fees are required at the port of entry. A preliminary visit to the market can help reduce unforseen costs. Find out exactly what product entry requirements exist and include these costs in the export price quote. Also, be prepared to modify the product to conform to the metric system.

While many firms have found that the benefits of exporting greatly outweigh the costs in the long run, there may be initial problems for an aspiring exporter. A recent survey of 55 Texas firms revealed that the start-up phase was clearly the most troubling time for exporting firms. In 37 of the 38 problem areas covered in the questionnaire, start-up problems were perceived to be greater than problems faced in either the ongoing phase (day-to-day operations) or in the expansion phase (expansion into a new country or a new product line). This was true for both large and small firms. A commitment to exporting is not a decision to be made lightly, but it is a fundamental and necessary first step to successful exporting.

Finding the Market

The world market is extremely large and diverse. Sound market research will be required to narrow the realm of opportunities and to focus on those markets with the greatest potential. Market research is a two-step process. First, a general market study is completed. The general study involves selecting from low cost secondary data sources those markets with the greatest potential. The Foreign Agricultural Service (USDA) and the Office of Transportation can help with this phase. These agencies provide information about market size and income, major competitors, trends in consumption and economic growth, prices, transport costs, seasonal factors, distribution facilities, product requirements, sanitary and health regulations and political stability. State departments of agriculture and the Cooperative Extension Service also can help to answer many of these questions. The market study should provide adequate information for completing a market feasibility analysis. The analysis will help determine the impacts of expected export sales on the firm under alternative scenarios.

Questions not answered by the market study can be addressed in a more detailed and focused market survey which includes visits to potential markets. Specific questions about quality, product specifications, packaging and labelling, consumer preferences and terms of sale can be answered. Research dollars spent on exploring export market potential through an on-site survey can pay high dividends later on. This type of survey can be conducted by a trade association, such as the Southern U.S. Trade Association (SUSTA), by a professional research firm, or by other qualified organizations. Whichever your firm chooses, be sure to have a representative visit the market. Most exporters agree that there is no substitute for first-hand knowledge about potential export markets. Information regarding product end use, modifications necessary to meet market demands and knowledge of local customs and culture will prove essential.

If the results from both studies are favorable, the firm should proceed with the development of an export marketing plan and a mastery of the "mechanics" of exporting.

Finding the Buyer

There are two basic approaches to finding a buyer — direct and indirect exporting. Direct exporting involves doing it yourself: selling the product directly to the foreign customer or to a company representative in another country who represents foreign buyers. Indirect exporting involves getting someone else to export for you, such as an export company or broker. With this method there is minimal entry into the export market. The exporting firm sells to an export company, which in turn re-sells the product to foreign customers or companies. There is little difference between indirect exporting and domestic marketing. Export financing, documentation and shipment are all handled by the export company. The exporting firm is responsible, in most cases, for getting the product loaded onto the ship or aircraft. Risks beyond that point are the responsibility of the foreign buyer or the export representative.

The risks and costs of indirect exporting are low, but the opportunity to capture market value may be limited. However, small scale and "new to export" firms may find it easier to undertake indirect exporting. This can be accomplished by using an export management company (EMC) to act as the exporter's representative in handling the sale. In many cases the EMC does the market research and charges for its services only after a successful sale is made. EMCs normally operate on a commission basis that varies with the value of the shipment, from about 1 percent up to as much as 5 or 6 percent.

Direct exporting is for the experienced firm which has gained expertise through the processes of indirect exporting. Direct exporting requires special skills in documentation, ocean and air freight, packaging, labeling, foreign currency risk management and trade finance. The benefits of direct exporting include greater control over shipment, more market and buyer information, and increased expertise in international marketing. However, costs are higher because the exporting firm must become proficient in documentation, which can often require more than 100 separate pieces of paper accompanying each shipment. This becomes routine as the skills developed in indirect exporting start to pay off.

Transportation is a key component to successful exporting, whether direct or indirect. The freight forwarder can handle most transport requirements. The forwarder's main responsibilities include booking passage, preparing documents and coordinating the shipment of goods. The freight forwarder can act as the export agent, sales representative or documents coordinator, and can arrange for all transportation needs. In short, the freight forwarder can do just about everything except find the customer and arrange for payment. Services include all aspects of getting the product from the point of production or final processing to the foreign customer. The ocean or air carrier will issue a "bill of lading" to the exporting firm. This is the most important document in most international sales; it serves both as a contract between exporter and carrier and as a receipt for goods, and represents a document of title.

Product Development and Adaptation

After targeting the market and the buyer, it may be necessary to modify existing products or develop new ones. In the simplest case this may involve changing only packaging or labelling, such as listing flavoring ingredients or changing container size. Most countries require labels in their own languages. For additional information about these requirements, contact the Animal and Plant Health Inspection Service for requirements on live animals and genetic material and the Food Safety and Inspection Service for requirements on meat and meat products. Both these agencies of USDA maintain on-line computer data base systems to keep exporters informed about foreign regulations. Good marketing may further dictate that the product label reflect certain cultural aspects of the country. In some instances it may be necessary to ship in larger or smaller package sizes as compared to the standard used in the United States. While most product adaptations will not be extensive, it is important to remember that a high quality product in a wrong size or improperly labelled container will not usually be successful.

Promotion and Market Development

The Foreign Agricultural Service (FAS) of USDA has been promoting agricultural products in foreign markets for more than 30 years. They work both at the industry level and with individual firms to expose U.S. products to potential customers. The FAS Cooperator Program is designed to expand the market for a particular product in a specific region or country. Major activities include food shows, trade fairs, product utilization assistance, and trade and retail promotion. Key sectors of the foreign market such as wholesalers, brokers and retailers are involved. These efforts are designed to aid the industry. Check-off and government funds support most programs. The 1988 Trade and Competitiveness Act established the Trade Assistance and Planning Office within FAS-USDA to provide a single point contact for exporters in need of market information. Country profiles as well as commodity reports are available.

Individual firms can receive assistance from agricultural attaches and foreign commercial officers in more than 100 countries. Lists of products, buyers and export contacts are available from FAS. Fees are charged for many of these services. An initiative in the Food Security Act of 1985 was the Targeted Export Assistance (TEA) program. The TEA program provides funds for generic and brand promotion in specific countries where U.S. products have faced unfair competition. The Office of Transportation-USDA can provide vital information on transport methods, packing and loading requirements, product movement and rates of payment for shipping services. In addition, a brief leaflet, "Transportation Tips," is published to assist firms in acquiring the latest information on shipping products to other countries.

State departments of agriculture also can provide assistance to firms interested in exporting. Important buyer contacts can be made through participation in foreign trade missions, food shows and buyer visits. In Texas a computerized trade lead matching system and a wide variety of publications provide vital information to potential food exporters.

Financing Export Sales

In the survey of exporting firms mentioned earlier, it was found that financial problems were somewhat more troubling than information access or product marketing. A further analysis revealed six items that were particularly troubling for smaller firms: (1) the non-availability of government guaranteed loans; (2) the non-availability of commercial funds for export expansion; (3) a lack of inventory and working capital; (4) a perceived unwillingness of larger banks to serve small and medium-size firms; (5) an inability of local banks to handle international business finance; and (6) payment default risk. The first three items have to do with production or inventory expansion, and are generally covered in the firm's assessment of its initial commitment to exporting. The last three items have to do with getting paid, and are generally found at the top of any potential exporter's list of concerns.

The export sales agreement is of prime importance. Some key elements which should be part of any export sales contract include product definition (including product name, weight, quality and grade), packaging and labelling instructions, currency to be used and the type of price quote. Other potential considerations include delivery instructions and terms of settling disputes. If possible, U.S. firms should always specify that disputes will be settled in U.S. courts.

Special attention should be paid to the price quote or the "terms of sale." There are four main types of price quote. Each specifies the various obligations under the terms of sale.

- **F.A.S.** (free alongside ship): This specifies that the selling price includes the cost of the product plus packing, inland freight to the port of export, and insurance until the cargo is accepted at the port and delivered to the dock.
- **F.O.B.** (free on board vessel): The exporter further assumes responsibilities and costs of placing the cargo on the vessel and preparing the export documentation.
- **C&F** (cost and freight): The exporter assumes the cost of the product plus freight charges to the port of import, while the buyer is responsible for insuring the product from the time it boards the ship until it arrives at the overseas inland destination.
- **C.I.F.** (cost, insurance and freight): The exporter's price includes the cost of the product plus the cost of marine or air insurance and freight to the foreign port.

Most new exporters prefer F.A.S. or F.O.B. quotes because there is less risk associated with these sales. C&F and C.I.F. sales are normally made by larger, more sophisticated firms with expertise in managing ocean or air freight, insurance and foreign exchange.

Getting paid should be at the top of every exporter's checklist. A credit check on a potential customer by a local bank or a larger bank with an international department may turn up some very useful information and preclude payment problems. Most foreign customers, properly verified, pose very little threat of payment default. Risks are high when doing business in areas where there is obvious economic stress, social unrest or political disorder. The potential for financial loss from payment default can be lessened if proper insurance coverage is secured when sales are made to buyers in risky countries.

There are four basic methods of payment for export sales:

- cash in advance
- letter of credit
- documentary draft
- open account

Varying degrees of risk are associated with each method.

The most secure method of payment is cash in advance. Most buyers are obviously reluctant to enter into this type of agreement.

An irrevocable, confirmed letter of credit is recommended for initial sales. It is the safest way to reduce risk of buyer default. The importer's bank issues a line of credit in the amount of the sale. This credit is confirmed by the exporter's bank and verified by the foreign bank. Both banks guarantee payment and the exporter is paid when proper documentation is presented to the exporter's bank showing that the goods have been properly delivered according to the terms of the sale. In many cases, partial (and sometimes full) payment can be received when the goods are loaded onto the vessel.

A documentary draft places responsibility for payment on the foreign bank. The importer pays his or her bank, which in turn pays the exporter's bank. The foreign bank issues documentation allowing the importer to receive the shipment only after payment has been received by the exporter's bank. Sight and time drafts are the most common.

The open account is the simplest and most risky method of payment. Under an open account, goods are shipped before payment is made to the foreign bank. Since there is little protection against the buyer's failure to pay, an open account should not be used until a good trading relationship has been established with the buyer. There are several forms of government and private credit insurance which can be used. These options should be examined by contacting FAS prior to negotiating export sales.

Exchange rate risk is also an important consideration. Since most sales by U.S. firms are made in dollar amounts, the importer implicitly assumes the risk of currency movements. Exchange rate risk can be covered by the exporter by charging a premium or by the importer by demanding a lower price to assume the risk. If an occasion arises where a sale is transacted in a foreign currency, any bank with an international department can suggest a number of ways to handle the exchange rate risk. Since most major currencies are traded in an "interbank market," traders have the opportunity to hedge currency risk. Alternatively, currency futures and options markets are available on the Chicago Mercantile Exchange and the Philadelphia Stock Exchange. Contract sizes vary by currency and exchange. Consult a reliable brokerage firm or bank to determine minimum contract sizes. Buying or selling forward currency is a final method of currency risk management; it should be handled only through a bank and an approved brokerage firm.

Summary

To a large extent, the future of many agricultural firms in Texas is linked to their ability to successfully compete and market on a global scale. Exporting requires a commitment, international expertise and considerable management skill. It is challenging, yet the probabilities of success are good if risks are effectively managed. Managing for tomorrow means developing a global perspective–becoming an insider in the international market. Learning about potential markets and competing exporters will position agricultural business firms to take advantage of global opportunities.

Further Reading

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The author expresses special appreciation to Geoffrey A. Benson, economist, North Carolina State University, for his helpful review of this publication.

Suggested Resources for International Marketing of Food and Agricultural Products

Animal and Plant Health Inspection Service - USDA
Veterinary Services
NCAHIS
555 South Howes, Suite 300
Fort Collins, CO 80521
Telephone: 303-498-1900

Plant Protection and Quarantine - APHIS
Export Certification Unit
Room 669, Federal Center Building
6605 Belcrest Road
Hyattsville, MD 20780
Telephone: 301-436-8537

Food Safety and Inspection Service - USDA
Export Coordination Division
Room 0036-S
Washington, D.C. 20250
Telephone: 202-447-9051

Regional Office - Texas
FSIS - USDA
1100 Commerce Street, Room 5-F41
Dallas, Texas 75242
Telephone: 214-767-9116

Office of Transportation - USDA
Export Services Branch - International Division
1405 Auditors
Washington, DC 20250
Telephone: 202-653-6317

Small Business Development Center - International Trade Center
601 Jefferson, Suite 2330
Houston, Texas 77002
Telephone: 713-752-8404
Facsimile: 713-752-8484

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Trade Assistance and Planning Office
USDA - Foreign Agricultural Service
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202-447-8502
Facsimile: 703-756-6124
202-382-8069

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