

Policy and Competitiveness in a Changing Global Food Industry

April 28, 2005, Washington, DC

Executive Summary

Policy and Competitiveness in a Changing Global Food Industry, an April 28, 2005 conference, examined competitiveness in the global food industry, food manufacturer perspectives of the issues, retail sector issues and the role of policy. The conference was a collaboration of Farm Foundation, USDA's Economic Research Service, Pennsylvania State University and the International Food and Agribusiness Management Association.

While growth in the overall U.S. trade deficit is well publicized, the negative balance for the U.S. food sector comes as a surprise to most people. A decade ago, the United States had a \$9 billion surplus in processed food trade; today it has a \$7 billion deficit. U.S. processed food exports have stalled at \$26 billion, the same level as in 1996.

Several questions frame the research and information needed to better understand the forces shaping today's food industry.

- What forces are motivating firms to successfully capitalize on growth opportunities in foreign markets?
- What does being competitive in a globalized food economy mean to individual food manufacturers?
- What is the role of multinational retail chains in shaping global food trade flows?
- What is the role of government?

Competitiveness in the global food industry

Measures of competitiveness vary at the firm, industry and country level. Competitiveness is influenced by such forces as technological innovations, public institutions, infrastructure support, firm organizational structure, and government policies. Interaction between industry strategies and competitive forces can yield diverse reactions. The most positive reaction would be to promote firms to operate according to their comparative advantages. But competitiveness always results in losers as well as winners, or, in the worst cases, may

induce some players to attempt to tilt the playing field in their favor. With technology racing ahead of policy and regulations, challenges remain to redirect policy in the food sector.

Power shifts have always been part of the global food industry, a pattern than is expected to continue in the future. In the past century, power in the food industry has gradually moved from farmers to manufacturers and wholesalers, and now to retailers. Will the retail sector maintain its current dominant role? This question raised other issues, such as whether the current retail sector truly delivers value to consumers. Attributes desired by consumers, such as convenience, time savings and product quality, present opportunities for further evolution of the global food marketing system. The structure of the current global food industry could potentially evolve into many different business models. “A winning firm” will need to accept one of the potential future models and take actions to “create a winning food story and execute it.”

Food manufacturer perspectives

Small food manufacturers face macroeconomic constraints similar to those of large firms, such as exchange rate fluctuations and market access barriers in foreign markets. However, small firms face significant challenges in entering and expanding in foreign markets and rely on U.S. government programs for assistance. U.S. government programs tend to provide services to all interested applicants, regardless of their ability to successfully operate in global markets. It was suggested that a more selective process which provides assistance only to the most promising small food firms, may result in more success stories.

For large firms that can easily enter and expand in most foreign markets, competitiveness depends on good products and enlightened domestic farm and trade policies. For example, one speaker noted that U.S. sugar policies have driven many food manufacturing plants to other countries. Rapidly changing global and regional trading regimes influence the strategic decisions of large multinational companies to enter a particular market, invest in manufacturing plants in a market, or expand in another market.

Retail sector issues

Retail sector issues centered on the impact of globalization on food retailing in emerging economies, and the impact of changing consumer preferences on food retailing. Although a country may import little food, the impacts of globalization impacts are reflected in its food retail sector. Transformation of the food producing and marketing sector ultimately influences the types of items on retail shelves and market prices of those items. Moreover, globalization brings foreign competition to a market. The success of a food retailer lies in its ability to understand its consumers.

Retailers are adapting to better serve their customers. The trends are particularly evident in the U.S. market, where consumers are becoming “cooking illiterate but cuisine literate” and have very demanding preferences. Many consumers value quality over quantity, intangible over tangible attributes, and time over money. In this environment, product labeling is increasingly important and is expected to continue to be so in the coming years. Consumer demand is also driving changes in food retailing landscapes, with retail store formats constantly changing. In a highly competitive environment, retailers cannot satisfy all consumers; the best option may be “to provide a value proposition that appeals to someone and cannot be easily duplicated.”

Role of policy

Government intervention in a globalized food industry may develop for several different reasons, including societal concerns, improvement of the competitiveness of firms and public standards.

Social concerns or externalities—public health issues or environmental concerns—are becoming part of the ongoing conflict in food supply chains, but are not yet fully reflected in policy. There is, however, evidence of movements toward this in government forums, corporate decisions and supply chain alliances. Addressing these issues carries a price tag that could be significant. British food policy researchers estimate the societal externalities add 12% to the weekly food costs of British consumers.

Areas where governments can improve the competitiveness of domestic food firms include ensuring a fair and equitable global market, improved access to accurate information, consistent international rules and standards, and prompt redress of trade grievances.

There is growing use of private food industry standards in business transactions, raising the question of whether public standards are becoming redundant. It was argued that public standards will continue to play an important role globally, serving as basic standards consistent across countries and required to be met in cross-border trade. To differentiate products and meet demands in various niche markets, manufacturers and retailers may choose to exceed public standards and establish higher private standards.

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