IICA INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE OAS

# TRADE AND JOINT VENTURES IN THE AGRIBUSINESS SECTOR

Deloitte & Touche



March 1992

PROGRAM IV: TRADE AND AGROINDUSTRY

## WHAT IS IICA?

The Inter-American Institute for Cooperation on Agriculture (IICA) is the specialized agency for agriculture of the inter-American system. The Institute was founded on October 7, 1942 when the Council of Directors of the Pan American Union approved the creation of the Inter-American Institute of Agricultural Sciences.

IICA was founded as an institution for agricultural research and graduate training in tropical agriculture. In response to changing needs in the hemisphere, the Institute gradually evolved into an agency for technical cooperation and institutional strengthening in the field of agriculture. These changes were officially recognized through the ratification of a new Convention on December 8, 1980. The Institute's purposes under the new Convention are to encourage, facilitate and support cooperation among its 32 Member States, so as to better promote agricultural development and rural well-being.

With its broader and more flexible mandate and a new structure to facilitate direct participation by the Member States in activities of the Inter-American Board of Agriculture (IABA) and the Executive Committee, the Institute now has a geographic reach that allows it to respond to needs for technical cooperation in all of its Member States.

The contributions provided by the Member States and the ties IICA maintains with its 14 Permanent Observers and numerous international organizations provide the Institute with channels to direct its human and financial resources in support of agricultural development throughout the Americas.

The 1987-1993 Medium Term Plan, the policy document that sets IICA's priorities, stresses the reactivation of the agricultural sector as the key to economic growth. In support of this policy, the Institute is placing special emphasis on the support and promotion of actions to modernize agricultural technology and strengthen the processes of regional and subregional integration. In order to attain these goals, the Institute is concentrating its actions on the following five Programs: Agricultural Policy Analysis and Planning; Technology Generation and Transfer; Organization and Management for Rural Development; Trade and Agroindustry; and Agricultural Health.

The Member States of IICA are: Antigua and Barbuda, Argentina, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, the United States of America, Uruguay and Venezuela. The Permanent Observers of IICA are: Arab Republic of Egypt, Austria, Belgium, European Community, Federal Republic of Germany, France, Israel, Italy, Japan, Netherlands, Portugal, Republic of Korea, Romania, and Spain.

ISSN-0534-5391



# TRADE AND JOINT VENTURES IN THE AGRIBUSINESS SECTOR

Deloitte & Touche

March 1992

PROGRAM IV: TRADE AND AGROINDUSTRY

The Inter-American Agricultural Documentation and Information Center (CIDIA), through its Editorial Service and Print Shop, was responsible for the stylistic and copy editing, typesetting, layout and printing of this publication.

Trade and joint ventures in the agribusiness sector / Deloitte & Touche. – San José, C.R. : Instituto Interamericano de Cooperación para la Agricultura, Programa de Comercio y Agroindustria, 1992.
64 p. ; 23 cm. – (Publicaciones Misceláneas, ISSN 0534-5391 / IICA ; no. A1/SC-91-29)

Publicado también en español: Coinversiones y comercio en la agroindustria americana : notas para una estrategia.

1. Exportaciones – América Latina. 2. Exportaciones – Caribe. 3. Coinversiones – América Latina. 4. Coinversiones – Caribe. I. Deloitte & Touche. II. IICA. Programa de Comercio y Agroindustria. III. Título. IV. Serie.

AGRIS E71 DEWEY 382.41

MISCELLANEOUS PUBLICATIONS
SERIES

ISSN-0534-5391
A1/SC-91-29

March, 1992
San Jose, Costa Rica

INTER-AMERICAN INSTITUTE
FOR COOPERATION ON AGRICULTURE/
CANADIAN INTERNATIONAL DEVELOPMENT
AGENCY PROJECT

The general objective of the IICA/CIDA Project is to strenghten the conceptual and operational development of IICA's five Programs of action, in the technical areas having high priority in the Institute's Medium Term Plan and the PLANLAC. Through the IICA Programs, the IICA/CIDA Project, with the collaboration of Agriculture Canada, supports the efforts of the countries to reactivate and modernize their agricultural sectors, in a framework of ever-improving relations between Canada and the countries of Latin America and the Caribbean.

"The views expressed in signed articles are those of the authors and do not necessarily reflect those of the Inter-American Institute for Cooperation on Agriculture."

# TABLE OF CONTENTS

# INTRODUCTION

The project entitled "Joint ventures and trade in the American agro-industrial firms: Notes for an strategy" is a joint effort of the Inter-American Institute for Cooperation on Agriculture (IICA), Agriculture Canada (AGCAN) and the Canadian International Development Agency (CIDA). It has as one of its objectives to increase knowledge in Latin American and Caribbean countries about the characteristics and particularities of North American markets, as a means to expand export opportunities and to strengthen trade relations.

This monograph a product of the project, consists of three essays. The first deals with export opportunities for Latin American and Caribbean agro-industrial products to North America. Such products are: flavors or fragrances, dried fruits, processed foods, savoury snacks, seasoning sauces, fruit juices and fruit-flavored drinks, dairy products, special beverages, and ingredients for the pharmaceutical and cosmetic industries. A helpful guide for identifying export opportunities in high-growth-potential markets is included.

The second essay deals specifically with the evolution of the tropical fruit market in North America and presents key criteria to assist in penetrating this market.

The third paper deals with the topic of trade joint ventures. It identifies characteristics of the different kinds of such arrangements that exist today, as well as establishing the conditions and requirements for achieving successful joint ventures.

The three essays were written by consultants of the firm Deloitte & Touche (Guelph, Ontario, Canada) as an educational guide for a series of joint ventures workshops that IICA/AGCAN/CIDA have organized in different countries in Latin America and the Caribbean, in collaboration with specialized public and private sector organizations.

It is our hope that this document will be useful and valuable for professionals working in this field and, in general, to those persons interested in the development of the food industry.

Rodolfo Quirós Guardia, Director
Trade and Agroindustry Program, IICA

# 1. MARKET OPPORTUNITIES IN NORTH AMERICA FOR LATIN AMERICAN AND CARIBBEAN AGRO-INDUSTRIAL PRODUCTS[1]

The overall size of the North American market for the products of agroindustrial firms is vast –supermarket sales alone were US$260 billion in 1989 and total agroindustrial product sales in all sectors exceeded US$500 billion for The United States and Canada.

There is no definitive means of identifying "surefire" market opportunities; if it were easy, then market forces would ensure that returns to the "winners" would be substantially diluted as firms rushed to satisfy the demands of the marketplace. However, there are mechanisms by which the many and varied wants of consumers can be winnowed to provide the agro-industrial firms with a short list of product categories and specific products that may offer better-than-average potential in North American markets. Actually realizing the market potential, of course, will be contingent upon many factors, not least the management skills of the individual firm and on the whims of the marketplace.

A summary is presented below (Table 1) of the major steps associated with identifying marketing opportunities with high potential for LAC firms. The seemingly logical flow should not be interpreted as if export market opportunity identification is a push-button exercise –it requires experience, skill and an ample portion of luck to pick market winners. And a winner is not a winner until a firm takes successful commercial advantage of its market foresight.

---

1 This article was prepared by the Agro-industrial International Division of DELOITTE & TOUCHE Canada, for the Agro-industrial Joint Venture Promotion Project executed for the Inter American Institute for Cooperation on Agriculture (IICA) and financed by the government of Canada. 1991.

**Table 1. A Step-Wise Approach to the Identification of Marketing Opportunities for LAC Agroindustrial Firms.**

---

**Identify expanding demand categories for agriculturally-based processed products-food and non-food:**

- Monitor new product introductions in trade press (food service, food retail, non-food areas such as flavours and essences, cosmetics, etc.);
- Monitor sales growth of major product categories vis-à-vis: industry averages, investigate within-category growth rates of individual products. Use trade press sources and ad hoc market surveys undertaken by key agencies (ITC, USAID, export development agencies in the LAC region, etc.);
- Review government statistics in market countries on food product disappearance trends, import data at 4 digit SITC level;
- Review import volumes and values at micro-level from LAC country sources via OAS SICE system;
- Talk with trade members and observe market movements directly through ad hoc in-store surveys, etc.;
- Prepare a long short-list of products with prima facie strong market potential.

---

**Do major market trends support the view that the short-listed products have strong market potential and continue to show sustained growth?**

- Discern major market trends through synthesis of information from trade press, conferences/seminars on market matters, government and regional agency market outlook statements, contact with trade, visiting trade fairs, etc.
- Do the items on our long short-list meet the market requirements identified through a review of the key trends in the industry?
- Refine short-list.

---

**Are there particularly attractive opportunities for LAC agroindustrial products that are focused specifically at the LAC consumer niche markets in North America?**

- Monitor trade press that focuses on Caribbean and Hispanic market segments;
- Canvass views of Caribbean and Hispanic food marketing trade and undertake ad hoc store surveys in consumer stronghold locations;
- Review data on import volumes, values, shippers, receivers etc. for specialty products from OAC SICE service;
- Add high potential specialty Caribbean and Hispanic products to short-list.

**Identify specific target markets for the high potential products**

- Are the target markets accessible?
- Are they sufficiently large to be commercially attractive?
- What is the distribution channel network to reach the target market and can it be accessed?
- Refine short-list.

**Which high market potential products best fit the supply potential and supply capabilities of the LAC country concerned?**

- Review short-listed products with supply-side firms, export market development agencies. Do they agree on market potential? Identify non-listed products and establish market potential bona fides. Are there unique products (e.g., processed fruit product from a species only known in one country) that can be added to short-list? Are there counter-seasonal supply opportunities and/or emerging market opportunities because of declining supplies from traditional suppliers?
- Review supply-side production and marketing constraints associated with launching a sustained export drive for the short-listed products. Are there insuring a sustained export drive for the short-listed products. Are there insuring a sustained export drive for the short-listed products. Are there insurmountable constraints that preclude exporting certain items. Revise short-list.
- Review short-list in the light of their relative economic attractiveness (e.g., foreign exchange - generating, labour intensive, etc.). Weight accordingly to reflect national development priorities.

**Check short-list against government and private trade barriers to export market entry.**

- Evaluate impact of tariffs, quota policy, animal and plant product inspection requirements, processing plant inspection, packaging and labelling regulations, consumer welfare/food safety regulations, etc. on imported items, Are there any imported products in the target market? If not, why?
- For the short-listed items, is there room in the market for new suppliers? i.e., is the market structure and conduct such that a new supplier can enter the market?
- Is there minimum size of shipment that must be made and can the LAC firm(s) meet this minimum?
- Refine short-list.

**Identify processing technologies that are consonant both with final product market requirements and supply-side technological capability.**

- Which of the short-listed items can be manufactured using promising appropriate technologies that can assist in differentiating the product(s) from traditionally processed items?
- Can the LAC firm(s) consistently meet the technological requirements of the market?
- What are the opportunities for technology information sharing/joint-venture developments with market-side firms?
- Refine short-list.

**Assess the relative profitability of the short-listed product showing strong market potential.**

- On a prima facie basis, which of the products on the refined short-list looks as if it would be the most profitable for the exporter(s)?
- Which would be the easiest from an initial market entry perspective?
- What is the risk coefficient for each item?
- Which items best suit the resources, experience and business philosophy of the exporter(s)?

**Present a synopsis of market opportunities for high export market potential products.**

- Prepare a one page marketing overview plan for each prospect identifying target market, present market situation, marketing resource requirements, marketing strategy, review of opportunities and risks, etc.

Using a step-wise approach to market opportunity identification, a short-list of product categories and specific products that offer high potential for LAC agroindustrial firms has been developed– these are presented in Table 2. Each product category is scored on the extent to which it satisfies the requirements of ten key criteria that help determine export market potential.

Four product categories were selected as indicating particularly strong market potential for LAC firms and industry experts prepared reports on specific market opportunities and requirements to penetrate key markets in each of the four areas. The market studies confirmed that, for the LAC firm, distanced geographically, culturally and commercially from the export marketplace, it is often a wise strategy to link with a North American-based firm to reduce the costs and risks of new product development and launch. The extent of the linkage will depend upon the specific needs of the LAC firm and its potential North America partner, but could range from simple product licensing arrangements through to full-blooded joint venture participation.

LAC firms should not wait for a willing North American suitor to make the first move; they should take the initiative and show potential cooperating firms that they can play an active part in developing profitable market opportunities. It is salutary to remember that the large majority of new products fail to become established in the North American market – a partner with a hand constantly on the pulse of the market can help the LAC firm reduce the risk of entry into one of the largest, most competitive and, potentially, most profitable marketplaces in the world.

In the Deloitte & Touche Pilot Phase Report, it was identified that important "consumer pull" and "technology push" factors influence the shape and nature of new food products being introduced onto the North American market. These include:

a. Freshness – real and perceived; a complex concept in the mind of the consumer (a processed product can meet the required freshness criteria if it is perceived to be made from "fresh" ingredients).

b. Convenience – easy to prepare, portable, accessible.

c. Light – i.e., ingredients excluded (fat, caffeine, sodium, sugar-related products).

d. Nutrition – i.e., ingredients added (vitamin-fortified, whole wheat, natural bran, packed in fruit juice).

e. Quality – increasingly higher expectations (chilled main course meals are displacing frozen dinners as convenience products that have a "fresh meal" taste).

f. Seeking change – consumers expect and look forward to experimenting with a vast array of new food products. Product life cycles of many food products are becoming shorter and shorter.

g. Indicator of social status – what food the consumer eats is increasingly perceived as a means of labelling his/herself socially and professionally and claiming identification with a particular life-style group.

h. Eating "on-the-run" – the proportion of meals that are not consumed in a traditional setting (characterized as the "knife and fork plus serviette family lunch") is growing quickly, requiring a wide range of food products that have all the attributes of traditional foodstuffs (taste, nutrition, etc.), but that can be hand-carried and eaten while doing something else (working, playing).

One important filter in winnowing the high priority opportunities is to check that seemingly "high-flying" products are consonant with some or all of these primary trends.

## A Review of High-potential Products for Latin American and Caribbean firms in North American Markets

To impose some structure on the discussion of high-potential products for LAC firms in North American markets (an imposition that is necessary given that the huge market is home for a myriad of products), the product categorization used by the North American food retail industry is favored in this section. However, reflecting that the "client" for this section is the LAC food manufacturer who does not view the product world in the same way as the U.S. retailer, the categories are not followed slavishly and ample note is taken of multiple categories that can comprise the relevant sub-markets for a potential ingredient (e.g., a dried fruit product can appear under "dried fruit," "breakfast foods," "snacks," "desserts and toppings"). But, first, a brief overview of the market for fragrance and flavour products is presented to show how this vast market area fits in with the retail and food service markets for food and non-food products.

Secondly, promising product categories and promising products within each category are assessed in terms of North American market potential. The final part of the section summarizes the high potential products on their relative strengths vis-à-vis ten key criteria that influence the level of consumer acceptance in the North American marketplace.

## Flavors and Fragrances

Trade sources estimate that the world market for flavors and fragrances increased from US$900 million in 1970 to US$6.6 billion in 1988; after adjusting for inflation, a 6 % real annual growth was experienced in the decade of the 1980s.

The fragrance market has two major sectors:

a. Cosmetics and toiletries (including perfumes).

b. Cleaning products (soaps, detergents and other household products).

The concentration of fragrances in finished products may only be a fraction of one percent but their inclusion in a product has increasingly become an essential element in any successful marketing mix. However, the fragrance product must be resilient because, for cleaning products in particular, the fragrance has to be stable in a harsh environment (e.g., soap fragrances must last as long as the bar of soap, in damp conditions, while withstanding immersion in hot or cold water).

Types of fragrances used depend on the product being considered: for example, classical perfume fine fragrances are often used in soaps aimed at women (with 2-3 % fragrance content), whereas herbal, spicy or wood fragrances are more popular for men (in concentrations of 0.75 to 1 %). In most domestic cleaning products, "fresh" and "clean" smells are desirable, and lemon, pine, citrus, lavender and violet perfumes are used.

The market for flavors covers a wide range of consumable products and extends beyond the food and beverage industry to pharmaceutical, animal foods and tobacco. The major flavor product categories are:

a. Chocolate and sugar confectionary

b. Soft drinks

c. Alcoholic drinks – liqueurs and aperitifs

d. Dairy products – yogurt, dairy desserts, ice-cream margarine and other spreads

e. Savoury foods – chips and snacks

f. Canned foods, meat products

g. Frozen foods, pre-cooked meats, frozen desserts

h. Pharmaceuticals

i. Animal foods – Animal feedstuffs, pet foods

Several of the food "megatrends" that have become manifest through the 1980s serve to explain the strong growth in demand for fragrances and flavourings (consumer concerns about healthy eating, nutrition, and "quality" food). It is important for food and non-food manufacturers to produce products that have "natural" ingredients, with a particular consumer preference expressed for natural colorants and flavorings (rather than the much maligned and frequently misunderstood "E" numbered ingredients).

With the exception of the category "alcoholic drinks," the major product categories that encompass the heavy usage areas for fragrances and flavoring have generally seen significant market growth over the past 10 years (as measured by real growth in retail sales and rate of new product introductions).

High-potential areas for flavors and fragrances include fruit and vegetable extracts, pulped/juiced fruits, extracts of herbs and spices – ingredient items which all support finished product claims such as "all natural" and/or "no artificial additives."

Trade sources estimate that, while there are more than one thousand manufacturers of flavors and fragrances worldwide, 15 multinational companies account for 50% or more of the US$ 6.6 billion market and the trend to industry concentration is continuing. The rationalization of firms within the industry reflects the high cost of toxicological testing, R&D (research and development), quality control and manufacturing.

The conventional trade view is that smaller-scale firms with niche markets developed through applications of specialist knowledge may survive, but, overall, the trend to larger and larger units will continue. The major firms within the world fragrance and flavoring industry all have manufacturing facilities and/or offices in North America: IFF, Quest International, Givaudan, Haarman & Reimer, Firmenic, Florasynth, Takasago (Japan), Dragoco, Roure, BBA, PFW, FD&O, Felton Worldwide.

The difference between the beginning and the end of the list –in terms of sales– is large. In 1987, for example, IFF's turnover was US$746 million, while that of Felton was one tenth that, at US$75 million.

Needless-to-say, it would be commercially foolhardy to try and compete head-to-head with these major companies; it would be better to develop a preferential relationship based on supplying them with a quality product that was manifestly superior than that available from competitors.

In the next section, high-potential food product areas are identified for LAC firms in the North American market. The market opportunities are not only for the finished product **per se**, but also for the ingredients that comprise the elements of the finished product, of which flavors and fragrances are an important ingredient category.

**Dried Fruits**

The dried fruits category had a banner five-year period in the second half of the 1980s, largely led by burgeoning demand for dried prunes and raisins (two items that account for more than 50% of sales in this half-billion dollar category) which were products that met the health aspirations of an increasingly nutrition-conscious buying public. Outside these two product areas, there are distinct windows of market opportunity for LAC firms:

a. **Relatively unprocessed dried fruit products**, destined for sale to the health conscious, concerned about nutrition consumer seeking a snack product that is quick and easy to eat and that accords some status with the peer group because of its exotic nature. "Sun-dried" papaya, mango, pineapple, carambola in their natural, not sugared form are exotic "trail mix" items that would have (and do have) cachet with the middle-class, active/out-of-doors consuming group.

b. **Tropical fruit leathers**, focused at the better educated middle-class mother that is seeking a school lunch/snack product that has the attributes of the "unprocessed" dried fruit, but the attractiveness required to get children to accept, eat and enjoy the product. For the LAC manufacturer, the product ingredient is a fruit pulp or paste that could include the fruits identified above plus guava and Barbados cherry (acerola).

c. **Tropical dried fruit "bits"**, for inclusion, in particular, in breakfast foods such as toaster pastries, hot and ready-to-eat cereals. In very recent years, consumer health concerns have spawned a proliferation of oat/bran ready-to-eat cereals (in 1989, 282 new products were introduced on the basis of "oat bran added," of which half were largely targeted at the breakfast market). Concern about fiber content of food has been paramount, yet bran **per se** is an unequivocally dull food. Market opportunities are strong for natural exotic fruit additives to high fiber breakfast cereals; if any strong claim on fiber content for the fruit can be made, then so much the better (the high fiber content of prunes has caused the market to strengthen substantially for this traditional product, particularly from consumers in the 45+ age group).

d. In addition, markets are opening for **"unusual" grains** and **pulses** that have **bona fide** health claims. Psyllium, an Indian sub-continent grain which, ostensibly, has cholesterol-reducing properties, offered strong potential in the premium end of the breakfast product market patronized by well-educated younger,high-income consumers in 1988, but the health claims were unsubstantiated and the product sank from view in 1989.

Dried lentil, pea and bean sales (US$100 million in 1989) increased by more that 12 % in 1988 and 1989, reflecting the high fiber content of these items which prompted strong purchasing and the growing importance of Hispanic consumers (pulses are regularly purchased by these consumers). Certainly, there are strong market opportunities for exotic pulses and, particularly, those that look different from the run-of-the-mill peas and beans or have unusual characteristics or properties. For example, nuna beans are grown at high elevations in the Andes and have the characteristic of "popping" when heated rapidly, suggesting that, potentially, a market exists for an exotic "popbean" snack.

## Pre-prepared Entrées

One striking trend in new product introductions over the past five years has been the rate of growth in meal entrées, i.e., pre-prepared multi-ingredient meals that, after heating, are ready to eat. The trend is a result of the manufacturers' response to consumer demands for more convenience, coupled with the advent of the micro-wave age and technological advances that have substantially increased the quality of pre-prepared meal products.

In 1989, close to 10 % of new food products were meal entrées --of which half were frozen, one-third in shelf-stable packs and the remainder refrigerated but not frozen (incidentally, a mix that covers three distinct supermarket food categories); all these new products were "micro-waveable."

New products on the leading edge are:

a. Low-calorie entrées for the weight-conscious.

b. Entrées that are aimed specifically at children, such that children with both parents working away from the home can prepare their own major meal of the day by simply operating the micro-wave oven.

c. "Lite" international entrées that allow consumers to try exotic ethnic meals at home rather than in the restaurant.

The market opportunities for LAC firms in this product sector are largely for ingredients that are included to make the final retail product. Spices and flavoring agents that are characteristic of popular ethnic meals are examples. But, increasingly, manufacturers will wish to claim that the entrée ingredients are "fresh" or, at least, to use the oxymoron that has entered the vernacular of the food trade, "fresh frozen." Individually quick frozen (IQF) mini-vegetables and frozen (rather than dried) herbs and spices such as cilantro/coriander (for Latin American and Asian food dishes) will be ingredients in strong demand by North American food manufacturers.

**Delicatessen Items**

A wide range of food products are sold via the deli counter, with "cold cuts" (precooked, sliced meats) and cheeses predominating, but, increasingly, hot and cold full meal and snack items expanding in sale importance.

Approximately 70 % of all supermarkets in North America operate a "deli" within the store and, particularly within the past couple of years, deli sales growth has outstripped supermarket sales in general (deli sales were about US$7 billion in 1989, 2.7 % of total supermarket sales). The sales growth has been fueled by the sharp increase in the number of pre-prepared meal items (now accounting for more than 20 % of deli sales), a trend discussed earlier in this section. Some major chains have even established a food service outlet within the store; for example, Safeway Stores in northern California have in-store Chinese food "take-out" counters that are distinct from the deli counter. However, the pre-prepared deli items with the most potential are cold items:

a. Cold entrées that can be micro-waved for immediate consumption as hot meals at home.

b. Traditional, nouveau and exotic salads.

c. "Ready-to-heat" gourmet soups.

While some supermarkets opt to prepare their own food service deli items, increasingly specialist food service companies are the principal deli product suppliers: Orval Kent Signature Salads, EZ Cuisine of Blue Ridge Farms, and the Quality Food Service Division of Campbell Foods.

As in the previous product category, the opportunities for LAC agro-industrial firms in the deli foods sector of the marketplace stem from the increasingly international character of the pre-prepared food items with the specific market opportunities being for "exotic" ingredients such as:

a. "Fresh frozen" herbs such as cilantro (coriander), oregano, and marjoram.

b. Pre-prepared salsa products, with unique combinations of herbs, spices and seasonings, for meat and fish dishes.

c. High-value processed fish products of the surimi type (shrimp cakes, crab backs, etc.).

d. Fruit chunks, preserved in their own juice, for inclusion in tropical fruit salads.

e. Unusual fresh vegetables (e.g., Andean blue potatoes) for inclusion in tropical vegetable salads.

f. Finally, greater value-added opportunities may exist for the LAC firm that focuses on product opportunities in the U.S., Caribbean and Hispanic consumer niche markets. For example, merchandising pre-prepared entrées and snacks that are unique to certain LAC national groups through supermarket chains and food service outlets that have a large Spanish-speaking clientele (XTRA Super Food Centres in southern Florida, for example, have a strong retail profile in the state and 70 % or more of its customer base is of Latin American ethnic background).

Notwithstanding the interesting market prospects that emanate from the growth in demand for pre-prepared deli meal items, the mainstay of deli sales are cold, processed meats (accounting for around 40 % of product sales in the deli category). Surmounting the regulatory hurdles for meat items into the North American market requires considerable corporate resources; however, opportunities do exist for LAC meat processing firms. Initially, the best avenue is via the food service distribution network with a product such as traditional roast beef, sliced for the sandwich trade (preferably with a low-salt, low-fat claim --low fat being a justifiable claim for grass-fed Argentinian beef), packed in a gas-flushed, environmentally protected package (e.g., using the innovative "CapTech" technology) and shipped chilled (not frozen), with the product launch timing, preferably, being in the quadrant of the North American beef cycle characterized by lower supplies and higher prices for beef products (to give the new market entrant a relatively high price base and time to establish a reputation for quality and reliability which can give some buffer when prices decline).

## Sauces and Dressings

At the retail level, whereas the "sauces and dressings" product category accounts for less than 2 % of total store sales, it has shown consistently high sales growth over the past five years, it does account for more than $4 billion in total sales; consistently, the category spawns a very high rate of new product introductions. The category is a product "catch all" including ketchup, mayonnaise, salad dressings, spaghetti sauces, Mexican sauces, meat sauces, mustards, and hot sauces (incidentally, accounting only for 1 % of category sales, but showing a sales growth rate double the category average).

From a LAC firm perspective, burgeoning marketing opportunities for flavorings and seasonings arise from increasing consumer interest in new food experiences as personified by new/exotic sauces on traditional North American fare and new international dishes **per se**.

Pasta products are increasingly the carbohydrate "vehicle" for consuming traditional and exotic sauces both made in the home and pre-prepared. U.S. per capita consumption of pasta doubled between 1972 and 1989 (from 8.6 lb to 17.7 lb). Factors that explain the expansion of pasta consumption in the USA include the growing consumer acceptance of "continental" dishes and that pasta –a product low in fat and a good source of complex carbohydrates– is perceived as a healthy and nutritious "filler."

Competition in the pasta product category in North America is intense, characterized by a high rate of new product introductions, and not a high potential area for LAC firms. The market opportunities for LAC firms, however, are in providing ingredients and/or sauce bases for products that accompany pasta (e.g., side dishes, pasta and sauce mixes), product areas which, increasingly, are the province of major North American food manufacturing firms such as General Foods, Hershey, CPC International, and Kraft/RGR Nabisco.

**Savoury Snacks**

Savoury snacks –including chips, savoury popcorn, crackers, corn/tortilla chips, etc.– accounted for more than 10 % of new product introduc-tions in 1989 and had supermarket sales alone of more than US$4 billion in that year. The addition of new flavors to existing snack products underpins the strong sales growth in this category, and thereby establishes the area of high- potential market opportunities for LAC firms: providing **natural** spice and flavoring mixes to the snack manufacturing trade in North America.

The North American consumer is the world's greatest snack consumer –eating snacks is an integral part of almost every social activity (watching sports, T.V.) and, while the consumer eats them because he/she likes them knowing that snacks are generally less than healthy foods, absolutely any health/nutritious claim (such as "all natural ingredients," "no cholesterol," etc.) helps to assuage the nagging guilt associated with pervasive snacking!

A good start for a LAC firm seeking market opportunities in the snack and/or sauces and dressings sector of the North American food market is to identify local/regional/national flavors, sauces, processed products that have unique characteristics and are little known outside its domestic market and that support product claims of "naturalness," quality, "newness," and/or a cosmopolitan and exotic image. Indicative product types would include:

a. Trinidadian and Barbadian seasoning sauces (particularly for fish and chicken), with strong emphasis on processed fresh herbs and shallots.

b. Jamaican "jerk" sauce products, in a mild form for the tentative consumer seeking a tasty but not too spicy meal experience that will recall memories of past Caribbean holidays, and a "full strength" version for the aficionados and those seeking to be acknowledged as cosmopolitan, epicurean risk-takers!

c. Liquid hot sauce products from a range of LAC countries, each with characteristics that will appeal to a particular target group (e.g., appealing specifically to the ethnic Mexican consumer through a unique flavor redolent of "home," an "easy-to-dispense" container that would appeal to the hotel and restaurant trade).

d. The aforementioned "popbean" snack product.

Interestingly, retail sales of spices and extracts have barely kept up with the rate of sales growth in the supermarket sector as a whole in recent years (5.2 % in the latter half of the 1980s). While this may appear surprising at a time when consumer interest in "exotic" eating is buoyant, it reflects that most North Americans do not know how to use spices and prefer that the food manufacturer include them in ready-prepared products rather than use them as ingredients themselves.

Notwithstanding this relatively slow growth, over 100 new spice products were introduced in 1989 in a market dominated by some major manufacturers and packers (with McCormick & Co. the market leader). These observations underline the relative attractiveness of merchandising spice/herb mix ingredients to the North American food product manufacturers, rather than competing on the slow growth spice retail market that is characterized by strong competitive pressures from the dominant firms.

### Juices and Fruit-Flavored Drinks

Retail sales of juice and fruit-flavored drinks in the USA exceeded US$7 billion in 1989. Of this total, more than half were from sales of juices from the "dry grocery" product category, i.e., tinned, bottled, or aseptically-packaged products that are not refrigerated; one-quarter were from sales of refrigerated, but not frozen, products in glass bottles, plastic containers, and waxed cartons; and one-quarter were juice products in the frozen form, concentrated for subsequent dilution in the home. The juice category is dominated by orange, apple and, to a lesser extent, grapefruit and other citrus juices, grape and cranberry juices.

In this huge sales category, even a small market share can translate into substantial dollar volume sales for the minor product suppliers. For example, pineapple juice sales at retail exceed $80 million in North America (although, this is not a high growth rate juice product). On the "dry grocery" shelf, "other fruit juice" sales –which include the composite group of tropical fruit juices (mango, guava, passion fruit, "tropical punch," etc.)– grew by 21 % in 1988 and 1989, four times the category growth rate and have total sales of close to US$300 million.

Further, in the premium refrigerated drinks part of the market and in the premium bottled "dry grocery" component, products with tropical fruit juices as major ingredients are increasingly in evidence, for example:

a. In the high per capita income Californian market area, products comprising blends of tropical juices (in particular, mango, guava, banana, pineapple supported by citrus and apple juices) are now consistently available in the refrigerated drinks section of all the major retail chains.

b. The marketing arm of the cranberry producers' cooperative that dominates the cranberry juice market in North America (Ocean Spray) has expanded its range of cranberry juice and other juice mixes to include guava, passion fruit, papaya and other tropical fruit juices.

c. Market growth for "specialty" juices has not been confined simply to exotic, tropical items; there has been a marked expansion in sales of berry juice products, particularly raspberry and, to a lesser extent, boysenberry and blackberry.

No doubt, sales growth in the "non-citrus juice" segment of the juice market was helped in the last few years of the 1980s by consumer concern about pesticide contamination of apple juice (the "alar" issue), although increasing consumer interest in exotica and willingness to try new products have been the major forces driving sales growth. Certainly at the retail level, there is increasing concentration of juice suppliers in this crowded market (including such corporate giants as Coca Cola, Proctor and Gamble, and General Foods), making it difficult for the small- to medium-scale processor to enter directiy this component of the juice market.

Large as the sales of juice products are at retail, this category is dwarfed by sales of "soft drinks and mixes" which had sales of over US$10 billion in 1989. This is the category that has international product groups such as Coke, Pepsi, 7-Up, and Sprite as its major players. Perhaps surprisingly, there are growing market opportunities within this "mega-category" for the LAC agroindustrial firm --specifically, as a supplier of interesting unusual juices to North American firms producing seltzer drinks mixed with real fruit juices. The target market consumer has been characterized by one trade member as the "tennis-playing set;" a neat label to describe the young- to middle-aged middle class and above consumer, concerned about health, nutrition and, not least, personal image that would be embarrassed to be caught by his/her peer group with a bottle of Diet Coke at hand (and would consider Cherry Coke as an unequivocal indicator of lower social class)!

One example of a non-North American company that targeted the seltzer and juice product area with precision in recent years is that of the Australian firm that introduced a range of tropical juice products under the "Koala" label. Passion fruit, mango, guava juice mixed with seltzer were introduced with substantial success. Initially, the company supplied the entire product from Australia, but very quickly, on noting the degree of sales success, opened bottling outlets on the North American continent.

While the higher-volume end of this business may be for the better-known tropical juice products, the market is so huge that substantial opportunities could exist in particular niche markets for juices relatively unknown in North America such as naranjilla, sorrel, babaco, and guyabama.

## Ice Cream, Yogurt, Desserts and Toppings

Close to 10 % of new food products introduced into the North American market in 1989 were ice creams, yogurts, desserts and top-pings, and this was notwithstanding the lack of congruity between these "forbidden fruits" and consumer concerns about fat, cholesterol, sugar, fiber --let no person come between the North American consumer and his or her dessert!

In fact, manufacturers have responded to consumer wants for traditional desserts that have less fat and cholesterol, and sales of iced milk and frozen yogurt products have increased markedly, whereas all but the premium end of the ice cream market has been relatively flat (per capita yogurt consumption, at 4.6 lb in 1989, was six times higher than it was in 1970). Indicating both the importance of this overall category and its recent rate of sales growth is that shelf-space "footage" provided to products in the ice cream category more than doubled between 1983 and 1988.

The market opportunities for LAC agro-industrial firms in this category are for flavorings, essences, juices and fruit purées and chunks of fruit items that are not grown in North America. The potential customers of the LAC firms include:

a. The North American and international firms that produce flavours and essences for the food industry.

b. Juice, purée, nectar and fruit ingredient blenders and brokers.

c. The manufacturers of ice creams, yogurts, desserts and toppings themselves.

The target market final consumers of final products can be characterized as "baby boomers," now aging and seeking "light" dessert products that offer attributes such as "all natural fruit ingredients," "cosmopolitan and exotic taste," and "no artificial flavorings." The specific LAC products include those identified in the previous section (Juices and Fruit Flavored Drinks), plus others such as sour sop purée/nectars, tropical fruit chunks packed in natural juices, and even aloe products (with the health claim that aloe can reduce the risk of stomach ulcers). At the retail level, products such as "tropical fruit salad" have advanced many leagues from the days of canned tropical fruit mixes dominated by pineapple. Now, innovative packaging, such as transparent plastic containers, merchandised refrigerated (but not frozen) have raised this product type from the institutional food level to the premium end of the dessert product market.

Interestingly, the growing consumer concern in some market categories to establish a defined image for the consumer through the food items he/she eats (e.g., eating little-known tropical products to establish that the consumer is cosmopolitan, well-educated, epicurean) may well open up market opportunities in the hitherto closed baby food product category. Not only do the parents wish to enhance their image in the eyes of their peers, but they also want their infants to be perceived likewise. Again, tropical fruit purées, and nectars can find an important niche market in this product area, as long as they are channelled via the principal manufacturing firms that have the confidence of the buying public (Heinz, Gerber, Beech-Nut, Nestlé/Carnation).

### Specialty Beverages

Even within declining sales categories, there are distinct market opportunities for LAC firms; specialty coffees are a case in point. Retail sales of ground and whole bean coffee have shown no growth in recent years and, in Europe and North America, per capita coffee consumption has declined (the International Coffee Organization estimates that coffee drinkers have reduced consumption from 4.2 cups per day in 1962 to 3.3 cups in 1988).

However, specialty coffees showed modest sales growth during the 1980s. Perhaps the best example of product differentiation for coffee is that shown by Jamaica's Blue Mountain coffee: in North America, the retail price for Blue Mountain coffee is, generally, above US$20 US per lb, and US$8-10 per lb. higher than equivalent quality varieties. The Blue Mountain coffee crop is purchased virtually in its entirety by one Japanese buyer, who has combined clever merchandising, building on the well-established consumer image of Blue Mountain coffee, with strict quality control and total supply control to create a high margin niche in the specialty coffee market.

While retail sales of loose/bulk tea and tea bags have declined in recent years (loose tea sales fell by over 10 % in 1988 compared with 1987), sales of specialty teas and herbal teas have shown sales growth greater than the store average (although only 2 % of the coffee and tea sales category, specialty and herbal teas have combined sales of almost US$100 million in North America).

One U.S. company that has been in the borefront of market development for herbal teas is Celestial Seasonings (now owned by General Foods). It has focused on consumer concerns about health and targeted those consumers that consider caffeine-based drinks such as tea and coffee anathema. Herbal tea ingredients are a product area worth developing by LAC firms, particularly if a principal ingredient can be identified that has a strong sales story (Mayan/Inca historical linkages, traditional healing properties, etc.).

Per capita consumption of beer declined in North America from 24.3 gallons in 1980 to 23.3 gallons in 1988 --a downward trend driven by consumer concerns about health and successful campaigns against drinking and driving. However, both the number of imported beers available at retail and their sales volume increased sharply through the 1980's. The Mexican beer Corona is the second major imported beer in the USA (Heineken has first position) and holds a 15 % imported beer market share. Its success is explained by having expanded sales to "captive" Mexican Americans and upper income, professional, urban-based male Americans seeking to be associated with a "signature" drink (in this case, a foreign beer that requires manipulating a slice of lime prior to imbibing, and that evokes an image of "man-of-the-world," "cosmopolitan," "beer aficionado" in the minds of certain consumers).

The specialty beer category can offer the LAC brewery sector strong market opportunities if the beer produced can be differentiated from the competitive crowd through, for example, interesting packaging (flip-top glass bottles, etc.), and/or associated ritual (on the lines of stuffing the lime slice into the Corona bottle), or linking consumption of the beer with particular special occasions (e.g., the "birthday beer").

## Cosmetics and Pharmaceuticals

In an earlier section, the importance of the cosmetic and pharmaceutical industries to suppliers of flavorings and essences was identified. This is a rich area of market opportunities for LAC agro-industrial firms and has been growing because of the increasing interest of North American consumers in health and beauty aids that are based on "natural" ingredients.

The extraordinary success of the Body Shop franchise company is one example of how North American and European firms have responded to the escalating market opportunities for "natural" products. The retail shelves of the Body Shop outlets are festooned with soaps, perfumes, creams and emollients that contain, for example, avocado, almond, passion fruit oils and essences, extracts of papaya (Papain), aloe, and other exotica. "Over the counter" medicines that are "natural" hold strong attraction for the consumer, particularly those that pertain to alleviating problems of the lower bowel ("natural" laxatives); as do products such as natural dyes, using extracts from the roots of plants or dried herbs for dyeing fabric or "modifying" the color of the consumer's hair.

In these product categories –cosmetics, medicines– consumer knowledge of and trust in the manufacturing company are key determinants of purchasing behaviour. As such, opportunities for the LAC firm are, more likely, in providing key ingredients to a final product that is manufactured by a well-known and well-respected North American-based company.

A summary table is presented below that identifies the extent to which the products designated as showing strong market potential for LAC agro-industrial firms meet the key criteria for achieving export market success in North America. Commercial profitability for the firm has not been addressed as this all-important variable will be scored differently by each firm, and will vary by country and region.

**Table 2. High-potential product categories for LAC firms in North American markets and their relative strengths key: criteria for attaining export market success.**

| | Dried fruits | | Fruit juice products | | | | | |
|---|---|---|---|---|---|---|---|---|
| Product criteria category | Fruit Leathers | Tropical Fruit Bits | Tropical juices (S/S, Concs.) | Berry juices (S/S, Concs.) | Purees, nectars tropical/ berries | Fruit essences | Tropical fruit chunks frozen/ packed in juice, etc. | "Fresh" frozen gourmet vegetables and herbs |
| Expanding demand category? | | X | XX | XX | XX | XX | XX | XX |
| Consonant with major market trends? | X | XX | XX | XX | XX | XX | XX | XX |
| LAC consumer niche market in North America? | | | X | | X | X | X | |
| Tarjet market accessible & commercial scale? | X | X | X | X | X | XX | XX | XX |
| Has production potential in LAC region? | XX | XX | XX | X | XX | XX | XX | XX |
| LAC-side supply constraints manageable? | X | X | X | X | X | X | X | X |
| Export market-side barriers to entry manageable | | | | | | | | |
| – government? | XX | XX | XX | X | X | X | X | X |
| – private trade? | X | X | X | XX | X | X | X | X |
| Opportunity to differentiate product with appropriate technology, innovative processing & packaging? | XX | X | XX | X | XX | X | XX | XX |
| Offers LAC attractive economic benefits? | XX | XX | XX | XX | XX | XX | XX | XX |
| Profitability for firm looks attractive? | | | | | | | | |

Table 2. High-potential product categories for LAC firms in North American markets and their relative strengths key criteria for attaining export market sucess (Continued).

| Product criteria category | Exotic grains and pulses | Pre-cooked, sliced deli meat | Surimi processed fish products | Exotic sauces & sauce ingredients | Natural spices & flavoring mixes | Speciality coffees | Speciality – & herbal teas | Niche products for LAC consumers in North America | Natural ingredients for cosmetics and pharmaceuticals |
|---|---|---|---|---|---|---|---|---|---|
| Expanding demand category? | XX | X | XX | X | X | X | X | X | XX |
| Consonant with major market trends? | XX | X | XX | X | X | X | X | | XX |
| LAC consumer niche market in North America? | X | | X | XX | X | | | XX | |
| Target market accessible & commercial scale? | X | XX | X | X | X | X | X | X | XX |
| Has production potential in LAC region? | XX | X | X | XX | XX | X | X | X | X |
| LAC-side supply constraints manageable? | X | X | X | X | X | X | X | X | X |
| Export market-side barriers to entry manageable | | | | | | | | | |
| – government? | X | | X | X | X | X | X | X | XX |
| – private trade? | X | X | X | X | X | X | X | X | X |
| Opportunity to differentiate product with appropriate technology, innovative processing & packaging? | | XX | XX | XX | | | | | |
| Offers LAC attractive economic benefits? | X | XX | XX | XX | XX | XX | XX | XX | XX |
| Profitability for firm looks attractive? | | | | | | | | | |

Source: Deloitte & Touche, Canada. Inter-American Institute for Cooperation on Agriculture.

# 2. SUGGESTIONS FOR LATIN AMERICAN EXPORTERS OF TROPICAL FRUITS TO THE NORTH AMERICAN MARKET[2]

Most Latin American and Caribbean (LAC) countries are interested in expanding their non-traditional exports. This interest tends to focus on agricultural products due to the socio-economic impact of this market locally and the proven export growth of countries such as Chile. LAC officials from export promotion agencies agree on the enormous world market potential for tropical fruits. The almost non-existent customs tariffs for exotic fruits in countries such as Canada, USA and the European Economic Community supports this venture.

However, financial statistics show that these markets are virtually untried. The real demand needs to be developed in Latin America and in the international marketplace. Production capacity alone is not sufficient to support commercial exports. Market development and promotion emphasizing the value of exotic fruits is required to change negative attitudes and perceptions and to consolidate these exports. Production sources need to be increased and an aggressive marketing strategy is required to develop markets. The business potential is for agricultural exports is enormous if the strategy is carefully planned for the long term. It is unrealistic to expect results in the short term.

An example is the introduction of the New Zealand kiwi fruit on the North American market. It took almost 20 years to make kiwi fruit acceptable to North American consumers. This effort required increasing production levels and significant investments in marketing promotion and advertising. The impressive growth of Chilean fruit exports is another

---

2 This article was prepared by Emilio Portocarrero from Deloitte & Touche - Agro-industrial International Division, Canada; for the agroindustrial joint venture promotion project executed for the Inter American Institute for Cooperation on Agriculture (IICA) and financed by the Government of Canada.

example which reflects the same long-term planning —more than 15 years of effort to develop a viable market.

During the past few years, LAC countries have diversified exports, concentrating efforts and investments in the agriculture sector. The strategic geographical location of some LAC countries, their climates, land availability and other resources have given some crops competitive advantages in the international market.

Success in fresh fruit exports requires careful planning of the production-export-distribution-consumption process to avoid problems. For example, to achieve excellent market perspectives requires an adequate supply of produce, appropriately developed for quantity and quality. Production efforts are often negated due to inadequate post-harvest practices, such as improper packaging and storage. In some cases, this could mean harvest losses of up to 50% or more. An inadequate export supply is another factor restricting the interest of importers. When breaking into a selected market, an appropriate distribution system must be organized and an adequate supply provided to maintain consumer interest in the product. Investment in advertising and market promotion must be made to maintain and expand consumption levels.

### It is possible to export to the USA and Canada?

It is possible to export to the USA and Canada; however, short-term results will not materialize unless the firm has produce that is ready for export and enough resources to develop the market. Fruit production development can take anywhere from 3 to 10 years depending on the selected variety. The North American market requires supplies in large quantities that, for the most part, exceed the production capacity of individual LAC firms. A large organization is required to increase the level of production and consolidate the export supply. This is difficult to achieve in some cases due to the independent views of businessmen. If benefits of associations for sharing expenses and enjoying profits are clearly understood, it is possible for LAC countries to export to the USA and Canada.

Another viable option is to seek foreign partners to obtain technology and knowledge of market systems and to develop joint ventures. The Agro-industrial Division of Deloitte & Touche offers relevant expertise to exporters. Currently, it is executing a project for the Inter-American Institute for Cooperation on Agriculture (IICA).

Exotic fruits can not be sold like commodities. Most are still unknown, but some products with special physical attributes can get premium prices. One of the barriers for LAC export expansion is the small supply of exports. The best economic opportunity for LAC exporters is for them to identify small market niches of US$5-10 million which are unattractive to large North American firms because of the low dollar value. Also, some experts in exotic fruit markets –such as Frieda's in California– recognize the market potential of new exotic tropical fresh fruits.

Some large distributors of fruits for processing flavors and ingredients have difficulty coordinating market development between divisions. For instance, the **research and development** (R&D) department is often not aware of developments within the **marketing department**, while the **marketing department** is not cognizant of future initiatives within **R&D department**. This presents an excellent opportunity for LAC firms to liaise with flavor processors to develop new prototypes of fruit preparations and coordinate activities with the **marketing** division.

Another point that requires special attention is transportation. Many countries have restrictions with respect to excessive freight costs or lack of frequency and availability of space in planes and ships. For example, exporters to Canadian markets usually have to ship their products by sea freight to Miami or New York, and from there, depending upon the product, by plane or truck to Toronto and other Canadian cities. Some countries have solved this problem by coordinating transport policies and cooperation of transport firms through user's committees. This approach can significantly reduce freight costs in situations where transport firms have the assurance of sufficient cargo to economically justify new routes or lower freight rates.

## The Current Market

In the USA, the per capita consumption of fresh fruit has increased from 90 lb in 1980 to 96.75 lb in 1989. The percapita consumption of citrus fruits decreased from 28.8 lb in 1980 to 24.3 lb in 1989. As an alternative product for vitamin C, kiwi fruit has substituted consumption of high-priced oranges. The non-citrus fruits increased from 61.1 lbs in 1980 to 72.1 lbs in 1989. The total production was 29,843 tons with a value of US$7.7 billion.

The per capita consumption of fruits in the USA is still low in comparison to that of France (115 kg/year) or Italy (172 kg/year). This indicates that the market has great potential.

The most popular fruits are apples, peaches, pears, strawberries and other berries. These are followed by banana, pineapple, oranges, grape-fruit, kiwi, papaya, and tangerines. Exotic fruits, which generally come from less developed countries, have a demand in growth primarily in market segments of educated, high-income individuals. Ethnic groups such as the North American Hispanic population and other groups have also influenced the increase in consumption.

Also important to consider are those Florida and California growers interested in cultivating new, exotic fruits. Although these are small-scale operations, their crop production does compete with similar exports from LAC countries and hence should be considered by the LAC exports when initiating an export market venture.

**Where are the opportunities?**

***The market niches***

Two market segments are of interest to LAC exporters

a. Fresh tropical fruits

b. Fresh tropical fruits processed for direct consumption or as ingredients for the agri-food industry.

In order to develop fresh processed fruits, sufficient supplies of fresh fruit are mandatory. In developed countries, processors usually obtain their fruit supplies from stocks which do not meet quality standards and export requirements. Fresh and processed fruits exported from LAC will complement those needs.

The most attractive and active fruit market in North America is the exotic tropical fruit market. This recent trend is gradually increasing its share of the market. Some retailers are expanding their exotic fruit sections, emphasizing the novelty, freshness, health and naturalness of these products. A marketing strategy for tropical fruits is critical for market growth because it is a very competitive market. Sales tend to evolve from small quantities of almost unknown curiosities to large quantities for consumption, once consumers understand and like the products.

The "**preliminary**" work is done by brokers specialized in exotic fruits. Through aggressive promotion campaigns in specialty stores, brokers promote product awareness and trials. When product sales become stabilized, these brokers turn to other products and allow major distributors to enter the market. This situation occurred with kiwi fruit. When kiwi fruit became popular, other large firms such as Chiquita (formerly United Fruit) launched its own kiwi fruit product line with the Chiquita brand label.

Another group that makes an effort to introduce new fresh products to the market is The New Zealand Fruit Company, created by several producers organizations. This company markets apples, pears and kiwi fruit. They aggressively promote the "country of origin" as an important factor in the marketing campaign. "Colombian coffee" is another example of this type of marketing. Ethnic communities and food preparation operators also have had a strong influence in increasing the popularity of "Colombian coffee".

### *The appropriate harvest period*

Prices fluctuate, especially during harvest time. For example, the price of a box of 20 lb of honeydew melon imports from Central America was US$11-US$12 around the middle of January 1991; at the end of January the price decreased to US$9- US$10; and by the middle of February had decreased further to US$4-US$7.

Such a wide price variation adversely affects the profitability of any exporter. Therefore, if the exporter wishes to reduce his risks, the harvest has to be scheduled for the least competitive period. This is a critical area that many exporters fail to research. Some think that their product is the only one on the market. It is wise to be aware of other competitors in the world that efficiently produce similar products and when these are likely to be on the market.

### *The Hispanic market in the USA*

Cities such as Los Angeles, Miami, and New York have large Hispanic populations. This group is familiar with agricultural products from LAC countries and is interested in purchasing such products. Many large retailers sell to this group. For example, Goya Foods sells more than US$ 200 million per year to the USA Hispanic market and a significant proportion of these sales are in fresh products.

The main advantage to selling to Hispanic and other ethnic groups is the sentimental appeal of these products. Promotion expenses for these products can also be lower than that for new products because product awareness and demand are already established.

***The regulations***

Tropical fruit imports in Canada do not require phytosanitary permission; however they are not exempt from Agriculture Canada inspections. If, during the inspection, the samples contain residues of additives and pesticides or inadequate sanitary conditions, the complete shipment will be destroyed.

Strict regulations regarding levels of residual additives and pesticides permitted exist in Canada because many chemicals used for agricultural purposes in Latin America have been banned in Canada. Still, many tropical fruits do not have specific regulations in Canada or the USA because they are virtually unknown. They must, however, meet general regulations for packaging and labelling.

As a result of transportation routes, many import products to Canada must go through USA ports of entry first. In these cases, shipments must meet USA phytosanitary requirements.

The APHIS inspection service office of the US Secretary of Agriculture requires an authorization for most agriculture imports. This office keeps lists of approved products for entry into the USA by country. These lists are always changing, as products are added and removed. There is a pre-clearance program for inspections in the country of origin before goods are shipped to USA. The fee for this pre-clearance program must be paid by the country of origin. The US Food and Drug Administration (FDA) is in charge of regulations and inspections with regard to levels of pesticides, other residues, and for appropriate labelling.

## SOME SUGGESTIONS TO THE EXPORTER

When selecting a product for agricultural export, the LAC firm should consider the following points:

a. **The product must have an intrinsic advantage over other substitutes.** This may be flavor, appearance, natural properties, profitability, or other factors. It is important to recognize that the product is not likely to be the only one in the world. There are products in Asia and Africa that, while there may be some variation, are essentially very similar to those from LAC countries. If competing with exporters from other countries, it is advisable to harvest in a different period of the year and avoid saturating the market. The fewer the competitors at the time the product reaches the market, the more stabile prices and profits will be.

b. The relationship of transportation costs to the value of the product must be favorable for the exporter. **International market prices must be attractive enough to LAC exporters** to cover all related export costs, including high transportation costs.

c. The North American market is too large for any individual LAC exporter –with respect to size and resources required to achievea large market share. A successful marketing strategy requires concentration of efforts in the right direction. Usually, LAC firms have very limited resources for adequate penetration of a new export market. Therefore, when **selecting a specific market niche**, the LAC exporter should carefully consider total costs and resources required to achieve the expected results. Many LAC exporters fail due to unrealistic expectations and poor allocation of resources.

d. **The export supply must be attractive enough to interest the importer**. For example, a one-year supply of a new fresh fruit product for the North American market totalling US$ 50 000 may not be an attractive business for the typical North American importer. However, several LAC exporters joining to supply US$ 1 million of the same type of fresh fruit justifies the small expense in promoting and advertising on the part of the importer. This type of joint venture can support future sales growth.

e. **The procedures for obtaining the phytosanitary clearance from offices in charge of regulations and inspections** (USDA-APHIS, FDA, among others) **take time and should be initiated well in advance**, even if the product will be exported the next year. For example, after investing a considerable amount of money and several years of effort to develop an export supply, a South American fresh fruit exporter discovered that his product did not have the phytosanitary approval required when he wanted to send his first shipment to the USA. Working with USA authorities, the procedure took an additional two years to complete. This not-to-be-forgotten task was very expensive to his firm.

f. **The product must be accepted by the consumer.** It is important to make consumer trials. This can be achieved with the cooperation and support of distributors and importers. Product presentation is also important. This requires an appropriate package design, for handling and transportation and for product presentation at the retail level. For instance, purchases and prices of exotic products at the Toronto Food Terminal are strongly influenced by packing and presentation. The package attracts the consumer to the product and is a powerful marketing tool in addition to protecting the product during transportation and handling.

g. **It is worthwhile exploring the possibilities of commercial partnerships and joint ventures** with companies already established in the market and having their own distribution networks.

h. **Once shipments begin, the exporter must strictly fulfil all the phytosanitary requirements**, regulations on pesticide and chemical residuals, and packaging and labelling. If the exporter does not maintain accordance with these regulations, the authorities will impose a monetary penalty and destroy the complete shipment.

i. Launching new products to the North American market is not an easy task. **Therefore, large profits should not be expected in the initial stages of business development.** It is normal to sacrifice initial margins and allocate a reasonable amount of money to sales promotion and advertising campaigns. Exporting is a long-term business venture.

## TECHNICAL ASSISTANCE

Those exporters interested in joint venture participation may receive some support from the project that is currently executed by Deloitte & Touche and the Inter-American Institute for Cooperation on Agriculture (IICA). More information on this project is available through IICA Offices in its member countries.

# 3. JOINT VENTURE FORMULATION BETWEEN LATIN AMERICAN AND CARIBBEAN (LAC) FIRMS AND NORTH AMERICAN (NA) FIRMS[3]

## The need for a "Joint Venture"

Forming a joint venture (JV) requires many resources on the part of both partners, especially from the firm initiating the venture. Furthermore, JVs require the involvement of the owners of the business, because they ultimately have to make the hard decisions. Thus, the first step in forming a joint venture is to understand why this particular business at this point in time requires the participation of another, outside firm, which in turn forces the owners to situate their firm in an overall competitive environment. Several global reasons exist which are pushing most firms to at least contemplate such an undertaking:

a. There is a growing interconnectivity between all economies of the world, including Latin American and Caribbean (LAC) countries. The shrinking world within which companies operate virtually forces them to look for new sources of supply, new markets, and new resource bases.

b. Expanding technology is intensifying competition, and research and development in itself is a major area of cooperation between companies. LAC firms which operate with old, second-class

3 This article was prepared by Vernon Smith, Deloitte and Touche consultant for the Latin American and Caribbean agro-industrial joint venture promotion project, financed by the Canadian International Development Agency (CIDA) as part of the technical assistance program for the Inter-American Institute for Cooperation on Agriculture (IICA).

technology suddenly find themselves unable to compete even within their own domestic market.

c. World markets are integrating. This trend presents a golden opportunity for firms as new markets become accessible and new products are demanded. Conversely, world integration means that competitors can more easily access domestic markets in LAC. As an example, roughly three-quarters of the U.S. market is now subject to foreign competition. If GATT is successful, this world integration will be further advanced; if not, then at the very least there will be regional integration (see, for example, activities for a North American Free Trade Zone, CARICOM, the Andean Group, and the Mercosur).

d. Companies are realizing that they cannot do everything required to be internationally competitive. Firms find themselves unable to capitalize on their strengths (and thus lose opportunities for expansion) or they have unresolved weaknesses (which might not even be acknowledged until competition has exploited them). Thus, the key word for joint venturing is **cooperation** with other firms or groups. In many instances, this cooperation extends to working with competitors.

In sum, a firm needs to understand what the possibilities are, both to protect its own investment and to take advantage of new opportunities. Anything which will increase revenue and decrease costs per unit of output and which will allow the company to grow is worthy of consideration.

## The external business factors

The majority of strategic alliances usually occur between firms from one country or region. When considering relations between LAC and NA firms, both sides need to assess the operating climate within which a joint venture will take place. In some cases, the NA firm will have previous experience with the way business is done in LAC, but in other cases this will be a new experience. And what is common in Latin America may be unusual in the Caribbean.

### *Political considerations*

All business decisions will take these political factors into account:

a. Is the political framework stable?

b. How are the relationships between government and private enterprise conducted?

c. What are the dangers of expropriation?

d. Are local companies and citizens treated more favorably than are foreign companies (or local companies with some foreign ownership)?

e. Is foreign investment encouraged or not?

A negative assessment on any one of these factors may cause firm to look elsewhere.

### *Economic considerations*

A country's general economic health and management are also important:

a. How is the overall economic performance of the country, and what are the long-term trends?

b. Is the currency strong, and how is foreign exchange handled?

c. What is happening with the country's inflation? With the deficit? With taxation policy? With the savings rate?

d. What is the level of infraestructural development and the general economic sophistication of the country?

e. What is the policy with regard to trade?

In some cases, a negative response may cause the NA firm to sense an opportunity, but only through extremely hard bargaining with the LAC firm.

### *Legal considerations*

Legal frameworks determine how any joint venture would actually be structured:

a. Are there restrictions on ownership, either foreign or in the protection of monopolies?

b. What legal operational restrictions apply? For example, in local component requirements, import or export restrictions, labor laws, etc.

c. What laws govern remittances of earnings or capital?

If the LAC firm is bringing a joint venture NA partner to a LAC country, there are questions which must be answered. All answers need not be positive, but the incoming firm will assess the risks these externalities will impose. The LAC firm should have its own assessments to solidify its own negotiating position within a joint venture. Note that different sectors of most economies will vary in their responses to the question.

There is another set of considerations which can become important depending upon the type of joint venture contemplated: those relating to culture and cultural preferences. These can be both of concern and of opportunity.

Ultimately, the questions are: Can the joint venture arrangement deliver more benefits to both partners than it costs both partners? Will these external factors cause insurmountable problems?

**Types of strategic alliances and the IICA/CIDA**

It is easy to define what a strategic alliance is **not:**

a. First, if the firm can build on its own strengths and expansion through use of its own resources, utilizing its own capital and human resources, then there is no need for an outside partner.

b. Second, the firm can enter into arms-length transactions. It can buy the functions which it chooses not to do or cannot do. This is a straightforward contractual arrangement relating to specific functions: distribution, service contracts, supply contracts, etc. Many of these decisions rest on whether this function can be done more cost-effectively by an outside firm.

c. Third, the firm can go the route of acquisition. Another company is bought for its resources, and the acquirer assumes full control over those resources. The "partner" disappears.

Strategic alliance is an all-inclusive term which defines any long-term relationship between two or more companies for mutual advantage. There are TWO decision makers who JOINTLY determine the form and extent of the alliance. Usually, the prime characteristic of an alliance is that decisions remain joint, albeit how decisions are made is one of the most crucial components of an alliance.

The type of alliance will depend upon how those firms perceive this mutual advantage. The range of the alliance can be from the management of one specific function (e.g., distribution in the New England market) to an agreement to cooperate across a wide front.

The actual types of strategic alliances are as varied as there are alliances in existence. Generally, however, they can be summarized as follows:

*Franchising.* Entering into a franchise agreement allows the franchiser to expand market area, develop a new profit center, regain some of the capital invested, and gain some economies of scale. The franchisee obtains a business methodology, has a market image already established (usually), may obtain some capital backing, and has the backing of a parent company who may deal with sourcing, legal requirements and other necessities.

For purposes of the IICA Joint Venture project, this type of strategic alliance is not considered to be part of the project.

*Licensing.* A licensing agreement is usually a contractual arrangement which allows the buyer the use of whatever it is that he buys: a name, a process, a business format, etc. Unless specified, the licensor may have little obligation beyond training. However, the licensee can ask that the licensor keep him up-to-date with new developments. Some firms enter into cross-licensing where each licenses products or services to the other.

If the contractual agreement is long-term and goes beyond a simple contractual arrangement, then such a strategic alliance may be of interest to the IICA project.

*Cooperative Agreements.* These agreements stipulate what at least two parties agree to do. In many cases, the agreement can be NOT to do something, for example, not to market in each other's "territory." Common forms of such cooperative agreements are:

a. Joint research and development projects.

b. Cross-manufacturing agreements, where firms manufacture each other's products.

c. Co-marketing or co-promotion agreements, where companies will market each other's products within their "home" market.

d. Joint production agreements, where companies cooperate to produce goods (making components or whole products).

If the agreement is such that there is long-term commitment to work together and to jointly manage the requirements of the agreement, then it is considered to be a joint venture and is of interest to the IICA project.

*Direct investment.* The investment can range from cooperating on one very specific function in which both firms have an interest (examples being joint marketing, research and development, new product development) or can be the directing of investment across the whole spectrum of both firms. Such investment usually reflects either actual or potential resources and can be of whatever magnitude the two firms agree upon. The sharing of the equity 50/50 forces an equal partnership in the alliance.

This alliance is considered to be a true joint venture and is of interest to the IICA project unless it assumes the characteristics of an acquisition. Note that two firms jointly acquiring a third would be of interest.

*Consortia.* Consortias are several firms cooperating together to meet certain objectives jointly held. This type of joint venture would be of interest to the IICA project if LAC firms were involved in combining forces with NA companies.

*Joint Ventures.* Joint ventures can be considered as pertaining to some of the business arrangement noted above. However, in addition, joint ventures have some common characteristics:

a. The arrangement is long-term.

b. Both firms have committed equity, and continue to devote resources to the JV..

c. The decision-making processes are defined as being jointly held, albeit such processes are often delegated to a third party in the form of a third entity which has been established.

d. The arrangement is mutually satisfactory, but is flexible so that it can respond to opportunity or retreat from adversity. Ultimately, the JV can be dissolved.

e. As a living entity, the JV can evolve far beyond what was originally intended, but only under circumstances of mutual profitability.

f. The JV develops trust between the two firms. If it does not, then the two firms part, or some other form of business arrangement is made (contractual or acquisition). The trust consists of delivering what was promised through the JV and to the JV.

g. The joint venture can be excluded.

In terms of the IICA project, no function of a joint venture is excluded. As seen in the following section, the JV could relate to marketing, technological transfer, financing, and other areas.

**Why enter into a joint venture?**

Firms contemplating entering into a joint venture do so for a variety of reasons, but fundamentally it is to remain competitive and profitable. A joint venture is only viable if benefits are to be derived by both partners and there is a combined strength that neither would otherwise have.

Joint ventures are an attempt to retain partner control over what the JV is designed to do. In most cases, the JV is a separate legal entity, but a partner can be assigned responsibility within the other partner's firm if so agreed to. Profits are derived in proportion to what the firm's equity position is (30%, 50%, etc.). Costs are proportioned the same way, but often reflect the donation of product or service rather than financing. Responsibilities do not need to reflect equity positions, but do reflect what was agreed to. For example, an NA firm may have an 80% equity in the JV, and a LAC supplier 20%; if the responsibility is to supply the NA firm, then responsibility rests with the LAC firm.

When establishing a JV, a great deal of careful preparation is required. There needs to be a thorough awareness of what it is the firm requires, and how a joint venture could deliver that requirement. The JV needs to be part of an overall corporate strategy: if it is not, then the firm will not be able to explain fully how a potential partner would "fit" and interest would be lost.

The strategy requires realistic quantitative projections as to how the JV would change costs, revenues, growth, and profitability. The company must be able to offer real situations based on facts and figures, not dreams or desires.

### *Right to use of resources*

Firms can enter into many different joint ventures. Each JV can be structured to take advantage of a particular strength or need of the firm. By capturing the resources and situation of others, as, for example, having JV partners in different markets or a JV devoted to technology, the firm can expand its area of opportunity. In short, the firm levers its strengths and can do so without over-extending its own resources.

### *Adequate timing*

A key criterion is timing. The firm must be ready to enter into a JV, either to meet a current need/problem or take advantage of opportunities. Firms entering into new markets may need to do so to consolidate market position against competitors, but may not have the resources to accomplish the job. Delays would allow competitors to establish irreversible market shares.

Similarly, new technological developments may force firms to act before they have the required internal resources to respond and thus the need for a partner is developed. The basic questions to be asked are:

a. How does delay affect the bottom line?

b. How does speeding up the process help long-term profitability?

Joint ventures can contribute to as many functions of the firm as there are activities. The following discussion should not be taken as all-inclusive, but rather as illustrative of where a JV might be appropriate.

***Market development***

When capturing markets through a JV approach, the firm is essentially trying to better control its environment by both horizontal and vertical integration. The firm needs to decide whether one or more JVs can do that better than by using its own resources or by signing contractual arrangements.

a. The firm wants to develop new market areas. Without a local presence, the market is too distant, too complicated, too expensive, or legally or culturally impossible for the firm to capture and maintain an economic market share. In its simplest form, the firm contracts with a distributor, but a solid relationship could lead to a JV partnership.

b. The firm wishes to increase market efficiency. It will determine it there are particular market functions which would be best performed by a partner. If it wishes to maintain decision-making authority and develop a new profit center, then a JV is appropriate. The firm will partner with other firms providing functions of transportation, selling, packaging or promotion, among others.

In some cases, rather than partner with firms specializing in the function, the firm will establish JVs with similar firms in the market who are not in direct competition. Even competitors are sometimes welcome so that supply volumes can be adequately maintained.

c. At some point in its development, the firm will want to expand into new product lines. There are specific functions involved here which can be contracted out. A special requirement, developing consumer loyalties, might only be done by retailers, and establishing an alliance with a dominant one is a good way to test the market. Successful product lines can expand into other areas. Where the product line goes to new industrial uses, solid contractual relations would best be made with a manufacturer. Growth would come from mutual expansion and it could be advantageous for both to manage that through a JV partnership.

d. With product already established in a market, new market channels could enhance profitability. This effort often involves reductions in the number of middlemen involved, or in developing economies of scale. One way to do this is to establish JVs with similar-minded firms so that, together, the market could be supplied by a multiproduct list. This adds both depth and breadth to product lines presented without increasing manufacturing costs. The firm could take the opportunity to rationalize production without fear that market presence would be diminished.

e. The firm, as it expands, will want to ensure an improved supply for its operation. This can be done by establishing a JV back to the source of supply. Quality, timeliness of supply, assured supply, etc. can be controlled by the JV operation.

f. If the JV is structured correctly, it can operate such that it inhibits the growth and competitiveness of competitors. Or the JV can co-op competitors into the firm's strategy. At the very least, a successful JV can enhance bargaining power with both suppliers and buyers.

***Operations Improvement***

One of the major justifications for JVs has to do with the transfer of knowledge on plant operations. Many firms will not see the need to improve production processes until faced with increased competition. Their motto is "the old ways are best, and the company has survived." Some firms decide to reassess their production capabilities when opportunities for expansion present themselves.

The best JV partner to get is one which has completed a modernization process and who has the strengths and desire to expand their area of operation. These partners are looking for economies of scale which could be derived from a JV in a different country of operation.

Companies in the same general type of business (For transfer of processing knowledge; even competitors, if market share can be enhanced) are the preferred candidates for JV partners. What the LAC firm is best able to offer is an equity position within their own company, but there are other assets which can be offered, such as marketing knowledge within the LAC region, assurance of supply, or a contractual production base. The simplest JV arrangement can start with a cross-manufacturing agreement. Another easy way to a JV is to become a component supplier.

The knowledge which a JV partner could provide is:

a. Productivity improvements using different techniques and processes.

b. Advice on equipment advances. Sometimes the equipment suggested is not the most modern, but the most cost effective.

c. Improved utilization of raw materials, or even changes in the kinds of raw material used. A JV might suggest combining sourcing to take advantage of economies of scale.

d. Inventory control and general operations cost control.

e. Cost savings in terms of energy, pollution control, or any new requirements which are demanded by the consuming public (which will be different if the JV is introducing the product to NA) or government policy.

f. Perhaps the most important knowledge transfer is the **training** of workers and management to become more effective.

g. The firm could **rationalize** its operations by assessing what operations could be assumed by the JV entity established, or by subcontracting.

h. The two partners in the JV could **specialize**, either on a product or a functional basis. The LAC firm could, for example, manufacture some products formerly produced in NA, and vice versa. Or, the NA firm could be responsible for all packaging, and the LAC firm could assume responsibility for raw material supply. The operations structure could be whatever enhances profit or reduces costs.

i. Establishment of a JV is usually a good opportunity to review operational **quality control** measures.

### *Technology strengths*

Technology enhancement is so important as a function of operations that it is usually treated as a separate matter by JV partners. In fact, this is one area where the two partners can quickly derive results and establish their trust in one another.

Technology transfer can be the designated function of the JV. For one partner, the technology has already been acquired, either through purchase or development. Note that the partner may be in the same kind of business, but that is not a requirement. For example, a computer service company or a furniture manufacturer may deliver the technology to a food processing company. What is essential is that the technology can be adapted and made operational.

Several ways to accomplish this:

a. A simple licensing arrangement, with provisions to constantly up-date the technology. In many cases, this can be dealt with as a separate component of a broader JV.

b. The company can purchase the technology outright, in which case a JV is probably not a good vehicle.

c. A company can exchange value for technology, i.e., offer something which is valuable to the JV partner.

d. Often transfer is not enough. There is a need to adapt technology to the firm's special circumstances. Again, this tends to be part of a larger JV arrangement, with the firm buying this service from a company it partially controls.

**Technology Research and Development** can be very expensive. If a firm is involved from the beginning, it can obtain a significant competitive advantage. This might be so great that there is a development of standards and norms for the industry which competitors cannot match. Conversely, the risks are also very high, and large amounts of resources can be expended for no ultimate advantage.

Thus, JVs are common because:

a. A large group can share the costs and risks.

b. Developed technology can be applied across economies of scale which support continued development.

c. A JV consortia can develop and safeguard standards (of both the industry-norm type and of the government regulatory type).

d. When a LAC firm enters into a JV partnership after the fact, then the technology is either very expensive, or it is not at the cutting edge of development. Even so, such technology may be considerably better than that held by domestic competitors.

### *Organizational strengths*

When a firm contemplates a JV, a first, essential step is to do a critical analysis of the firm. This could be the first time that such an analysis has been done, and the results will show both strengths and weaknesses within the firm. If the firm then goes on to develop a strategic plan for the future, a valuable contribution has been made whether or not a JV is eventually entered into.

The JV partner could contribute organizational strengths to the JV entity in a number of ways, and the agreement between the partners can extend this advice to the parent firm itself.

Management can be improved by:

a. Tapping the experience of the incoming partner. This can often be accomplished by informal discussion, without it being a "formal" function of the JV. It is in the interest of both partners to strengthen not only the JV, but also each other.

b. The partner may have developed, or have access to, management problem-solving mechanisms, for example, a management information system which can be easily adapted.

c. The partner can work with the firm as it progresses and the impact of the JV entity impacts upon the firm's operations.

The above discussion indicates that the firm may rationalize or enter into new areas of endeavour. The JV will create its own problems and opportunities to which the firm must respond. This may well force a restructuring of the operations of the firm over time.

If the JV works well, or if the firm merely learns some valuable lessons by its participation in the JV, then the firm might be able (willing) to spin off some components of the operation: specialize product lines, subcontract functions, or expand the responsibilities of the JV itself.

One thing is certain: participation in a JV will change the firm in important ways.

### *Financial/Equity Joint Ventures*

Some JVs are begun for purely financial reasons, such as building up the equity base of a company. In its simplest form, there is an exchange of equity for financing. At the extreme, this is an acquisition or merger.

All of the above JV formats usually (but not always) require some financial investment. JVs which are structured for purely financial reasons have the following rationale:

a. Risk reduction is a major reason for searching for a financially sound partner. Equity is given to reduce the financial instability of a firm. From a JV partner's perspective, this usually is bargaining from a weak negotiating position. The firm must have assets which are inherently valuable in their own right, examples being real estate, supply sources, a dominant market position in a LAC region, or similar benefits. A LAC firm exhibiting financial desperation will not find a partner. A firm requiring capital to expand is attractive. The fundamental consideration is how the equity given up is controlled by the two JV partners.

b. The function that the JV is designed to accomplish is expensive. Structuring a JV between two or several partners reduces the investment exposure. JVs are often structured on the principle that the firm cannot afford not to get involved. The monies not invested there can be spent on specialization or enhancing production or marketing.

c. The JV may simply be a way to provide capitalization, usually, but not always, for equity. A JV entity (legally distinct) can be designed to isolate the two partners from each other, so that, if something goes wrong, at least the JV entity would survive and investment not be lost.

### *Conclusion*

There are as many reasons for a JV as there are JVs. Each one is slightly different and entered into from different perspectives. Both partners have their objectives, and a JV will only work if those objectives are met. The fact that the objectives are based on real agendas and a sound analysis of both companies makes many JVs successful.

## A strategic audit: The first step of decision

When contemplating a joint venture, the firm needs to determine if such a move will satisfy the strategic objectives established by the firm. To do that, the firm's strengths and weaknesses must be understood. There has to be a realistic appraisal of the firm's position vis-à-vis opportunities and competitive position. Once this is done, the firm can judge whether or not a JV is appropriate, or whether some other avenue would be more advantageous.

To enter into a JV, the firm needs not only to convince itself that such an action is valid, but it also needs to convince a potential partner. Put the firm in the position of that potential partner: what does that firm need to know which would make your firm attractive? You are selling a concept, which is that you are worth doing business with. If there are no ready answers to legitimate questions, then both enthusiasm and trust will never be established and the potential partner will quickly look elsewhere.

The following question is fundamental if you want a partner in a JV: What are you prepared to offer?

A strategic audit does ask some tough questions about the various components of the business. Not all of the following needs to be done, as that will depend upon the function which you want the JV to accomplish. However, a sound knowledge of all facets will allow you to negotiate a joint venture on the basis of reality and not aspirations.

### *Market Analysis*

Is there a corporate marketing strategy? How is it structured and assessed? It should include:

a. What is your present market position? Consider product lines, life cycles, market shares, prices, quality, market strategies, research needed, and legal instruments such as patents, licenses, contractual arrangements, and others.

b. What are current market trends, both within today's markets and potential markets (the latter at least sufficient to identify priority markets; actual research might be left to a potential JV partner).

c. The performance of competitors.

d. Your ability to penetrate markets utilizing company resources, and the extent to which the delegation of functions needs to be contemplated.

e. The performance of existing agents, distributors, and own staff.

### *Innovation and Capitalization*

How technologically advanced is your firm?

a. Does technology utilization give a competitive edge to your firm? Answer in terms of capitalization, R&D commitments, staff qualifications, and management's perceptions of the utility of technological advances.

b. Does the company hold any patents, or at least technology which is unique to its market area?

c. Will you need major capitalization to remain competitive, and, if so, how will it be financed?

### *Human Resources*

The most critical assessment of a human resource is the assessment of the management and/or owners. The basic question is how working with a partner can be countenanced. Beyond that:

a. Management needs to rate itself in terms of leadership, management style, flexibility and adaptability, and ability to plan.

b. Are there already managers who could manage strategic alliances? Who have international business experiences? If not, where can they be found?.

c. How skilled is your workforce? How adaptable would it be if, for example, new technologies were introduced?

d. What are the motivational factors within your company (salaries being only one)? How do those compare to your competitors?.

### *Productivity*

Productivity is a combination of both capital and human resources. The question is how those can be remixed or otherwise changed if a JV is entered into. Some factors include:

a. Economies of scale: What would be optimum (and can your competitiveness sustain that)?.

b. Is capitalization adequate? What is the level of costs?

c. What is the difference between present and optimum capacity utilization?

d. What is the quality performance of your production line, i.e., what resources are wasted within production and/or tied up in inventory?

e. What are operating and overhead costs per unit of production?

### *Financial Resources*

Financial resources need to have the right balance: too many resources and a JV partner may not be needed; too few and a JV partner would not be interested.

a. Financial resources need to be adequate to meet existing objectives of production, capitalization and marketing. However, financial resources may be needed for rapid expansion or restructuring to meet competition or to take advantage of opportunities. The difference needs to be known in great detail.

b. What is your equity position, and how does this relate to both short- and long-term borrowing/debt capacity?

c. What is the productivity of financial management?

d. How do externalities impact (inflation, currency fluctuations, transborder flow of funds)?

### *Profitability*

Show your track record of profitability and show why fluctuations have occurred.

a. How is your performance vis-à-vis your competitors and/or other sectors?

b. Is there good return on equity, and is there capacity to refinance (a JV might require financing, and where would this come from)?

c. What are gross and net margins, and how can these be manipulated?

d. Would you put additional resources into your company (i.e., is it the most profitable avenue of revenue generation for you)?

### *Conclusion*

In order for the IICA joint venture project to participate with a LAC firm in establishing a JV, the project management needs to satisfy itself that there is a real JV opportunity. It cannot take dreams to a NA firm, nor solely a verbal indication of desire. The project needs to present the NA firm with real data and a substantial information on the LAC firm desiring a JV. A strategic audit will establish that basis for the project and will satisfy the initial negotiations between potential LAC and NA partners.

## The structure of a joint venture

Each joint venture will have clearly defined functions which it is to perform. These will be defined in a negotiating process between the two partners. The structure of a JV will take the form of a legal document, which in most cases will establish a legal entity or corporation. While the structure will be slightly different depending upon what the two partners agree on, the following components tend to be common:

### *Organization and Structure*

This section will outline the objectives of the JV and precisely what it is intended to do. In addition to a general statement, it includes:

a. Specific tasks which will support the desired function.

b. Who will accomplish those tasks, and the involvement of each partner if they help the JV in its operations.

c. When, where, and how the tasks would be accomplished.

d. The type of business organization to be established as the JV entity.

### *Financing*

Both partners need to agree on the financial resources which the JV will have. Note that these are not necessarily monetary; the partners can contribute value in kind (i.e., by supply of other factors of operation). Factors to be considered by both partners in the negotiation are:

a. Initial capital requirements and how and when they will be supplied.

b. Means whereby additional required resources will be supplied to the JV and the rules whereby this is accomplished.

c. Rules of default.

d. Rules for expansion.

e. Sharing of profits and losses, usually based on the equity percentage of ownership in the JV, but not necessarily so.

f. Sharing of liabilities, and the responsibilities of defense for the JV.

g. Corporation procedures such as appointment of accountants, establishment of offices and other logistical matters.

### *Management and Control*

The JV can be structured so that, as a separate legal entity, it has almost complete control over operations. However, the partners involved will want to retain ultimate control by determining:

a. How voting rights are established.

b. Ownership control: board of directors, method of decision making (majority? unanimous?).

c. Initial selection of personnel, and agreement on their responsibilities to the JV and to the partners.

d. Methods for breaking deadlocks, and what will happen if the JV can no longer operate because of the deadlock.

e. The degree of authority the JV management has in making decisions about expansion and the assumption of responsibilities from the partners themselves (what happens if the JV can better assume a function that one partner is carrying out).

f. The degree of independence a JV has in entering into legal transactions, i.e., property dealing, claim settlements, liability limits, establishment in other markets or areas, etc.

g. Transfer of ownership between the JV and the partners, and between the partners, and the rules by which that transfer is accomplished.

h. Preemptive rights. These are especially important when the relative size of the JV partners is disparate. The smaller partner will probably want extra protection built in to avoid possible domination.

### *Human Resources*

Usually, the management of the JV will be determined jointly. This will be either independent of both partners, or will come from the JV partners themselves. Where personnel comes from is a matter of the degree of trust the partners have in each other, as well as who is best situated to accomplish the job. The JV agreement will stipulate:

a. Choice of employees, and methods for change.

b. Standards of conduct.

c. Compensation.

d. Consequences of misconduct.

e. Replacement rules.

### *Marketing of the Joint Venture*

The JV has to establish itself in the marketplace and begin to make a reputation for itself. Where the JV is integral to one of the partners, then the same requirement holds, but the rules of operation will be different.

a. Who really gets the JV off the ground: The partners, the management of the JV, or others.

b. Are there provisions for joint marketing and clear responsibilities for the partners?

c. The initial and long-term development plans for the JV.

### *Restrictions on Activities of All Members of the JV*

With the JV being an independent entity, both partners have to be assured that the other will not take advantage. Thus, rules governing the following need to be clarified:

a. Competition efforts within specific territories and within specific time frames (and what happens if the JV is dissolved).

b. Matters concerning confidentiality, both within the JV and between partners.

c. Provisions for reacquisition of market territory if the JV is dissolved or restructured.

d. A "predator" clause, ensuring that a JV partner will not attempt to manipulate the JV against the interests of the other.

### *Default Arrangements*

Perhaps the most important clauses are the ones governing what happens if one partner defaults on commitments. Concerns relate to:

a. The definition of default.

b. The consequences of default (monetary divisions and responsibilities, waivers of rights, termination of assets, competitive clauses, etc).

c. Indemnification clauses for partners and JV management.

### *Proprietary Rights*

As the JV begins to operate, it will itself obtain proprietary rights, valuable knowledge, and good will. Aspects to define:

a. Determine if partners have given these kinds of rights to the JV, and if so, how are they held by the JV.

b. Does the JV acquire things like trademarks, patents, licenses, etc., and how are these valued (and split if the JV dissolves)?

c. How are improvements disclosed.

d. If the JV goes through substantial improvements (i.e., significantly expands a market area), how does that relate to the partners (improvements might significantly help one partner more than the other).

e. Define what will happen on dissolution of the JV.

### *Term and Termination of the JV*

The JV should have a specific date of commencement, and a date of review for possible dissolution. Without a dissolution clause, which sets out how partners can exit from the JV, it is almost certain that the JV will be faced with unnecessary pressures. Dissolution clauses relate to:

a. Method of termination or prior agreement to terminate.

b. Method of renewal.

c. Penalties for wrongful withdrawal.

d. Consequences of bankruptcy, death of certain parties, etc. (both within the JV and among the partners).

e. A "hardship" clause, i.e., if one partner suffers financial reversals, what happens to the JV.

f. Division of property and assets, buy-out provisions, options of purchase.

g. Method of evaluating the interests of partners.

### *Miscellaneous Clauses*

There will usually be some miscellaneous clauses relating to the unique concerns of one of the partners. Examples include:

a. Corporate laws.

b. Arbitration arrangements.

c. Relationships with other potential partners or existing partners or with other JVs.

### *Conclusion*

A JV agreement is whatever the two partners decide it is. Some can operate on a handshake. Most, however, go through a legal process wherein the partners need both the assurance of the legal profession and the control over same.

Most also have a formal registration process (i.e., corporation registration).

It is important to contemplate not only what the JV is designed to do, but also what it might be reasonably expected to do.

INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE
P.O.Box 55-2200 Coronado, Costa Rica/Tel.: 29-02-22/Cable: IICASANJOSE/Telex: 2144 IICA CR
Electronic Mail EIES: 1332 IICA SC / FAX (506) 29-47-41, 29-26-59 IICA COSTA RICA