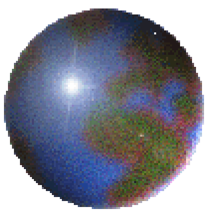
HOW FIRMS FACE COMPETITIVENESS IN A GLOBAL FOOD MARKET:



THE GOOD, THE BAD AND THE UGLY

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INTRODUCTION

- FIRM COMPETITIVENESS
- TRADE
- POLICY

PRODUCTIVITY GROWTH AND R&D

PLANT-LEVEL PROD. GROWTH: 0.9% FROM 1973-95

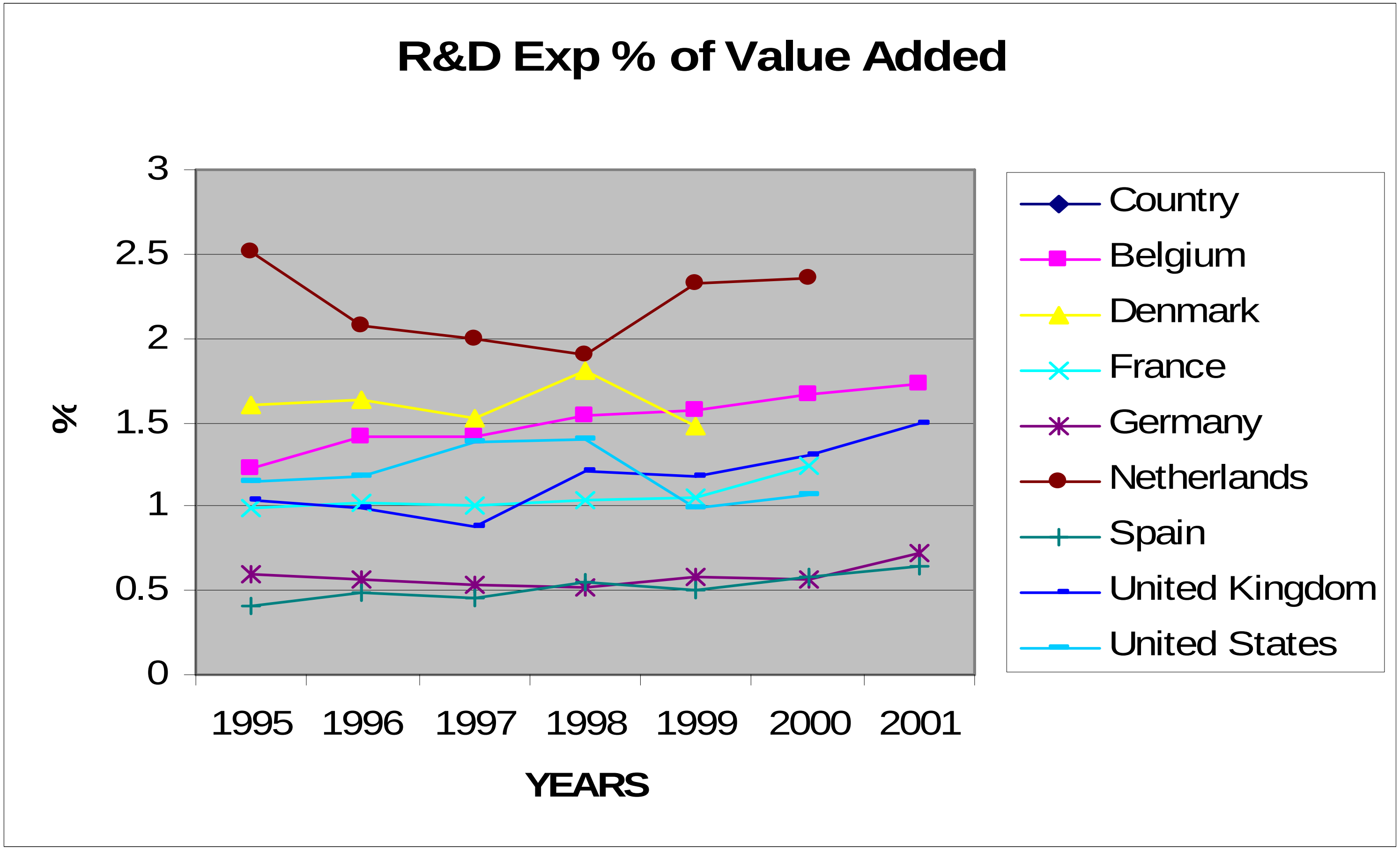
QUARTILE GROUPS	ANNUAL GROWTH RATE	WHAT'S DRIVING PRODUCTIVITY GROWTH?
LOWEST	-7.2%	EXPANDING EXISTING TECHNOLOGY
LOWER MIDDLE	0.4%	EXPANDING EXISTING TECHNOLOGY
UPPER MIDDLE	2.0%	EXPANDING EXISTING TECHNOLOGY
HIGHEST	8.6%	NEW TECHNOLOGY

Celikkol, Stefanou and Pompelli, 2005

R&D

- 0.7% OF SALES
- COMPARED TO EUROPEAN RIVALS, U.S. R&D (AS % OF VALUE ADDED) IS 48% OF THE ENTIRE GROUP

R&D EXPENDITURES (% OF VALUE ADDED)



OECD STAN

BEING GLOBAL

WHO IS GLOBAL? (AMONG ALL MFGs)

- TOP 1% OF FIRMS ENGAGED IN TRADE
  - ACCOUNT FOR 81% OF ALL TRADE AMONG US FIRMS
  - 14% OF EMPLOYMENT IN US MANUFACTURING.

AG AND THE FOOD SYSTEM

- ALL COUNTRIES MANUFACTURE FOOD & BEVERAGES
- GROWTH LIMITED BY LOCAL CONSUMER DEMAND.

POLICIES FOCUS ON ....

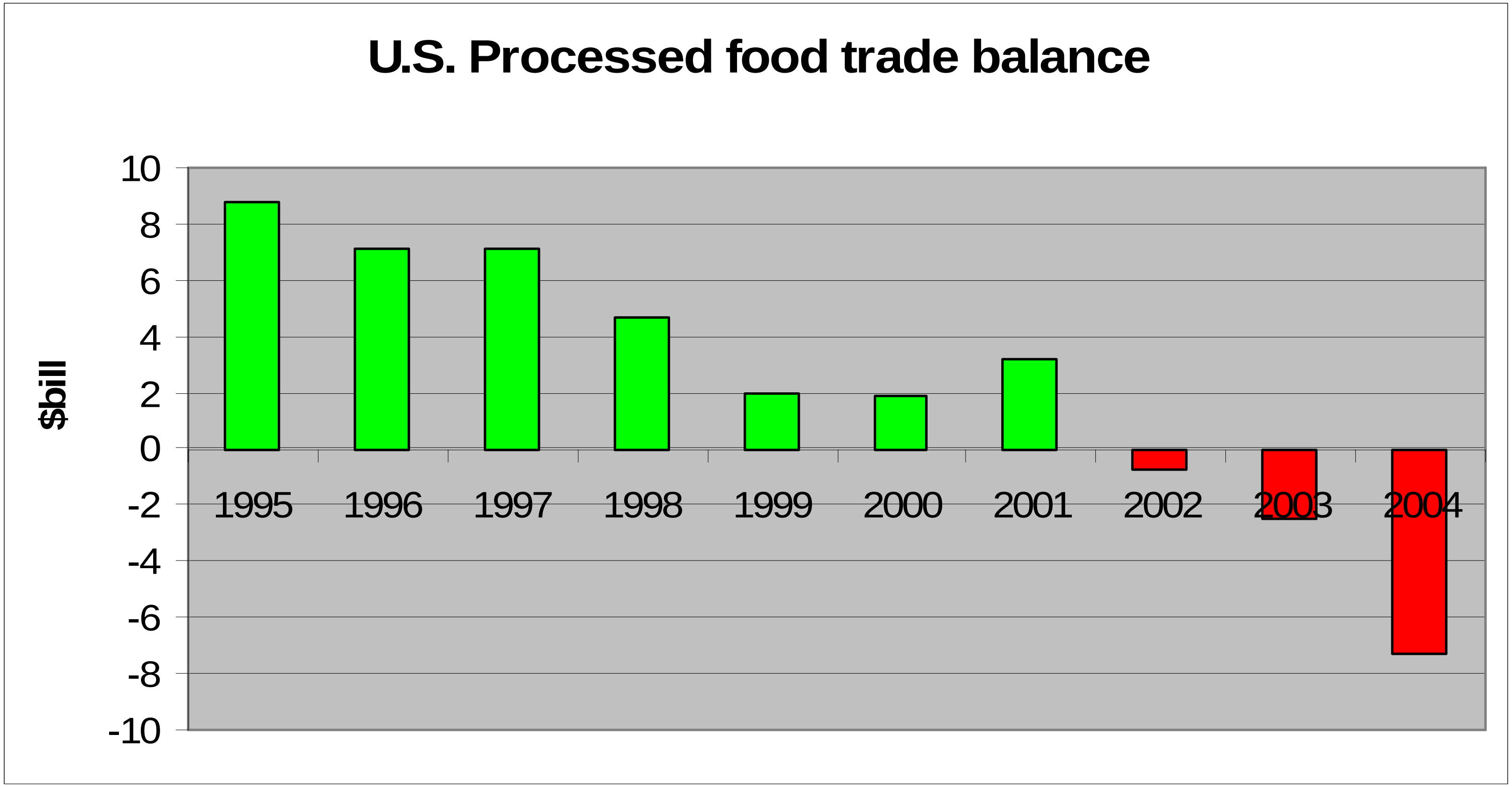
US-BASED

- GOVERNMENT SUPPORT FOR
  - RAW MATERIAL PRODUCTION
  - EXPORT PROMOTION
  - R&D FOR FOOD SYSTEM INNOVATIONS
- REGULATIONS ADDRESSING QUALITY AND SAFETY OF THE FOOD SYSTEM

REST OF THE WORLD?

- SAME BUT WITH DIFFERENT OBJECTIVES AND TARGETS

WHERE ARE WE HEADED?
FOOD TRADE BALANCE



U.S. Bureau of Census, ERS classification of processed food

WHERE ARE WE HEADED?
GLOBALIZATION & THE US FOOD MANUFACTURING INDUSTRY

LOOKING TO FDI TRENDS FOR US-BASED MULTINAT'LS

- FDI INTO HIGH WAGE COUNTRIES HAS INCREASED
- FDI FLUCTUATING INTO LOW-WAGE COUNTRIES

WHY?

CONSEQUENCE:

- EMPHASIZING SHORT- TO MEDIUM TERM COST SAVINGS FOR FUTURE COMPETITIVENESS?

EARLY LESSONS

WHAT DO WE KNOW?

- FIRMS TRADE WITH FIRMS
- AGGREGATE TRADE DATA MASK FIRM BEHAVIOR

WHAT DON'T WE KNOW?

- HOW DO FIRMS LOOK TO THE GLOBAL ARENA AS THEY LOOK FOR GROWTH?
- WHAT FORCES WEIGH HEAVILY AS THEY PLAN FOR TRADE?
- IS THERE A NEW ROLE FOR POLICY FOR US FOOD FIRMS FACING A GLOBAL MARKET?

WHAT IS COMPETITIVENESS?

"THE ABILITY OF AN ECONOMIC ENTITY TO CREATE VALUE TO ACHIEVE SUSTAINED GROWTH"

COUNTRY	GROWTH IN GDP
INDUSTRY	GROWTH IN RETURNS TO FACTORS EMPLOYED
FIRM	GROWTH IN PROFITS

FACTORS INFLUENCING COMPETITIVENESS AT THE INDUSTRY & FIRM LEVELS

- TECHNOLOGY
- PUBLIC INSTITUTIONS
- QUALITY OF INFRASTRUCTURE
- GOV'T AG & FOOD POLICIES
- FLEXIBILITY (FIRMS)

REACTIONS	INDUSTRY	FIRMS
THE GOOD	COMPARATIVE ADVANTAGE BALANCES THE EFFORT	• FIRM-SPECIFIC FACTORS MATTER • PROMOTES FAIRNESS
THE BAD	• INNOVATE OR DIE • COMPETITIVE COST STRUCTURES CAN BECOME NON-COMPETITIVE	ZERO-SUM GAME
THE UGLY	TILTING THE PLAYING FIELD	REACTIONS TO GOV'T POLICIES AND DISCOURAGE INNOVATION

CASE STUDIES: THREE ENTERPRISES LOOKING GLOBALLY

PARADOX

- AGGREGATE TRADE & FDI STATS
  VS. HOW FIRMS ARE PERFORMING

VIEWING COMPETITIVENESS FROM THE GROUND

- LEADERS IN HOME MARKETS
- BIG, SMALL, INTERNATIONAL
- PUBLIC, PRIVATE, COOPERATIVE

H.J. HEINZ

SNYDER’S OF HANOVER

FONTERRA

BIG COMPANY: H.J. HEINZ & KETCHUP

BACKGROUND

- LEADING MFG & MARKETER OF BRANDED FOOD GLOBALLY
- COMPETITIVE PRESENCE IN CONDIMENTS, SAUCES, READY MEALS, SOUP, TUNA AND BABY FOOD.
- FOCUSING ON 15 POWER BRANDS
- WORLDWIDE: #1 WITH 3.5 TIMES SHARE OVER #2 BRAND (UNILEVER)

HJ HEINZ & KETCHUP: STRATEGY

TAKES GLOBAL PERSPECTIVE WHEN LOOKING FOR GROWTH & PROFITS

- INNOVATION AS KEY DRIVER OF GROWTH
- ELIMINATING INEFFICIENCIES
- GROWTH-ORIENTED GLOBAL ACTIVITIES
- ALLIANCES
- RETAILERS PULLING HEINZ ALONG
- FOOD SERVICE BIG AND GROWING

HJ HEINZ & KETCHUP: REACTIONS TO COMPETITIVENESS

THE GOOD

- MOST EFFICIENT MFG TECHNOLOGY IN THE WORLD
- PACKAGING INNOVATIONS
- PROMOTING HEALTH BENEFITS (LYCOPENE)
- FAST GROWING FOOD SERVICE MARKET

THE BAD

- COVERAGE IN W EUROPE & E EUROPE STILL POOR
- KETCHUP FACING PRIVATE LABEL COMP.

THE UGLY

- US SUGAR POLICIES + EU GMO POLICIES

SMALL COMPANY:

SNYDER'S OF HANOVER & PRETZELS

BACKGROUND

- $350 MIL CO. MFG & MARKETING SNACKS (PRETZELS) FROM PA & AZ PLANTS
- COMPETITIVE PRESENCE IN US
- 10% OF SALES FROM GLOBAL
  - GOAL: 15%
  - 40 DIFFERENT COUNTRIES

SNYDER'S OF HANOVER & PRETZELS: STRATEGY

LOOKING FOR GROWTH AT HOME FIRST,

.........THEN GO GLOBAL

- "MARCO POLO" APPROACH TO INNOVATION
- BUILD ON DOMESTIC DISTRIBUTION SYSTEM
- TAKE IT GLOBAL, SLOWLY

SNYDER'S OF HANOVER & PRETZELS: REACTIONS TO COMPETITIVENESS

THE GOOD:

- EFFICIENT MANUFACTURING
- PRIVATE LABEL COMPETITION NOT A THREAT (AT PRESENT)
- HIGH GLOBAL GROWTH POTENTIAL FOR PRETZELS
- POTENTIAL FOR HEALTH-ORIENTED PRODUCTS

THE BAD:

- HIGH NEGOTIATION COST TO GO GLOBAL
- SHORT SHELF LIFE: LIMITS U.S. AS BASE FOR PRODUCTION
- HIGH CO-PACKING COSTS EXTERNALLY

THE UGLY

- PROCESSED WHEAT PRODUCTS FACING 30% TARIFFS IN EU

FONTERRA COOPERATIVE GROUP (NZ): INTERNATIONAL COOPERATIVE

BACKGROUND

- INGREDIENT COMPANY
- $7.5 BIL INTEGRATED GLOBAL DAIRY FIRM
- COMPETITIVE PRESENCE INTERNATIONALLY
- GLOBAL SALES: 140 COUNTRIES

FONTERRA COOPERATIVE GROUP: STRATEGY

- ADDING VALUE TO MILK ABROAD
- EXPERTISE IN MFG & MARKETING DAIRY INGREDIENTS
  - FRACTIONATION TECHNOLOGY
  - WILLING TO PARTNER WITH COMPETITORS
  - EXPLOIT OPPORTUNITIES WHERE OTHERS ARE HANDICAPPED BY DOMESTIC DAIRY POLICY
- BUILD GLOBAL SUPPLY CHAIN
- TAP OTHER COUNTRIES MILK SUPPLY

FONTERRA COOPERATIVE GROUP: REACTIONS TO COMPETITIVENESS

THE GOOD

- SUPERIOR TECHNOLOGY
- EFFICIENT RESPONSE TO NEEDS OF FOOD & BEVERAGE INDUSTRY
- DO NOT NEED BRAND TO SELL INGREDIENTS
- HIGH GROWTH DEMAND & EXPANDING USES

THE BAD

- FUNDING INVESTMENT ABROAD
- LOW MARGINS ON NON-BRANDED INGREDIENTS

THE UGLY

- DAIRY POLICY LIMITING MARKET ACCESS

HOW DO FIRMS LOOK TO THE GLOBAL ARENA AS THEY LOOK FOR GROWTH?

NEW MARKETS FOR EXISTING PRODUCTS FOR GROWTH

- LEVERAGING EXPERTISE & CAPACITY TO SERVICE BEYOND DOMESTIC BORDERS
- MATURE DOMESTIC MARKET (SNYDER'S)

NOT ON DEVELOPING NEW PRODUCT PLATFORMS

CHALLENGES

- ACCESS
- PRODUCING IN OTHER COUNTRIES NOT A (MAJOR) BARRIER

WHAT FORCES WEIGH HEAVILY AS THEY PLAN FOR TRADE?

POLICIES & REGULATIONS THAT LIMIT THEIR POTENTIAL

REGULATORY PROCESSES NEED TO BE MORE FLUID

- ENTREPRENUERS MOVE VERY QUICKLY
- GOVERNMENT ALWAYS LAGS BEHIND ENTREPRENEURS

WHAT FORCES WEIGH HEAVILY AS THEY PLAN FOR TRADE?

TECHNOLOGY MOVING FASTER
THAN POLICY & TESTING ALLOWS

- REGULATIONS AS IMPEDIMENTS TO PROGRESS
- FDA & USDA BOTH HAVE TERRITORIAL CLAIM
  - STANDARDS OF IDENTITY
  - CALORIE SUBSTITUTES

GENERIC OBJECTIVES OF POLICY FOR FIRMS FACING A GLOBAL MARKET

- PROMOTE MOVEMENT OF CROSS-BORDER FACTOR ENDOWMENTS
- PROMOTE THE MOVEMENT OF GOODS & SERVICES
- RULE ENFORCEMENT
- STRUCTURE OF MARKETS (e.g., COMPETITION, M&A)
- INT'L TRADE & INVESTMENT AGREEMENTS
- TRADE POLICY (TARRIFS & NON-TARIFF BARRIERS) & COHERENCE OF FDI AND TRADE POLICIES

A NEW ROLE FOR POLICY FOR US FOOD FIRMS FACING A GLOBAL MARKET?

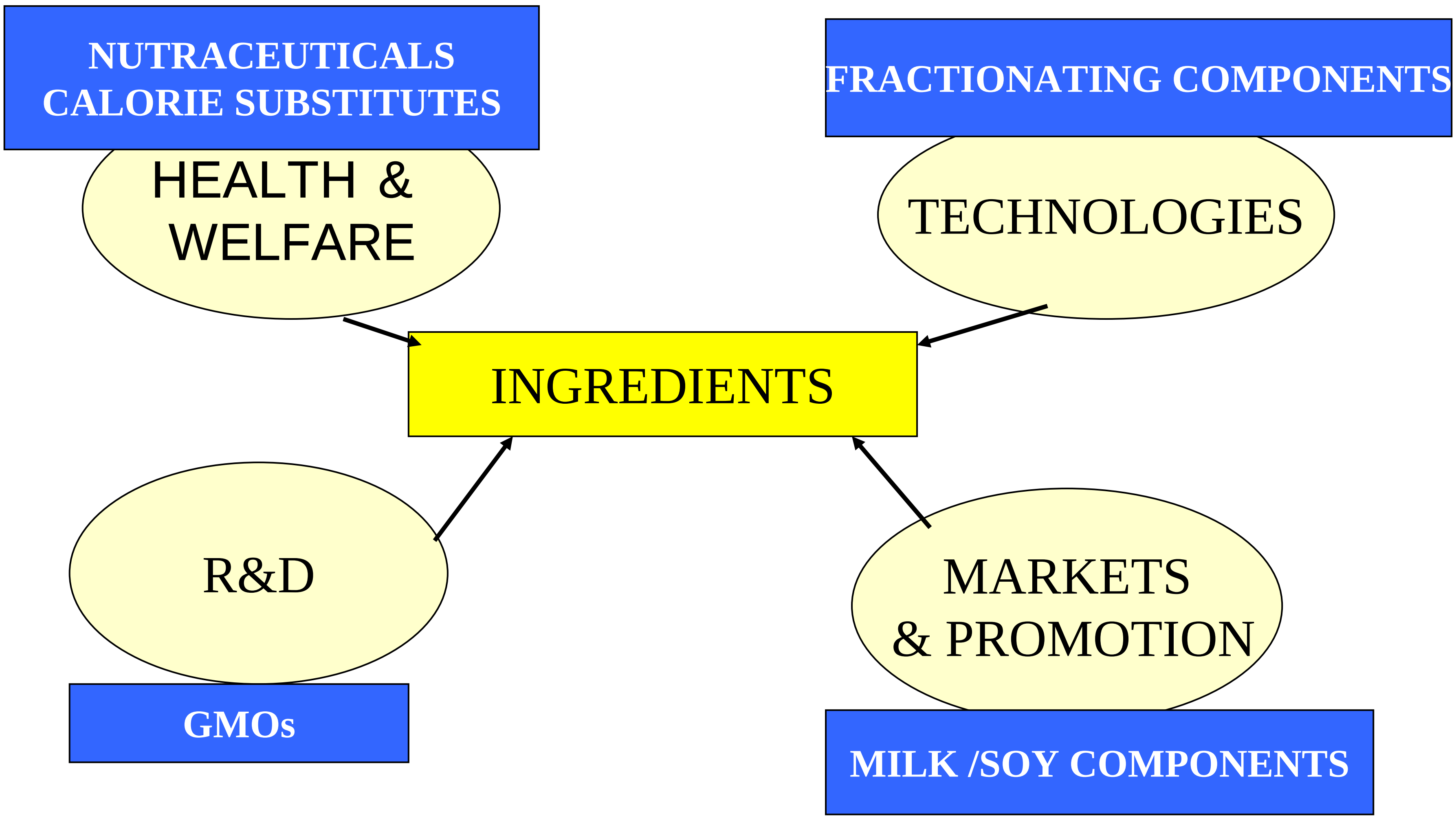
POLICY & REGULATIONS

- BEING CAUTIOUS OR
  ……..BEING DRAGGED KICKING & SCREAMING?
- NEED TO HARMONIZE ACROSS BORDERS

EMERGING POLICY CONCERNS

- SHIFTING FROM PRODUCT/COMMODITY ORIENTATION
  ……TOWARD PROCESS- & INGREDIENT-ORIENTATION
- FOCUS ON INGREDIENTS

POLICY FORUMS & FOOD FIRMS



THANK YOU

QUESTIONS?