

GAO

Report to the Secretary of Agriculture

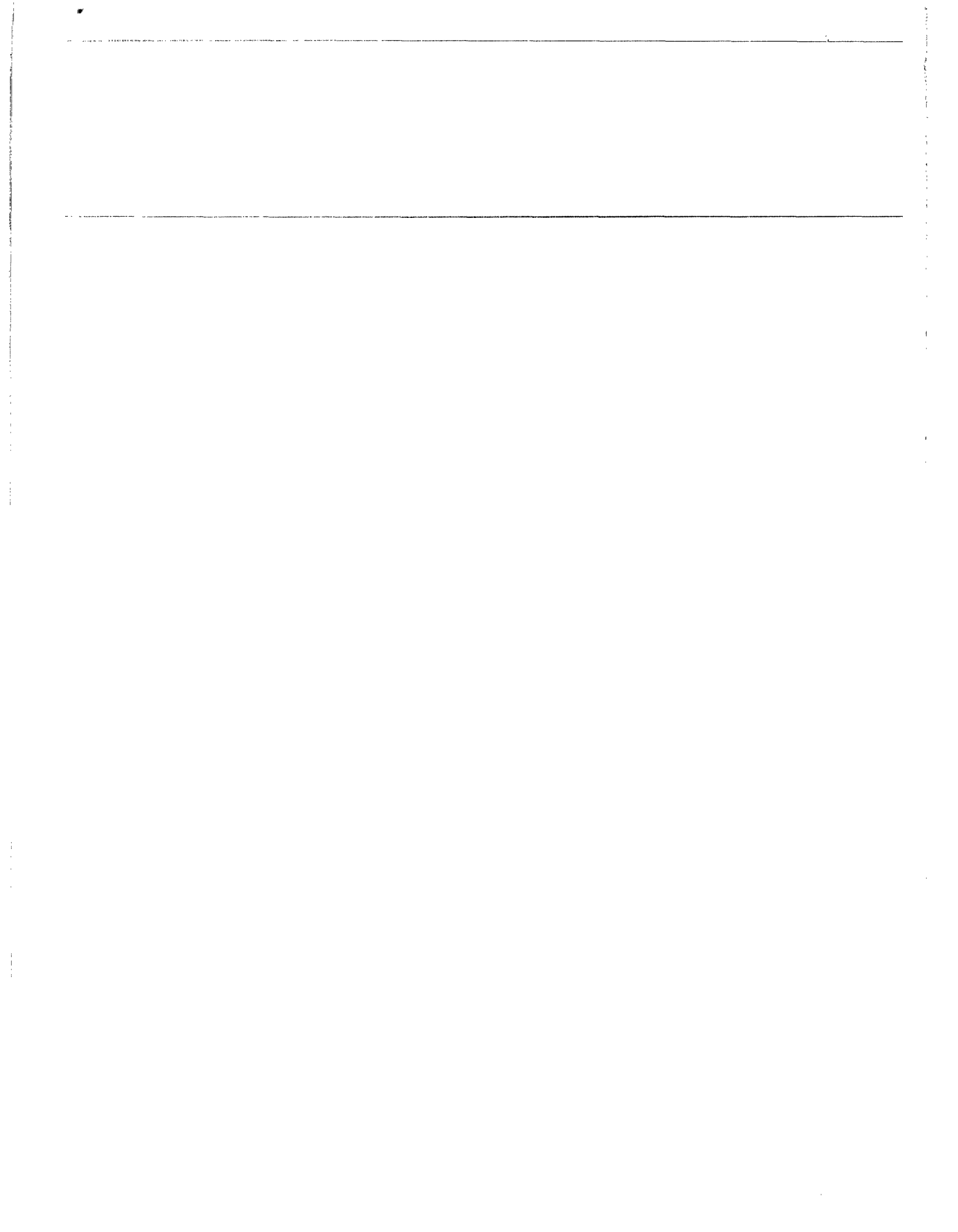
January 1991

U.S. DEPARTMENT  
OF AGRICULTURE

Strategic Marketing  
Needed to Lead  
Agribusiness in  
International Trade



142982



**Resources, Community, and  
Economic Development Division**

B-238361

January 22, 1991

The Honorable Clayton Yeutter  
The Secretary of Agriculture

Dear Mr. Secretary:

International agricultural trade, once dominated by the United States, is now highly competitive. Moreover, some countries that were once our best customers have become strong rivals. Adapting to this new situation poses a major challenge for the U.S. Department of Agriculture (USDA), long accustomed to American agriculture's preeminent position in world trade.

Recognizing these new conditions, you have emphasized the importance of government's providing the necessary management tools to help American agriculture become more competitive in world markets. You have also stressed the importance of government's leading rather than following the U.S. farm sector, which needs better marketing skills and more sensitivity to world markets if it is to compete successfully.

Given your emphasis on the need for USDA to adapt to the new marketing environment, we reviewed USDA's management of marketing strategies for our series of reports on the management of USDA. This report expands on the strategic marketing section of our interim report.<sup>1</sup>

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**Results in Brief**

USDA agencies rarely employ strategic marketing—a range of practices that identify consumer needs and develop products and delivery systems to satisfy those needs—to help U.S. agribusiness better compete in both export and domestic markets.<sup>2</sup> Program and policy emphases generally favor the production-oriented philosophy that contributed to agriculture's post-World War II productivity boom. While productivity remains important, reliance on a production-oriented philosophy means risking the loss of opportunities in food processing and marketing, the fastest-growing aspects of global agribusiness.

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<sup>1</sup>U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19, Oct. 26, 1989).

<sup>2</sup>Agribusiness includes all of the interrelated private and public policy-making enterprises, from farm supply, farming, and processing, through distribution to the ultimate consumer.

High price supports and export subsidies have played a significant role in our competitors' recent successes. Strategic marketing practices have also played a key role, particularly for the European Community (EC) and others that have focused increasingly on high-value food products.<sup>3</sup> Such products typically provide greater benefits to the exporting nation because processing adds jobs, economic output, and government revenues. Similarly, strategic marketing plays an equally important role for bulk products, such as corn and wheat. It is no longer adequate to just grow the best bushel of grain. To succeed in today's competitive marketplace, the variety, quality, and delivery of the grain must match consumer needs.

The federal government, and USDA in particular, seek a greater market orientation by adding flexibility to domestic farm programs and lowering or eliminating trade barriers. But success will not automatically mean that U.S. agriculture will be well-positioned to compete on a global scale. USDA has made a few modifications in the 1980s in response to increased foreign competition for high-value products. However, its export policies primarily remain a way to dispose of bulk product surpluses in response to changes in domestic farm policy or unfair foreign competition. USDA has yet to adopt a strategic marketing approach that would enable it to lead agribusiness as an educator, researcher, and technical service provider.

We found that four USDA agencies with trade management responsibilities differed in the extent to which they are prepared to lead U.S. agribusiness in a changing world marketplace. The differences are illustrated in three areas: the extent to which a strategic marketing perspective exists in agency policies and practices, the level of staff marketing skills, and the degree of agency coordination. Unless all the agencies develop their efforts in these areas, both individually and through a well-coordinated Department-wide strategic plan, USDA cannot assure American agribusiness that it can provide the leadership necessary to compete effectively in the marketplace.

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## Background

The United States lost its preeminent position in agricultural trade during the 1980s. Between 1981 and 1988, American agribusiness' share of global exports fell from 21 percent to 15 percent. Consumer-oriented

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<sup>3</sup>High-value food products include intermediate/semi-processed products (e.g., wheat flour, vegetable oil); unprocessed consumer-oriented products (e.g., fresh fruit and nuts); and highly processed, consumer-oriented products (e.g., milk and chocolate).

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goods, such as meat, vegetable, and dairy products, dominated the growth in international agricultural trade during the decade. By 1988, this type of product accounted for 56 percent of the value of worldwide agricultural trade, but only 21 percent of U.S. agricultural exports were in this category. (See app. I for additional information on the U.S. position in international trade.)

Current discussions of world agricultural trade focus on applying strategic marketing practices in a market-oriented environment. Strategic marketing includes the following practices: (1) developing a long-term market development plan that identifies markets and growth potential; (2) designing positive product images to satisfy consumer needs or preferences, such as style, quality, and packaging; (3) improving the ability of distribution systems to deliver products efficiently; (4) positioning the products through competitive pricing and credit policies; (5) making consumers aware of the products through promotional activities in targeted markets; (6) differentiating the product so that it stands out; and (7) continually innovating to be ahead of the global competition. Application of these practices has been important in enabling competitors to succeed in world markets.

A market orientation denotes reliance on a trading system that responds to market, not government, signals. Mandated U.S. agricultural policies have dissuaded U.S. farmers from producing crops that best meet consumer needs. In Europe, high price supports and export subsidies<sup>4</sup> that create price advantages for EC nations have played a major part in the EC's expansion of market share.

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## Strategic Marketing Is a Critical Part of Trade Policy

U.S. policymakers are attempting to (1) reduce or eliminate distorting trade practices through negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and (2) create a more flexible farm program that will allow farmers to make planting decisions on the basis of consumer needs rather than on the basis of farm program considerations. If the policymakers succeed on both fronts, they will achieve a new international system that will allow American farmers and exporters to respond more closely to market signals. On such a

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<sup>4</sup>Through its Common Agricultural Policy, the EC guarantees prices for most of the major agricultural commodities it produces. Prices of most commodities are set well above world prices, thereby necessitating highly protective measures against cheap imports. This system of high price supports has generated surpluses for most of the commodities involved, forcing the EC to subsidize its exports to compete effectively with other exporting nations. In 1988, the EC provided nearly \$12 billion in export subsidies.

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“level playing field,” strategic marketing will be a primary competitive tool; competitors most skillful in marketing will win market share.

Many foreign governments play a direct role in strategic marketing. In some countries the line between the public and private sector is clearly visible; in others both government and private sector representatives work in unison. In the United States, the private sector is expected to make strategic marketing decisions and implement associated techniques. Yet, given the growth potential of food processing and marketing, a supportive government role can yield significant benefits in a more favorable balance of trade and economic growth.

The United States spends significantly more on developing and promoting high-value agricultural products than most of its competitors. Yet, these competitors appear to receive a greater return on their marketing investment.<sup>5</sup> Many of our competitors—EC nations in particular—have developed significant expertise in identifying markets and promoting products to serve those markets. Furthermore, their efforts have focused on exporting high-value foods. For example, the Dutch developed high-quality red, yellow, and black sweet peppers and found a niche in the U.S. gourmet pepper market. In a somewhat different instance, the growth of Japanese food exports to the United States started with products targeted for Asian consumers, but these exports have now broadened to penetrate diverse consumer markets with such products as surimi (imitation seafood) and instant soups.

The difference between the United States' and other countries' emphasis on marketing can contribute to a competitive edge. For example, EC nations are strongly committed to trade exhibitions in foreign markets. They generally take a long-term view of the impact of trade show participation and consider participation a matter of national pride. Europeans also typically contact potential clients and set up appointments well in advance of a trade show. In contrast, trade show participation has been a lower priority for USDA and U.S. agribusiness. USDA Foreign Agricultural Service (FAS) officials have voiced concern about such participation, stating that in-store promotion is more cost-effective than trade exhibits. According to industry representatives, U.S. exhibitors do not gain as much as our competitors at the shows because many of them prefer to wait until the show to make sales contacts, pay little

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<sup>5</sup>See *International Trade: Foreign Market Development for High-Value Agricultural Products* (GAO/NSIAD-90-47, Jan. 17, 1990).

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attention to creating attractive displays, and are sometimes inadequately prepared to quote prices at the show.

Strategic marketing practices are recognized as an important component of agricultural policy in parts of the United States. For example, a 1987 symposium of public and private groups developed production and marketing strategies to build and maintain market share for consumer-oriented products. The symposium, sponsored by the University of California at Davis, acknowledged that California's consumer-oriented products could not compete on a low-cost, comparative-advantage basis and focused on the need to compete on non-price issues. Areas where California could maintain competitive advantage despite higher prices included technological support in quality and product development on the production side, and top-quality, differentiated products for niche markets on the marketing side.

When producers do pay attention to strategic marketing practices, they can obtain effective results. For example, domestic producers benefited from consumers' interest in fresh-cut roses, following the success of imported roses on the domestic market. Both domestic and import sales have increased rapidly. Conversely, consumers' surging demand for oat products and canola oil had to be met by imported products because federal subsidies for other commodities were sufficiently high to dissuade U.S. producers from responding to market signals.

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## A Department-Wide Commitment to Strategic Marketing Is Needed

USDA's management and organizational practices, honed during more than 50 years of production-focused policies, are not well-suited for providing marketing leadership. While productivity advances remain critical to maintaining competitiveness, USDA's role in the 1990s also requires the coordinated attention of multiple agencies with a strategic marketing perspective.

Although the federal government, and USDA in particular, seek a greater market orientation, they have yet to adopt the proactive marketing programs and activities necessary to assist U.S. agribusiness in becoming more marketing proficient. Such programs and activities would enable USDA to meet its constituents' changing needs. USDA needs to be

- a leader for agribusinesses by developing the marketing perspectives, skills, and practices that industry must use to compete in an open economy;

- 
- a catalyst for the agribusiness industry, particularly the thousands of small and medium-size companies that are reluctant to take exporting risks or are unaware of global trading opportunities;
  - an educator teaching agribusiness about the pitfalls of the global trading environment, agribusiness skills, and market opportunities;
  - a researcher of new and innovative products that respond to market demands; and
  - a technical service provider of information on quality standards, financing, and other trade services to reduce the risks of entering new markets.

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### USDA Agencies Rarely Offer Strategic Marketing Leadership

The four USDA agencies we examined—the Agricultural Marketing Service (AMS), Extension Service (ES), Agricultural Research Service (ARS), and FAS—revealed sharp contrasts in their strategic marketing perspectives, professional skills, and degree of interagency coordination. Moreover, neither these agencies nor top USDA management has taken actions to develop a Department-wide marketing strategic plan that can guide agencies into an organizational environment more supportive of strategic marketing.

### Strategic Marketing Perspectives Vary

The lack of focus on strategic marketing occurs largely because USDA's strong orientation toward agricultural production permeates agency programs. For example, since the 1950s, USDA's agricultural export programs have been designed to reduce surplus rather than to meet market needs. New export assistance programs in the 1980s, such as the FAS Targeted Export Assistance program, are more oriented to trade performance. However, they still focus on reacting to competitors' actions instead of encouraging proactive marketing techniques.

Similarly, AMS marketing activities are limited to delivery system issues, and the views of the consumer are not directly considered. AMS' mission statement charges the agency with enhancing marketing from the nation's farms, i.e., from the point at which the crop is harvested. This mission is counter to the strategic marketing approach that starts with identifying consumer needs and works backwards through the system to the farmers' decision on the best seed to plant to meet those needs. AMS' new strategic planning process addresses emerging issues, including food safety and international marketing, but AMS' basic mission limits its programs to focusing on the sellers' (industry groups) needs.

ES and ARS, on the other hand, have recently shifted their mission to focus more on consumer needs. Both agencies reprogrammed their



resources around issues such as end-product development, consumer-oriented research, and global competitiveness. As a result, both agencies are positioning themselves to provide marketing-oriented leadership.

**USDA Staff Lack Strategic Marketing Skills**

USDA's ability to lead the U.S. agribusiness response to changes in the global market depends in part on the knowledge, administrative expertise, and creativity of its managers and staff. However, most agencies do not have sufficient recruiting and training programs in place to hire or develop personnel with marketing management skills.

Shifting market imperatives have created the need for a new kind of agribusiness professional, according to the 1989 report of the National Agribusiness Education Commission (NAEC),<sup>6</sup> an agribusiness- and USDA-sponsored group. The challenge, according to the report, is to focus more on demand-based management skills and less on production technologies. NAEC recommended that agribusiness hire fewer individuals with backgrounds only in production technologies in favor of individuals with both production knowledge and training in the types of demand-based management skills learned in most master of business administration programs.

FAS has not adopted the management profile established by NAEC but has recently expanded its hiring profile for specialized positions to include candidates with marketing skills. FAS has also recently reorganized its staff to improve its planning, analysis, and evaluation programs and increase its focus on high-value products. While these efforts are encouraging, change will come slowly because FAS has not developed marketing training programs for its existing staff.

ES and ARS have also taken some initiatives to improve their staffs' marketing acumen. ES has recently made marketing training an ES work force planning issue and has developed a national marketing training program. ARS is developing a training program for its scientists to help them focus more research on quality and commercial applications.

AMS officials believe that its work force, with its emphasis on agricultural economists, is appropriate, given the agency's current mission.

**Little Interagency Coordination of Marketing Issues**

At USDA marketing coordination has traditionally involved ad hoc information-sharing and lacked organized interagency planning activities.

<sup>6</sup>See *Agribusiness Education in Transition: Strategies for Change*. Report of the National Agribusiness Education Commission (Cambridge, Mass.: Lincoln Institute of Land Policy, June 1989).

The result can be detrimental to client service because USDA marketing-related agencies may not always have the latest marketing information available. For example, ARS developed and patented a new citrus fruit process that makes peeling and sectioning easier, but it took at least 5 years for industry and other USDA agencies to become aware of the innovation and realize its marketing potential.

Given USDA's traditional approach, agencies appear to be more comfortable sharing information than coordinating program planning on common issues. Numerous staff members told us that they exchange information regularly through their own informal contacts and a few formal cooperative mechanisms. For example, FAS and the ARS Technical Office for International Trade exchange information about pesticides and other issues on a regular basis. Also, Memoranda of Understanding between FAS and the Animal and Plant Health Inspection Service, Federal Grain Inspection Service, and Food Safety and Inspection Service have established formal agency ties, but they generally only facilitate day-to-day information exchange. Without organized interagency planning, important issues can be overlooked. For example, no USDA agency has the lead responsibility for setting import policies or examining the effects of imports on the nation's competitiveness. Yet, nearly half of the U.S. agricultural imports in 1989 were consumer-oriented products, which provide greater benefits to the exporting nation because of the value added in the processing. Only ARS has established a formal mechanism for coordinating program planning with other agencies. (See app. II for a more detailed discussion of the FAS, AMS, ES, and ARS marketing efforts.)

### Little Effort to Develop a USDA Strategic Marketing Plan

USDA has not developed a Department-wide strategic marketing plan; nor is development of such a plan an issue under USDA's management-by-objectives (MBO) system. The Office of Management and Budget instituted an MBO system in 1989 to enable the administration to attain its most important policy, program, and management objectives in a timely and efficient manner. One of USDA's three MBO initiatives addresses foreign and domestic market expansion.<sup>7</sup>

FAS is the lead agency for managing the MBO initiative to expand foreign markets. Yet, FAS officials told us that they do not have a Department-

<sup>7</sup>Specifically, this MBO initiative is to expand our agricultural markets, both foreign and domestic, by (1) increasing our basic competitiveness, (2) reducing barriers to American agricultural products abroad, and (3) increasing the market orientation of the agricultural sector worldwide.

wide coordination plan. They also said they do not have the experience to perform such a coordination function. Furthermore, with the exception of some discussions with ARS, FAS' input to the process was limited to programs under its control.

FAS officials believe the MBO system's utility will remain limited until USDA's top management expresses strong support for it and arrangements are made for coordination among the agencies with marketing management responsibilities. At the time they supplied their input, FAS officials believed the plan would be coordinated at the Assistant Secretary level or above, where input from all the agencies with marketing functions would be coordinated into one strategy. They added that their experience with 25 years of Department-wide planning systems shows that strong top management commitment is needed to override USDA's autonomous agency structure. Because top management has not expressed such a commitment, FAS officials said, the current system has been reduced to a tracking device rather than a coordinated approach for focusing on strategic planning opportunities.

## Conclusions

Although USDA agencies are reacting positively to some of the challenges of strategic marketing, the overall Department is not prepared to guide agribusiness in a market-driven economy. Important marketing policies, practices, and skills are lacking within individual agencies, impairing USDA's ability to fulfill a leadership role. For example, three of the four agencies we examined do not coordinate their program planning or systematically exchange information. These factors have contributed to USDA's inability to develop a plan for marketing as a coordinated, Department-wide issue under the new MBO system. Until all USDA agencies (1) coordinate their marketing activities both within the Department and with other federal agencies and (2) operate in an organizational environment that supports strategic marketing, USDA will be unable to be most effective in its leadership role.

## Recommendations to the Secretary of Agriculture

To create an organizational environment in which strategic marketing can be adopted, we recommend that you

- convene a forum of USDA trade-related agencies to develop a coordinated strategic plan for implementing USDA's MBO initiative to expand both foreign and domestic markets;
- direct the Department's trade-related agencies to adopt a strategic marketing perspective in their mission statements; and

- encourage USDA trade-related agencies to achieve greater diversity of international agribusiness and marketing staff skills when addressing work force planning issues.

Once these actions are taken, we recommend that you develop an integrated, Department-wide strategic marketing plan.

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## Agency Comments

USDA did not comment on our recommendations, stating that it would develop a statement of action after receiving our final report.

USDA agrees that effective marketing is an integral element of marketplace activities and recognizes the need to strengthen its capabilities to help U.S. agribusiness improve its international competitiveness. Overall, however, the Department believes that it has adequate strategic marketing programs in place and is moving to strengthen its strategic marketing perspective. We agree that the Department has made some progress in directing parts of USDA programs towards strategic marketing. But we believe a more proactive, organized approach is needed if USDA is to lead American agribusiness in a market-oriented agricultural marketplace. Such an approach is necessary for the Department to keep pace with its constituency, which is restructuring to meet the demands of the new international marketplace.

The Department also emphasized that it sees its marketing role primarily as that of a facilitator at every stage of program implementation. We agree that USDA's marketing role is primarily that of facilitator or catalyst. However, we do not agree that the Department is doing all it can to develop the marketing policies, practices, and skills necessary to fulfill such a leadership role. (See app. V.)

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This work was performed under the direction of John W. Harman, Director of Food and Agriculture Issues, who may be reached at (202) 275-5138. Other major contributors are listed in appendix VI.

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We are sending copies of this report to the Director, Office of Management and Budget, and to interested congressional committees and subcommittees. We will make copies available to others upon request.

Sincerely yours,



J. Dexter Peach  
Assistant Comptroller General

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# Contents

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Letter		1
Appendix I		14
U.S. Position in World Agricultural Trade	U.S. Position in World Agricultural Trade Is Changing	14
	International Market Focuses on Value-Added Products	18
Appendix II		25
USDA Needs Strategic Marketing Skills and Marketing Management Orientation	Strategic Marketing Perspectives Vary	25
	USDA Staff Lack Strategic Marketing Skills	29
	Little Interagency Coordination of Marketing Issues	32
Appendix III		35
Objectives, Scope, and Methodology		
Appendix IV		37
Principal USDA Agencies With Marketing Responsibilities or Interests		
Appendix V		38
Comments From the U.S. Department of Agriculture	GAO Comments	42
Appendix VI		46
Major Contributors to This Report		

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**Tables**

Table I.1: 15 Largest Importers of Agricultural Products, 1988	17
Table II.1: Marketing Management Approaches of Four USDA Agencies	25

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**Figures**

Figure I.1: World and U.S. Agricultural Trade, 1980-88	15
Figure I.2: Growth in World Trade of Bulk, Intermediate, and Consumer-Oriented Products, 1971-88	16
Figure I.3: U.S. Agricultural Imports: Competitive and Noncompetitive Products, 1980-89	18
Figure I.4: World Market Shares by Leading Competitors for Bulk Products, 1988	20
Figure I.5: World Market Shares by Leading Competitors for Intermediate Products, 1988	21
Figure I.6: World Market Shares by Leading Competitors for Consumer-Oriented Products, 1988	22
Figure I.7: U.S. and World Agricultural Trade for Consumer-Oriented Products, 1980-88	23

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**Abbreviations**

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CSRS	Cooperative State Research Service
EC	European Community
ES	Extension Service
FAO	United Nations Food and Agriculture Organization
FAS	Foreign Agricultural Service
GATT	General Agreement on Tariffs and Trade
MBO	management-by-objectives
NAEC	National Agribusiness Education Commission
USDA	U.S. Department of Agriculture

# U.S. Position in World Agricultural Trade

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The United States lost its preeminent position in agricultural trade during the 1980s. In 1980, the U.S. share of world agricultural trade was 21 percent. By 1988, the share was 15 percent, up from a low of 13 percent in 1987.

Many nations that had been our best agricultural customers have become effective competitors that actively market their products throughout the world. These new players recognize the importance of food trade for revenue generation and farm industry growth. Their use of new instant communication systems and new marketing techniques have created complex, highly effective international trade relationships. Some have established trade barriers, export subsidies, and price support programs to improve their competitive positions. The new competition has weakened the comparative advantage in low prices that allowed U.S. firms to prosper through the 1970s.

U.S. agribusiness depends on export sales. In 1989, for example, the United States exported over two-fifths of its harvested acreage. A half-million farm jobs produce food for overseas markets. These exports also create about 6 million off-farm jobs in financing, storage, packaging, processing, merchandising, and shipping.

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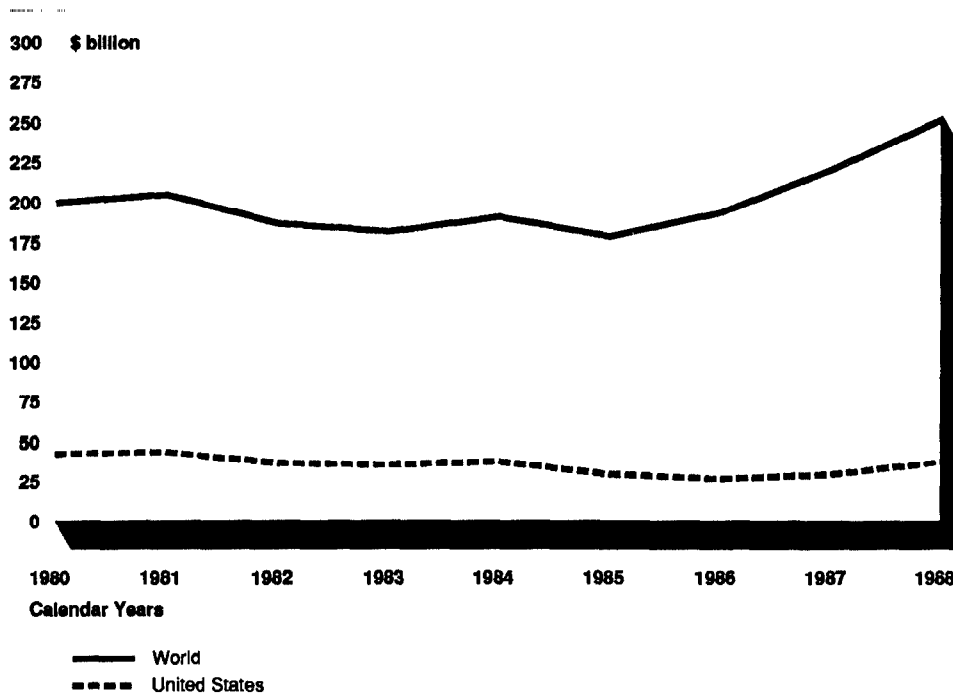
## U.S. Position in World Agricultural Trade Is Changing

U.S. agricultural exports fell nearly 40 percent between 1981 and 1986, from \$43.3 billion to \$26.2 billion. Although the United States still ranks first in the value of its agricultural exports, its share of world agricultural trade slipped through most of the 1980s. World agricultural trade reached \$251 billion in 1988, an average annual increase of 3.3 percent from 1980. U.S. exports recovered to \$39.7 billion in 1989 and are expected to remain about the same in 1990. Figure I.1 traces world and U.S. agricultural trade from 1980 to 1988.



Appendix I  
U.S. Position in World Agricultural Trade

Figure I.1: World and U.S. Agricultural Trade, 1980-88



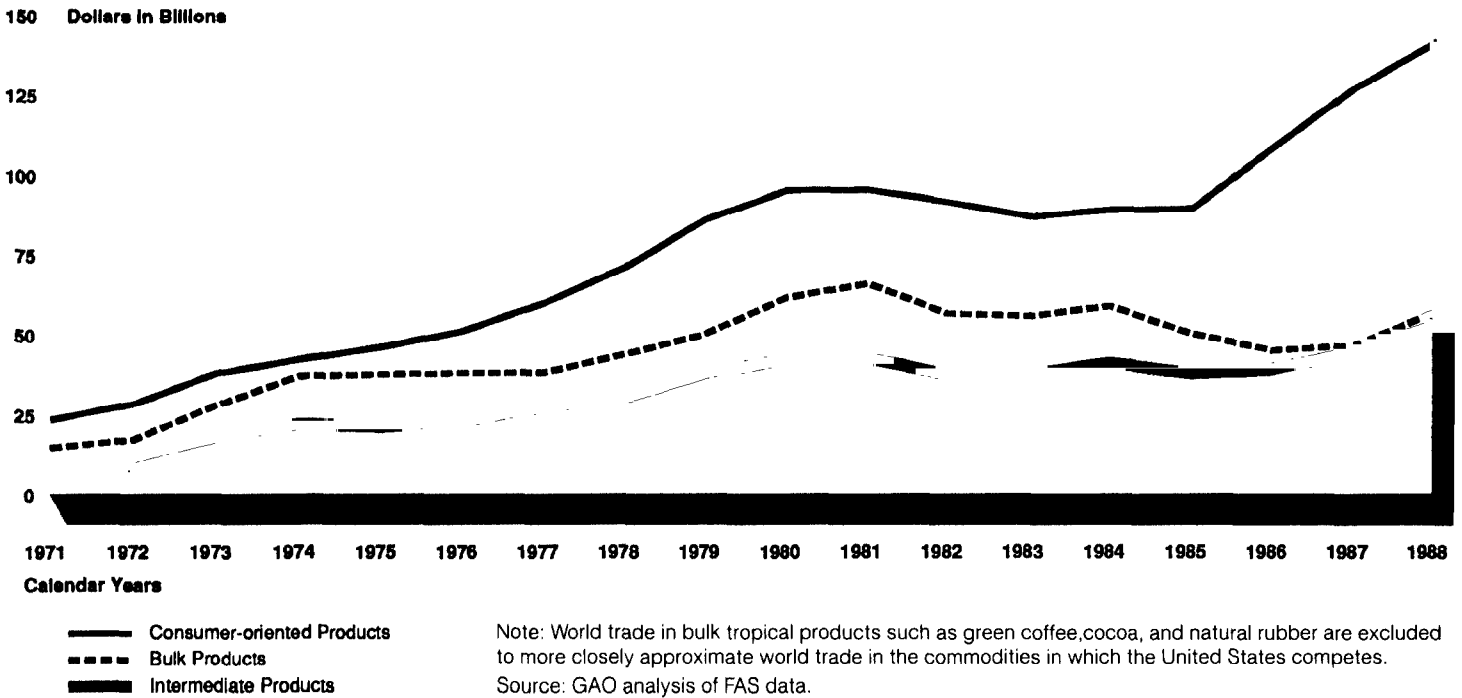
Note: World trade in bulk tropical products such as green coffee, cocoa, and natural rubber are excluded to more closely approximate world trade in the commodities in which the United States competes.  
Source: GAO analysis of Foreign Agricultural Service (FAS) data.

In the 1980s, U.S. agricultural exports lagged world agricultural trade in the three major product groups—bulk, intermediate, and consumer-oriented products.<sup>1</sup> World agricultural trade in consumer-oriented products showed the most dramatic change—a 48-percent increase between 1980 and 1988. Figure I.2 shows world trade growth in the three product categories.

<sup>1</sup>The U.S. Department of Agriculture (USDA) defines bulk commodities as those that are free from processing, such as wheat, rice, and corn. Intermediate products are principally semiprocessed products in the intermediate stage of the food chain, such as wheat flour, vegetable oils, and refined sugar. Consumer-oriented products are fundamentally end products that require little or no additional processing for consumption, such as fresh fruit and nuts, milk, and chocolate.

Appendix I  
U.S. Position in World Agricultural Trade

Figure I.2: Growth in World Trade of Bulk, Intermediate, and Consumer-Oriented Products, 1971-88



Imports to the United States Are Increasing

Two trends in world agricultural trade—the rise in overall trade and the shift to consumer-oriented products—are reflected in the data on U.S. agricultural imports. The United States, with the world's largest economy, ranks among the world's largest importers of agricultural products. (See table I.1.)

**Appendix I**  
**U.S. Position in World Agricultural Trade**

**Table I.1: 15 Largest Importers of Agricultural Products, 1988**

Dollars in billions	
Country	Imports
West Germany	\$28.7
Japan	24.6
Italy	19.9
United Kingdom	18.6
United States	18.3
France	18.1
Netherlands	16.0
Soviet Union	12.6
Belgium-Luxembourg	10.4
Spain	5.7
Hong Kong	5.6
Canada	5.3
Egypt	4.8
South Korea	4.7
China (PRC)	4.2

Note: Import values exclude bulk tropical commodities.

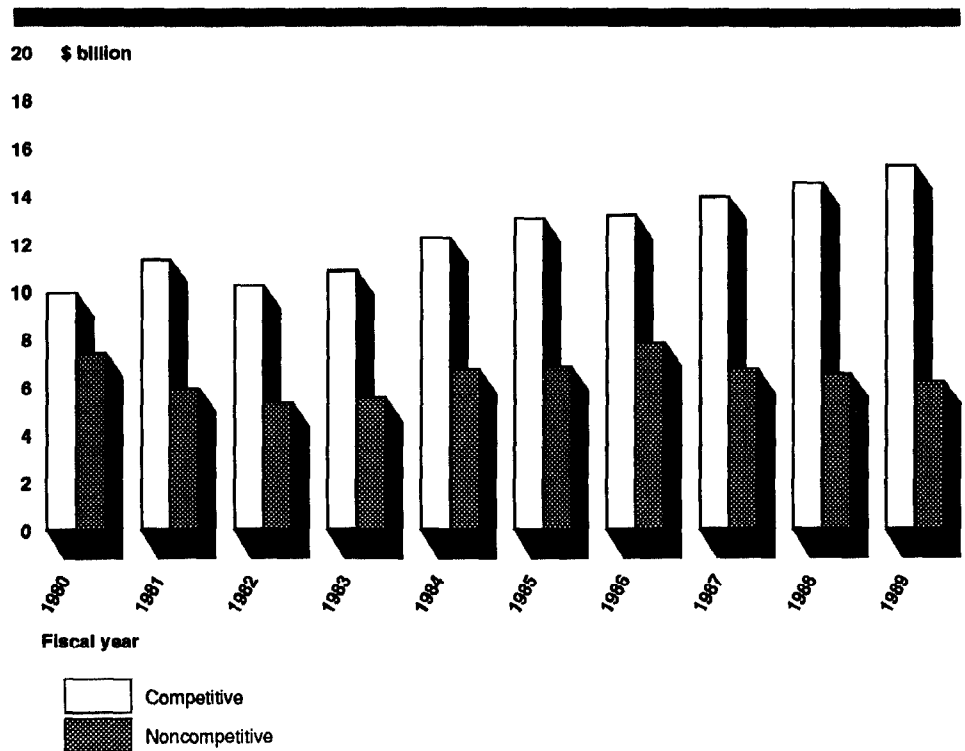
Source: USDA/FAS provided data from the United Nations Food and Agriculture Organization (FAO).  
 FAO data may not be consistent with FAS data.

The U.S. import market represented 8.6 percent of 1988 world trade. The magnitude of agricultural imports presents several concerns for U.S. agriculture. First, the value of U.S. agricultural imports rose to a record \$21.5 billion in 1989. With agricultural exports of \$39.7 billion in 1989, the rising imports are cutting into agriculture's ability to offset the U.S. trade deficit. The 1989 agricultural trade surplus of \$18.2 billion remains well below the peak of \$26.6 billion in 1981.

Second, competitive imports, those that compete in some form with domestic commodities, rose nearly every year in the 1980s, and at a faster pace than noncompetitive imports.<sup>2</sup> Competitive imports increased from 57 percent of U.S. agriculture imports in fiscal year 1980 to 71 percent in 1989. Figure I.3 shows trends in U.S. agricultural imports in the 1980s.

<sup>2</sup>Competitive imports, such as meat and cheese, compete with items produced in the United States. Noncompetitive imports, such as bananas and coffee, are not produced domestically. Some competitive imports, particularly horticultural products, might only be partially competitive because of different growing seasons.

Figure I.3: U.S. Agricultural Imports: Competitive and Noncompetitive Products, 1980-89



Source: GAO analysis of FAS data.

And third, nearly half of the U.S. agricultural imports in 1989 were consumer-oriented products, which provide greater benefits to the exporting nation because of the value added in processing. These products were concentrated in five categories: coffee, fresh and processed fruits, fresh and processed vegetables, wines and beer, and beef and veal. Consumer preferences for these products, combined with rising U.S. incomes, have driven the increase in imports over the past few years, even though a weaker dollar has made foreign products more expensive for U.S. consumers.

### International Market Focuses on Value-Added Products

USDA's emphasis on lowering the production costs of bulk commodities disregards a decade-old shift in global trade from bulk commodities in relatively few major crops to profitable market opportunities in processed and consumer-oriented product trade. According to the Economic Research Service (ERS), for example, the United States' focus on

bulk product exports is a major constraint on expanding the value of U.S. agricultural exports.<sup>3</sup>

By 1988, worldwide consumer-oriented product trade totaled \$136 billion, or 53 percent of all agricultural trade. At \$11.2 billion in 1988, U.S. sales of these products accounted for only 8 percent of world agricultural trade and 28 percent of the value of total U.S. agricultural exports.<sup>4</sup> In contrast, the European Community's (EC) share of consumer-oriented products was 31 percent of total world export value and 68 percent of total EC agricultural export value.<sup>5</sup> For intermediate products, the U.S. share of worldwide trade was 13 percent, compared with an EC share of 38 percent. Figures I.4, I.5, and I.6 show the leading competitors' share of world agricultural products by processing stage in 1988. Figure I.7 compares U.S. and world trade growth in consumer-oriented products during the 1980s.

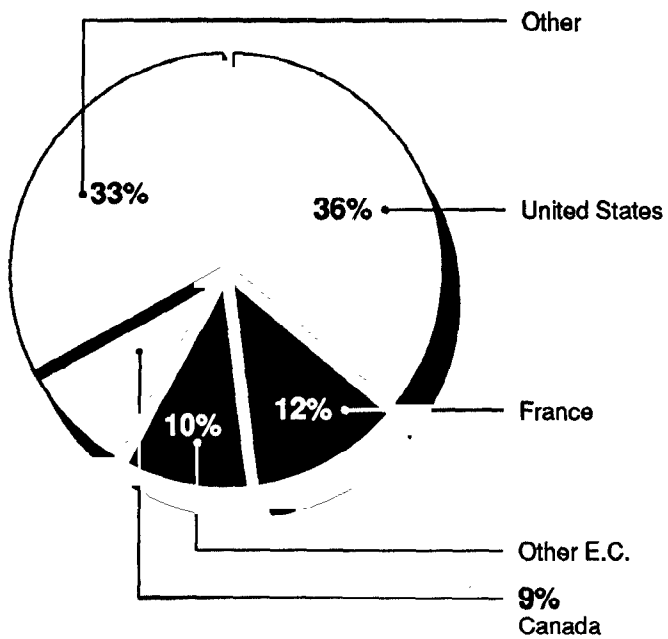
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<sup>3</sup>ERS, Agricultural Outlook, August 1989.

<sup>4</sup>FAS changed definitions for its consumer-oriented and intermediate product categories in April 1990. FAS' Trade and Marketing Branch Chief told us the change was made in order to get a truer representation of the products in those categories. Under the prior definitions, the U.S. share of world consumer-oriented and intermediate products would be 5 percent and 18 percent, respectively.

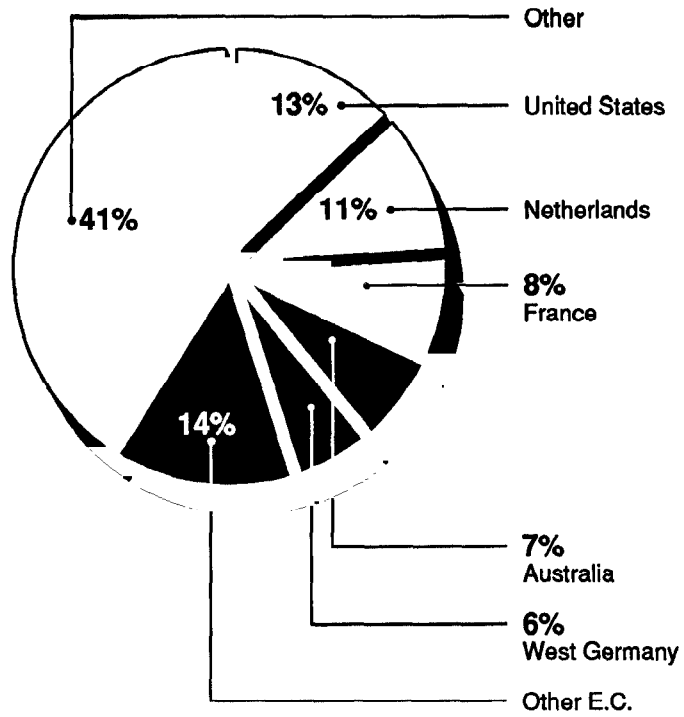
<sup>5</sup>Trade analyses often compare the United States with the EC because of demographic, geographic, and economic similarities.

Figure I.4: World Market Shares by  
Leading Competitors for Bulk Products,  
1988



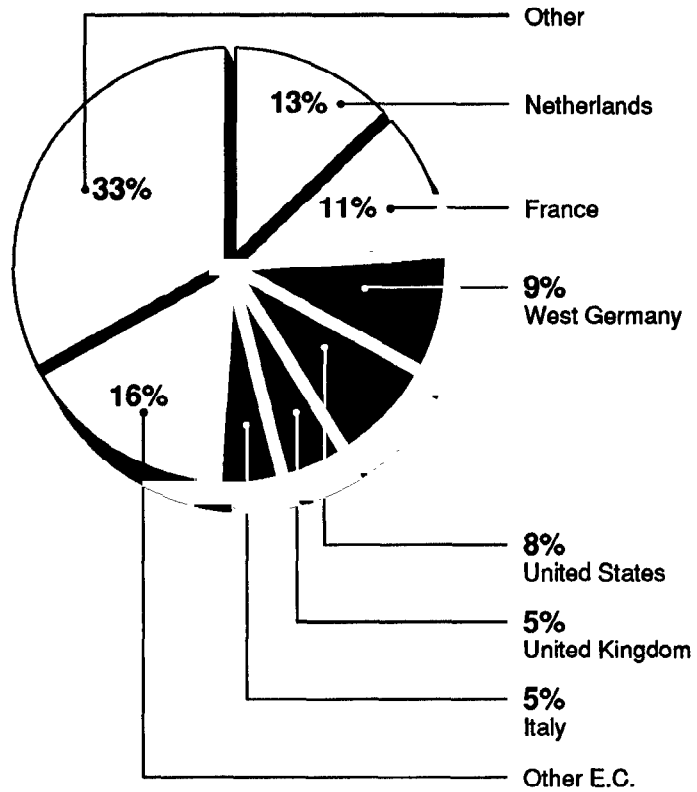
Source: GAO analysis of FAS data.

Figure 1.5: World Market Shares by  
Leading Competitors for Intermediate  
Products, 1988



Source: GAO analysis of FAS data.

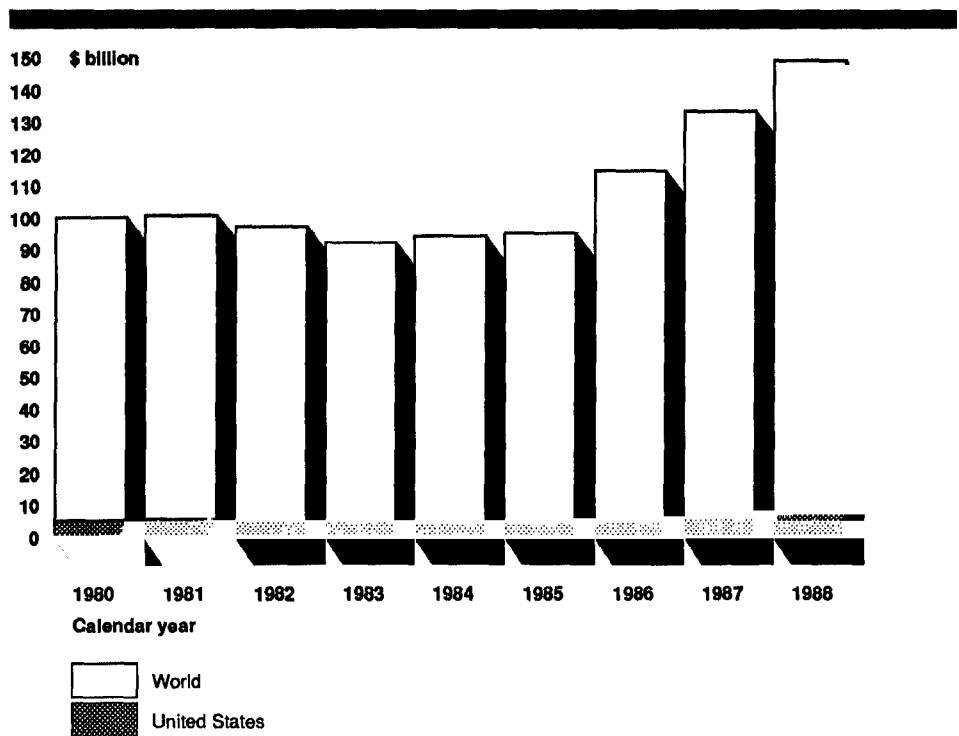
Figure I.6: World Market Shares by  
Leading Competitors for Consumer-  
Oriented Products, 1988



Source: GAO analysis of FAS data.



Figure I.7: U.S. and World Agricultural Trade for Consumer-Oriented Products, 1980-88



Source: GAO analysis of FAS data.

The U.S. market share of world agricultural trade increases if EC intra-trade is excluded from the calculations. By taking out EC intra-trade from 1988 data, the U.S. share of world trade increases from 15 percent to 23 percent. Similarly, the U.S. share of consumer-oriented products increases from 8 percent to 15 percent. However, even after removing EC intra-trade, EC still holds 25 percent of the consumer-oriented market.

### Importance of High-Value Product Trade

The trade of value-added products provides widespread benefits. Adding value to raw agricultural commodities through processing reaps the benefits of added employment, economic output, and government revenue. Increasing product value through processing provides additional economic activity to the nonfarm sector. The U.S. concentration in the low-value, bulk product market minimized the impact of expanded farm exports on the rest of the economy. According to the December 1989 final report of the National Commission on Agriculture and Rural Development Policy, U.S. farmers frequently export raw commodities that are processed abroad and then sold back to U.S. consumers.

Potential benefits of trade in high-value products run into billions of dollars and thousands of jobs. In 1986, the National Commission on Agricultural Trade and Export Policy estimated that the United States would have had an additional \$9 billion in high-value exports and an additional 350,000 Americans employed in processing, marketing, and handling if growth in high-value exports had been comparable with growth in low-value exports. In addition, in its 1983 study on the multiplier effect of high-value trade, ERS reported that if the United States could capture a 15-percent share of the high-value product market by 1990 without cutting bulk commodity exports, the new trade would generate a 1- to 2-percent increase in the gross national product (\$52 to \$104 billion in 1990) and create about 1.5 million more jobs.

# USDA Needs Strategic Marketing Skills and Marketing Management Orientation

By developing a market-oriented trade policy and refocusing USDA programs and policies on strategic marketing practices, USDA can assist U.S. agribusinesses in competing more effectively worldwide. However, USDA agencies are not well-positioned to provide this kind of support to agribusiness.

The four agencies we examined—Agricultural Marketing Service (AMS), Agricultural Research Service (ARS), Extension Service (ES) and Foreign Agricultural Service (FAS)—differ sharply in their missions, management approaches, and preparedness for working in a market-oriented economy.<sup>1</sup> These differences appear in three broad areas: strategic marketing perspectives, marketing skills, and degree of interagency coordination. Table II.1 summarizes the differences for the four agencies.

**Table II.1: Marketing Management Approaches of Four USDA Agencies**

Agency	Strategic marketing perspective	Marketing skills	Agency coordination
ARS	6-year implementation plan begins shifting research emphasis from production to product use research	Limited strategic marketing training being developed	Coordination a major focus of strategic plan  Established agencywide coordination mechanism
ES	Strategic plan targets competitiveness and profitability	Marketing now a work force planning issue  National marketing training program underway	Coordination a component of strategic plan
FAS	No strategic planning process  Limited strategic marketing perspective	Recently expanded hiring profile to include marketing experience  Little marketing training	Coordination need recognized in 1986 in-house task force report but little practiced
AMS	Strategic plan and marketing perspective limited to product delivery aspects	No hiring changes or marketing training planned	Strategic plan coordination limited to industry users. Formal mechanism set up with APHIS and ARS; developed for others.

## Strategic Marketing Perspectives Vary

Principally as a result of their respective strategic planning processes,<sup>2</sup> ARS and ES exhibit a greater management emphasis on strategic marketing than FAS or AMS. Both ARS and ES have produced strategic plans that update traditional agency missions. The plans set clear, long-range objectives matching agency staff and resources with emerging national

<sup>1</sup> App. IV lists several USDA agencies and their marketing responsibilities.

<sup>2</sup> The Agricultural Research Service Program Plan and the Cooperative Extension System National Initiatives: Focus on Issues.

agricultural issues. These objectives are framed as broad, national agricultural issues. In contrast, neither FAS nor AMS have produced plans that we believe would help guide agency management through the market-oriented challenges in the agricultural economy. Both FAS and AMS rely on their traditional, production-oriented philosophies of program management in describing their mission and objectives. AMS is developing a strategic plan and FAS intends to initiate a strategic planning process in 1990, but we have not seen any indication that either agency plans to update its traditional, production-oriented missions to focus more on strategic marketing techniques. The following sections describe recent actions.

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**Agricultural Research  
Service**

The ARS strategic plan identifies roles for ARS in three marketing-oriented management functions—quality control, value-added processing, and new product development. For example, ARS' current 6-year implementation plan, which covers the 1986-92 period, calls for a shift in emphasis from production to product-use research to reflect more interest in developing products for consumer needs. The implementation plan projects a modest increase in the share of ARS research resources going to product use by 1992, with high-priority research in

“knowledge of ways to apply new and emerging technologies to convert surplus commodities and their derivatives into competitive or novel products which can open new foreign and domestic markets, displace imports, or add value.”

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**Extension Service**

ES' 1988 strategic plan targeted competitiveness and profitability of American agriculture as one of eight national initiatives. The plan states:

“Future profitability will depend not on increasing production levels, but on maintaining competitiveness in a global economy. The potential for profit hinges on an economically efficient U.S. production and marketing systems and supportive agricultural, macroeconomic, and international trade policies. Education programs in production management, financial management, marketing, and public policy must be integrated and targeted toward increasing competitiveness and profitability.”

In November 1989, ES renamed this initiative “competitiveness of American agriculture” and called for emphasis on two issues—sustainable agriculture and international marketing. According to the Associate Administrator, the focus on national issues instead of disciplines has improved the agency's credibility within the Department and with the Congress. National issues, such as water quality and competitiveness,

are more easily understood and align more closely with broader constituent concerns than traditional ES disciplines, such as range science.

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## **Foreign Agricultural Service**

Although FAS officials frequently cite important trends in agricultural trade, such as changes in consumer preferences and the increasing importance of consumer-oriented product trade, FAS has not developed a strategic marketing response to global economic challenges. For example, FAS' fiscal year 1990 report on agricultural trade strategy does not specify how the agency will react if trade barriers are eliminated. The report also does not address marketing issues that other USDA agencies have identified, such as the Cooperative State Research Service's (CSRS) report on opportunities for increased trade in consumer-oriented food products. CSRS concluded that the United States would have more success in developing new products to compete in world markets if greater attention were given to identifying specific consumer demand in other countries.

Increased program demands and reduced agency resources contribute substantially to FAS' difficulty in addressing marketing issues. A former FAS Assistant Administrator told us that strategic planning, although needed, has been squeezed out by high demands on time, staff, and resources for mandated programs. The FAS Assistant Administrator for Management told us that he has been trying to plan a retreat to discuss a strategic marketing plan, but GATT negotiations and other crises have made the retreat a lower priority. USDA officials and reports point out that FAS staff and budgets declined 7 percent between 1980 and 1988, although the Congress enacted 12 new FAS programs. The officials find it ironic that the lead agency for international trade suffers staff cuts and limited resources during a decade when the food and agriculture industry has become increasingly part of the global trading system. The Department-wide lack of planning and a proactive stance on trade issues, according to one USDA official, has resulted in programs designed by the Congress for FAS administration, without a corresponding commitment of resources.

In early 1990, FAS reorganized to better achieve its trade objectives. For example, the High Value Products Division was renamed the High Value Products Services Division, and has received additional management positions to address problems with program and management inexperience. According to the new Division Director, the additional positions will provide needed management continuity to improve planning and services.

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## Agricultural Marketing Service

AMS, a service-oriented regulatory agency, displays little adaptability to a strategic marketing orientation because its basic mission counters the strategic marketing approach. Strategic marketing starts with identifying consumer needs and works backwards through the system to the point where the farmer decides on the best seed to plant to meet those needs. Since 1913, marketing activities in AMS and its predecessor agencies have worked the other way—starting at the farm gate and working outward to meet industry needs.

AMS is planning to expand its current marketing activities. Issues as food safety and international marketing services are included in AMS strategic planning process but only from an industry service perspective. For example, AMS is considering (1) stationing AMS graders at foreign ports to grade incoming U.S. agricultural products and (2) expanding its Market News Service to include international market information. However, these planned programs will only add an international dimension to what historically have been domestic-only marketing services. They will not examine the issues from a strategic marketing framework.

AMS officials emphasized to us that the agency gets indirectly involved in consumer need issues through its marketing order and research and promotion programs. However, as we reported in 1985,<sup>3</sup> AMS does not take a proactive role in this area. Instead, AMS limits its activities to ensure that industry-proposed standards match existing regulations. AMS relies on the industry to consider consumer interests, assuming that the industry bases its quantity and quality control decisions on maximizing consumer demand.

The AMS Deputy Administrator believes much of U.S. agribusiness is at the forefront of strategic marketing, but he still sees areas where some food industries could benefit from marketing leadership occasionally. According to this official, U.S. agribusiness needs to develop a greater global mindset. This is the major point he and other top AMS managers make in speeches before industry groups. He sees such a mindset as a precursor to greater value-added trade. We agree, but we also believe that AMS is not making optimal use of a substantial resource: AMS headquarters and field office marketing specialists are not allowed to approach an industry having marketing problems until formally contacted by interested producers or handlers.

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<sup>3</sup>The Role of Marketing Orders in Establishing and Maintaining Orderly Market Conditions (GAO/RCED-85-87, July 31, 1985).

We found one example of a proactive marketing program in AMS—a program that helps growers identify potential products with market opportunities in limited geographical areas. Through this program, for example, AMS helped farmers in southern Virginia make a successful transition from tobacco crops to broccoli, for sale in local markets. A senior AMS official told us, however, that the work performed by this branch is not part of AMS' primary mission. USDA proposed elimination of this branch in its fiscal year 1991 budget.

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## USDA Staff Lack Strategic Marketing Skills

USDA's ability to lead the U.S. agribusiness response to global market changes depends on the knowledge, administrative expertise, and creativity of its managers and staff. According to a report by the National Agribusiness Education Commission (NAEC),<sup>4</sup> an agribusiness and USDA-sponsored group, shifting market imperatives have created the need for a new kind of agribusiness professional. The following section describes recent actions by the four agencies in the areas of hiring and training staff.

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## Foreign Agricultural Service

FAS is currently modifying its hiring program in response to internal reports recommending greater marketing and management skills. The most recent, a 1989 FAS task force report,<sup>5</sup> found that FAS marketing and managerial skills were insufficient because its 1983 recruitment profile requires a master's degree in agricultural economics. The report criticized the profile as too limited. The 1983 profile is also counter to the NAEC report, which stresses the need for agribusiness management training. One FAS official said the 1983 profile amounted to hiring "peas from the same pod" who lacked some vital management skills. Others said the old profile restrained the agency's ability to change and resulted in a preponderance of task-oriented managers and staff with limited marketing, sales, and promotion skills. Still other FAS managers defended the hiring profile by arguing that agricultural economics is the most flexible discipline for the numerous duties FAS performs. They said

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<sup>4</sup>The Commission developed a model agribusiness Master's degree curriculum, based on the Master of Business Administration degree, and new ways to deliver agribusiness education. As the Commission observes, the challenge is to focus more on demand-based management skills and less on production technologies. See *Agribusiness Education in Transition: Strategies for Change*. Report of the National Agribusiness Education Commission (Cambridge, Mass.: Lincoln Institute of Land Policy, June 1989).

<sup>5</sup>"Report and Recommendations of the Committee on Civil Service and Foreign Service Personnel Management Issues," FAS/USDA, Apr. 1989.

that the talented agricultural economists hired are more readily trainable in marketing and other disciplines than marketing specialists would be trainable in agricultural trade.

The new hiring program will include a revised hiring profile and recruitment strategy. According to the FAS Chief of Personnel Operations, the 1990 hiring profile expands the 1983 profile to add candidates with general or international economics backgrounds for foreign service positions and candidates with experience in other areas, including marketing, for specialist positions. FAS is redesigning its recruitment program to match the new hiring profile with the universe of qualified candidates. Recruitment, which has long been limited to the land grant and 1890s universities,<sup>6</sup> is expected to include a few other universities with programs in international economics and agribusiness. The hiring program will be used initially for the fall 1990 recruitment program, under which the agency expects to hire 25 to 40 employees.

Although FAS has adjusted its hiring profile, it has not dealt with the training needs of its existing staff. For example, even though a 1984 poll of USDA's private industry clients identified export marketing as the FAS training need with the highest priority, no marketing training programs have been developed. Several FAS officials told us that the need for marketing training has been discussed for years, but no courses have ever been provided. Another FAS official told us that he is trying to enhance marketing within the training program by asking agribusiness to sponsor and conduct marketing seminars for FAS' junior professional staff.

## Extension Service

ES lacks hiring authority in the field but has initiated a national training program to develop marketing and management skills among its staff at state and county offices. According to the Deputy Assistant Administrator, the ES strategic plan lists staff training as the first priority in implementing the agriculture competitiveness initiative. A national program leader called this effort "training the trainers," because the program is delivered to county agents who will, in turn, advise and instruct growers and processors. ES officials believe training is the most practical means for developing appropriate staff skills in global competitiveness. The first training session was held in Minneapolis in December 1989, in

<sup>6</sup>State land grant colleges and universities were created by the Morrill Land-Grant College Act of 1862 to encourage further practical education in agriculture, homemaking, and the mechanical arts. The "1890s universities" are traditionally black universities designated as land-grant institutions by the Second Morrill Act of 1890.



cosponsorship with other agencies, including FAS and the Small Business Administration.

ES realizes that the training sessions must deal with its traditional production bias and its focus on specific disciplines, such as pest management. ES officials told us that county extension agents typically have a production bias, which will be the toughest training hurdle. ES officials also said there is a natural lack of interdisciplinary perspective among state extension staff in research areas. In addition, faculty at land grant universities are reluctant to change from their area of specialization. ES officials said they are working closely with the states to reach agreement on the staff skills needed to address the national competitiveness initiative.

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### Agricultural Marketing Service

AMS has no current plans to change its hiring practices or develop marketing training programs. One agency official said the agency will probably place less emphasis on hiring agricultural economists as the principal staff position because there are fewer qualified candidates, not because of the NAEC study findings. A promotion and research official for one AMS commodity division viewed marketing as a desirable trait but said it is more important to have strong communication skills and familiarity with commodity programs.

We believe that by narrowly defining its role as a regulatory and oversight agency that deals only with market delivery systems, AMS adversely affects its ability to develop skills needed to compete in a market-driven system. Without managers who are knowledgeable about global marketing practices, AMS will be unable to provide national leadership in domestic marketing and in integrating U.S. marketing programs into the global trading system.

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### Agricultural Research Service

Neither the ARS Program Plan nor the Implementation Plan address marketing skills and training issues. A senior ARS official told us, however, that present staff will be able to cross over into new research areas, such as industrial uses of agricultural products, without difficulty. He also said that ARS is developing a training program for its scientists to encourage them to take a systematic approach to research and its commercial applications.

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## Little Interagency Coordination of Marketing Issues

As we stated in our October 1989 report,<sup>7</sup> individual agencies are typically more committed to their own constituencies than to broad USDA objectives. Interagency coordination of cross-cutting issues, including marketing, does not receive high priority. Marketing coordination has traditionally involved ad hoc information-sharing rather than organized planning activities. As a result, USDA marketing-related agencies may (1) not be focused on common marketing-oriented issues, (2) not always have the latest marketing information available, (3) duplicate efforts, and (4) cause client service to suffer.

Agencies appear to be more comfortable sharing information than coordinating program planning on common issues. Numerous staff members told us that they exchange information regularly through their own informal contacts and a few formal cooperative mechanisms. For example, FAS and the ARS Technical Office for International Trade exchange information about pesticide and other issues on a regular basis. Also, individual agencies have established formal arrangements, but they generally only facilitate day-to-day information exchange. Little interagency planning occurs. For example, AMS and FAS do not coordinate their program planning or information exchange. We found that only ARS has established a formal mechanism for coordinating program planning with other agencies.

The lack of coordinated program planning or information exchange among the marketing-related agencies has resulted in missed marketing opportunities for U.S. agribusiness. For example:

- ARS developed and patented a new citrus fruit process that makes peeling and sectioning easier, but it took at least 5 years for industry and other USDA agencies to become aware of the innovation and realize its marketing potential.
- An ARS official responsible for research planning told us that he would like to set up a mechanism with FAS overseas offices to exchange product research ideas. However, while visiting Tokyo and other FAS sites, he found that FAS' attaches are too overworked to provide ARS with research ideas.
- The ARS official responsible for product utilization called for a stronger interagency market intelligence network to guide research planning. The FAS Administrator told us that overseas offices collect and distribute

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<sup>7</sup>U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19, Oct. 26, 1989).

information to other USDA agencies. However, he also said that most program information is classified as “market sensitive” and is not shared with “domestic” agencies.

- Neither FAS nor ARS contact ES agents about overseas market opportunities or new products that could be passed on to growers interested in such information in making their planting decisions. A former FAS Assistant Administrator, arguing against a proposal to have attaches work with state and local officials after returning from overseas posts, told us the effort would be wasted because local agriculture officials do not understand FAS’ mission and goals.
- Some industry groups receive financial assistance under FAS’ foreign market development programs and participate in domestic research and promotion check-off programs overseen by AMS. Yet FAS and AMS officials told us that the two agencies have no interaction with one another to coordinate resources and strategies for domestic and export markets.

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## Recent Efforts to Coordinate

The four agencies we examined have, to varying degrees, recognized the need for increased coordination. The following sections describe recent actions.

### Foreign Agricultural Service

According to a 1986 FAS task force report, without assistance from other USDA agencies, the agency’s limited resources cannot adequately support ongoing U.S. agricultural trade activities while initiating new programs for high-value products. If it were to coordinate a variety of USDA agency activities, the report noted, FAS might develop new products with ARS; improve export quality with the Federal Grain Inspection Service and the Animal and Plant Health Inspection Service (APHIS); facilitate transportation of exports with the Office of Transportation; improve market access with APHIS and others; and enhance market promotion. In the past year, FAS officials have repeatedly agreed that coordination is necessary for the agency, which has less than 1 percent of the Department’s staff and resources, yet responsibility for the output of about 30 percent of the U.S. harvested acreage that is destined for export markets.

One FAS response to the 1986 task force report was to invite related agencies to participate in FAS regional strategic planning conferences. However, agency coordination is no longer a conference priority. Agency representatives who attended the conferences said the planning sessions were useful in 1986, but that the conferences were less productive in 1987 when invitations and opportunities to participate were limited. USDA marketing agencies, particularly APHIS and ARS, which have large

overseas staffs, are still invited to FAS planning conferences, but primarily as observers.

The FAS official who initiated the 1986 strategic planning events said that new demands on FAS' time and staff reduced the agency's ability to include agency coordination as a high priority. In addition, although the participation of related agencies improved working relationships, FAS' heavy work load precluded such interagency strategic planning conferences for the foreseeable future.

#### **Agricultural Marketing Service**

AMS' strategic planning process did not address agency coordination, in part because agency coordination is not a concern of the AMS' industry group constituency. AMS officials explained that they are most concerned about coordination with industry groups because most of the agency is funded with industry user fees. AMS is, however, taking steps to replace sporadic and unmonitored coordination with more formal ties. For example, the AMS Deputy Administrator for Marketing Programs said AMS is revising its Memorandum of Understanding with ARS to identify a new AMS science division as the liaison with ARS. This new memorandum is expected to improve identification of common research needs and priorities. Other coordinating mechanisms are being developed with the Economic Research Service, Food and Nutrition Service, and ARS.

#### **Extension Service and Agricultural Research Service**

The strategic planning process prompted ES and ARS to pursue agency coordination to achieve their objectives. Each agency has identified key roles it can play in contributing to resolution of broad issues, such as global competitiveness. This identification has led the agencies to initiate agency contacts and set the agenda for cooperation. The Office of Management and Budget official responsible for reviewing ES programs told us, moreover, that the evaluation of ES' performance, which affects its annual budget, will depend on its ability to coordinate activities with other agencies because its national initiatives transcend many agency responsibilities.

Both agencies design and conduct coordination activities that are more collaborative than reactive. ES, for the global competitiveness initiative, is forming a national network with eight USDA agencies and numerous other organizations to pool information and talent. One result of this network is a series of regional workshops—"Cultivating Rural American Exports"—which began in December 1989. Another result is the anticipated placement of an ES staff member in the FAS Trade Assistance and Planning Office.

# Objectives, Scope, and Methodology

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This report is one of a series examining the management of USDA. Our overall goals are to identify ways USDA can make and sustain management improvements in order to strengthen policy development, better achieve program goals, improve the integrity of management systems, and enhance planning for future agricultural issues. With regard to USDA's management of marketing strategies, our principal objectives were to evaluate the (1) Department's organizational structure for international and domestic trade; (2) marketing management approaches of four agencies; and (3) ability of management systems to support USDA's role in the changing international marketplace.

Our interim report laid the groundwork for this review. We have updated our earlier information and examined agricultural trade and marketing literature, trade statistics, and USDA trade policy documents. We interviewed officials in FAS, ES, AMS, ARS, ERS, APHIS, CSRS, Office of Management and Budget, National Agricultural Library, and the Joint Council on Food and Agricultural Sciences to obtain information on agricultural policy making, agency coordination, agency structure, and program management. We met or talked with Cooperative Extension officials in three states to obtain information about USDA's trade priorities, agency coordination, and strategic marketing. We discussed marketing concepts with private industry officials who work closely with USDA on trade matters.

To obtain additional views on export program evaluation, we attended a conference in the spring of 1990 on the evaluation of promotion programs. To obtain additional information about work force skills needed for the competitive trade environment, we attended a conference of the Agribusiness Education Development Project in the summer of 1989. We also attended the U.S. Agricultural Export Development Council/Foreign Agricultural Service annual workshop in Washington, D.C., in the summer of 1989.

To examine USDA's trade management structure, we identified agencies with marketing responsibilities or interests. We reviewed agency mission statements and program objectives. We also reviewed agency and department documents and interviewed agency officials for information about changes in trade duties.

To measure USDA's responsiveness to changing world trade conditions, we reviewed agency and Department documents for indications that the Department recognizes strategic marketing as a trade tool. We interviewed agency and private industry officials to determine how they

view USDA's marketing role and its incorporation into the Department's structure.

We focused this review on four USDA agencies—FAS, AMS, ARS, and ES—because they represent different trade management areas. FAS and AMS are the lead agencies for foreign and domestic trade, respectively. ARS is the lead agency for research at USDA. ES, in addition to having an education and extension role, has a large field structure. We recognize that a comprehensive trade management review would require study of all agencies with trade responsibilities, but even this broader review would be incomplete without including other executive departments with which USDA interacts, such as the Department of Commerce.

We conducted field work between September 1989 and April 1990 according to generally accepted government auditing standards.

# Principal USDA Agencies With Marketing Responsibilities or Interests

USDA agency	Marketing responsibility or interest
Agricultural Cooperative Service	"Studies are conducted to support cooperatives that market farm products....provides technical assistance in...developing strategies for growth...."
Agricultural Marketing Service	"Better marketing for farm products is the goal...."
Animal and Plant Health Inspection Service	"Conducts activities outside the United States which...enhanc[e] United States' agricultural exports."
Agricultural Research Service	"Develop the means for...achieving maximum use of agricultural products for domestic markets and export...."
Economic Research Service	"...monitors, analyzes, and forecasts U.S. and world agricultural production and demand... [and] evaluates the economic performance of U.S. agricultural production and marketing...."
Extension Service	"...uses its research-based information to help retain America's competitive edge in world markets...."
Foreign Agricultural Service	"...represents U.S. agricultural interests overseas, reports on agricultural production and trade...[and] promotes exports...."
Federal Grain Inspection Service	"staff work with international inspection traders...[to] explain the national system [for]...U.S. grain standards; conduct briefings...; respond to inquiries about quality and quantity of U.S. grain shipments."
Food Safety and Inspection Service	"International programs assure the inspection, wholesomeness, and accurate labeling of imported meat and poultry and facilitate export of U.S. products."
National Agricultural Library	"The Agricultural Trade and Marketing Information Center...serves as a national information resource...[for] the national and international marketing and trade community."
Office of International Cooperation and Development	"...programs...focus on sharing knowledge of agriculture through development assistance and cooperation...."
Office of Transportation	"...conducts research to improve the...distribution of agricultural products between farms and consumers, to maintain quality...of products in marketing channels...Identifies transportation problems in areas of export and foreign trade...."
World Agricultural Outlook Board	"...serves as a focal point for...economic intelligence effort of gathering, interpreting, and summarizing developments affecting domestic and world agriculture."

Note: The quoted descriptions of marketing responsibility or interest are taken from agency brochures, government manuals, or budget documents.

# Comments From the U.S. Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF AGRICULTURE  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20250

November 8 1990

The Honorable Charles A. Bowsher  
Comptroller General  
U. S. General Accounting Office  
Washington, D.C. 20548


Dear Mr. Bowsher:

We are enclosing the Department's comments on the General Accounting Office (GAO) Draft Report RCED-90-239, "U.S. DEPARTMENT OF AGRICULTURE: Strategic Marketing Needed to Lead Agribusiness in International Trade."

Representatives of the Extension Service, Agricultural Marketing Service (AMS), Foreign Agricultural Service, Office of Finance and Management, and the Office of the Secretary met with Gary Boss, GAO Assistant Director, and Andrew Finkel, GAO Assignment Manager, on October 3, 1990, to discuss the draft report. At that meeting, USDA identified various inaccuracies and lack of up-to-date information in the draft report. Follow-up meetings with AMS also were held. Written responses from the individual agencies containing recommended changes to the draft report were provided to GAO. It is our understanding the final report will reflect these recommended changes.

When the final report is completed and GAO's recommendations are finalized, the Department will provide a statement of action. Please refer questions through the Office of the Assistant Secretary for Administration, Room 248-W.

Sincerely,

  
Clayton Yeutter  
Secretary

Enclosure

See comment 1.



**USDA Response  
to  
GAO Draft Report, GAO/RCED-90-239, Entitled  
"U.S. Department of Agriculture: Strategic Marketing  
Needed to Lead Agribusiness in International Trade"**

**GENERAL COMMENTS**

USDA agrees that effective marketing is an integral element in improved international competitiveness for American agriculture. The reduction of trade barriers and export subsidies to encourage market-oriented international agricultural trade policies and improved marketing capabilities to enhance the competitiveness of U.S. agricultural products are high priorities of this Administration. Both are Presidential initiatives on which the Secretary reports quarterly through an MBO process established in 1989. The draft report implies that USDA should be doing a better job in the area of strategic marketing; yet, it fails to address the appropriate role for the public sector in general and USDA in particular in promoting international competitiveness. The GAO should provide its vision of the public sector's role in strategic marketing, so that USDA may be judged against a clear standard.

See comment 2.

The report implies that USDA is responsible for the decline in the U.S. share of the world agricultural market. USDA strongly disagrees. Macroeconomic factors existing during the 1980's, including the sharp appreciation of the dollar, high loan rates, high interest rates, and third world debt, and the agricultural trade policies of our competitors played a significant role in the loss of international competitiveness during the decade. In addition, statutorily mandated agricultural policies encourage farmers to produce commodities for which they receive government benefits the surplus of which requires further government assistance. While USDA assists U.S. agribusinesses to develop markets and expand exports, it cannot overcome the effects of economic and other policy variables it does not control.

See comment 3.

The basic premise of the draft report is that USDA agencies should take a more active role in strategic marketing, defined by GAO as "identifying consumer needs and developing products and delivery systems to satisfy those needs," including highly-processed, value-added, consumer-oriented products and services. In the U.S., the private sector takes the lead in these activities. Public sector agencies provide assistance to private farmers and agribusinesses in marketing their produce domestically and internationally. The public sector in the U.S. does not exert the influence over the private agricultural sector that do the governments of our principal agricultural competitors. The draft report praises our principal agricultural competitors for their effective international marketing programs; yet, increased control over the private sector would move American agriculture away from the increased market orientation that both the GAO and USDA advocate.

See comment 4.

See comment 5.

The report places far too much emphasis on our competitors' prowess in strategic marketing as a factor in the international competitiveness of their agricultural products. The high price supports and massive export subsidies which have played a significant role in the expansion

See comment 6.

of the European Community's (EC) share of the international agricultural market are mentioned only in passing. USDA strongly disagrees with the suggestion that EC policies are an appropriate model for U.S. efforts to improve international agricultural competitiveness as this would involve large scale and extensive USDA controls over the private sector and greatly increase Government outlays at a time of serious concerns about the budget deficit. In fact, the negotiating posture of the U.S. Government with regard to the Uruguay Round of Multilateral Trade Negotiations is antithetical to this approach.

#### **STRATEGIC MARKETING PROGRAMS**

While the draft report acknowledges the successful efforts of the Extension Service (ES) and the Agricultural Research Service (ARS) to adapt their programs to the changing requirements of increasingly competitive global agricultural markets, it suggests that the Agricultural Marketing Service (AMS) and the Foreign Agricultural Service (FAS) lack a strategic marketing perspective and, consequently, are deficient in fulfilling their leadership roles in the international marketing area. It reflects misconceptions about the established missions of AMS and FAS and fails to reflect the full range of existing and planned USDA programs in the strategic marketing area.

For example, AMS has implemented a number of programs to assist its customers in international marketing including quality export certification and quality assurance activities, participation in international organizations' deliberations on commodity standards, conducting research on potential export markets, and assisting business in the development of innovative marketing plans.

The AMS strategic plan focuses on enhancing the international competitiveness of U.S. agricultural products. Among the emerging issues identified in the plan are: "International Agricultural Marketing - Meeting the Challenge," "Marketing Services for U.S. Agriculture," and "Workforce and Workplace - 1990 and Beyond." The plan outlines goals and objectives to be implemented over several years to improve international marketing services to AMS customers.

The draft report does not accurately reflect the extent of FAS' activities in market development and export promotion. While FAS' influence over agricultural production and trade is necessarily indirect, it facilitates trade flows to maximize benefits to private sector producers. Central to FAS' international marketing efforts are the agricultural attaches and counselors posted abroad. The attaches participate in a continual planning process which identifies market opportunities in specific countries and directs resources to the country and commodity markets with the best potential for export expansion.

In the Targeted Export Assistance Program, a program aimed primarily at promoting exports of high value and consumer-ready products, planning is a part of the application process for potential program participants. To the extent that such plans fall under the umbrella of an overall plan we have determined concerning the best markets and

commodities for export promotion, an applicant may receive funding for export promotion. To the extent that a program participant does not properly implement such a plan, funding is curtailed or discontinued.

In the GSM-102/103 credit programs, we conduct in-depth and coordinated country market and commodity planning including a detailed risk assessment of each country. In terms of export potential, the best markets for use of export credits are based upon a detailed risk assessment of the most promising commodity-country market combinations.

The Export Enhancement Program counters the EC's export subsidy practices by providing export assistance to exporters of U.S. agricultural commodities to specific country and commodity markets where they have faced unfair competition as the result of high subsidies by our competitors. In this program, which aids in the export of certain primarily bulk commodities such as wheat, there is an ongoing review aimed at specifying which markets and commodities need program assistance. This review aims at assuring that the various country-commodity market combinations chosen for assistance do the maximum to counter the EC's export subsidies while avoiding displacement of non-subsidizing competitors.

The FAS has taken a number of actions recently to strengthen its planning and marketing functions. For example, planning functions have been centralized in the Planning and Evaluation Staff, the functions and activities of the High-Value Products Services Division have been upgraded; and, in recognition of the rapidly changing nature of international agricultural trade, the FAS hiring profile has been expanded to include international economists, marketing specialists, and individuals with a background in business administration.

See comment 7.

With respect to FAS, the report includes inaccurate information regarding the agency's staffing and budgets during the 1980's. On page 35 of Appendix II, the draft report reads "FAS staff and budgets declined 7 percent between 1980 and 1988, although Congress enacted 12 new FAS programs." In fact, the combined program level for FAS and its General Sales Manager's Office (OGSM) increased from \$59 million in FY 1980 to \$99 million in FY 1988, an increase of 68 percent. During this same period, FAS and OGSM staff-years declined by 5 percent from 877 to 832. Staff years have been increased since and are expected to reach 855 during FY 1991.

See comment 8.

The draft report is misleading in its failure to discuss many of the programs in AMS and FAS which demonstrate the existence of a strategic marketing perspective. While the Department and its constituent agencies recognize the need for continued efforts to strengthen our capabilities to help U.S. agribusiness improve its international competitiveness, we disagree with the draft report's suggestion that the Department is seriously deficient in its efforts to employ a strategic marketing perspective in the implementation of current programs. Adequate evaluation of the Department's performance in the area of strategic marketing requires a comprehensive examination of the full range of existing programs.

See comment 9.

See comment 10.

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The following are our comments on the U.S. Department of Agriculture's letter dated November 8, 1990.

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## GAO Comments

1. Points in our draft that USDA referred to as "inaccuracies" reflect differences of opinion as to what we and USDA consider strategic marketing activities and the Department's role in assisting the private sector. For example, FAS officials emphasized that the private sector takes the strategic marketing lead in the United States. They see the U.S. government role as that of facilitating the trade flows to maximize private sector benefits and FAS' role as actively planning at every stage of program implementation. We agree that the government role is primarily that of facilitator and that strategic planning is key. However, we do not see that the programs themselves encourage proactive marketing techniques or that the planning is always adequate. For instance, although we see the Trade and Export Assistance program as the FAS program most oriented to trade performance, it still focuses on reacting to competitors' actions instead of encouraging proactive marketing techniques. Also, we found FAS' Targeted Export Assistance program planning to be inadequate because major program decisions such as how and why funding allocation decisions are made are not adequately documented.<sup>1</sup>

Most of what USDA considers the lack of up-to-date information reflects USDA activities yet to be implemented. For example, AMS was just beginning a strategic planning process when we performed our audit work. At that time, AMS officials told us that they could not give us a draft copy of their strategic plan because of its preliminary nature. At the October 3 meeting, AMS officials said our draft was out of date because we did not include elements of their strategic plan. However, when we again asked for a copy of the plan, they said it was still too early in the process to share a draft with us. The final report includes aspects of the proposed strategic plan, according to discussions with AMS Deputy Administrator.

2. We are not advocating a change in USDA's mission. We call for sharpening the focus of what USDA's letter states as its role and responsibility—assisting U.S. agribusiness in developing markets and expanding exports. Specifically, we see USDA's role as that of facilitator/catalyst, educator, researcher, and technical service provider.

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<sup>1</sup>See Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

In the context of this role, USDA has many activities, including strategic marketing activities as described by USDA in its letter. We see the positive activities of ES and ARS—to adapt their programs to the changing requirements of increasingly competitive global agricultural markets—as an indicator of how these agencies are actively sharpening their roles. We applaud these changes but believe other agencies are not being as proactive in their planning, training, and coordination activities to adopt this view. We would like to see all USDA agencies with marketing roles to be more proactive so that they can better assist agribusiness in becoming internationally competitive.

3. We do not imply that USDA is responsible for the decline in the U.S. share of world agricultural trade. We recognize that many factors—foreign governments' subsidies and trade barriers, the changing value of the dollar, and domestic policies that work against a market-oriented system—have significantly affected the United States' declining share of world high-value trade. However, we believe that USDA is not responding quickly enough as an organization to the changing nature of global market conditions. We do not argue that parts of many USDA programs assist U.S. agribusiness in developing markets and expanding exports. We also do not argue that U.S. agribusiness is becoming more marketing-oriented on its own. But, as we state in the report, if USDA is to be an effective facilitator or leader for an increasingly marketing-oriented sector, we believe it needs to take proactive management actions to accelerate the development of a strategic marketing approach throughout its organization. Our recommendations are intended to help USDA create an organizational environment in which strategic marketing can be more readily adopted.

4. Our view of the applicability of strategic marketing goes beyond consumer-oriented products and services. We clarify this point in our final report by stating that strategic marketing plays an equally important role for bulk products, such as corn or wheat. It is no longer enough to just grow the best bushel of grain. To succeed in today's competitive marketplace, the variety, quality, and delivery of the grain must match consumer needs. We hope that this clarification helps show why we believe strategic marketing applies to all agricultural products.

5. We agree that the private sector is expected to make strategic marketing decisions and implement relevant techniques. We do not believe USDA should increase control over the private sector. Rather, we believe the Department should enhance its responsiveness to its clients through

its assistance programs by (1) recognizing that the agricultural marketplace of the 1990s is marketing- rather than production-based and (2) changing its organizational structure through better planning, training, and coordination to reflect this new reality. We believe USDA needs to change because its constituency is changing to a strategic marketing approach. If USDA does not do likewise, it will lose contact with its constituency.

6. We do not praise or endorse the complete mix of the Economic Community's (EC) agricultural policies or suggest that EC policies that contain price support and export subsidy restrictions would be appropriate for the United States. We do, however, believe that the significant expertise EC nations have developed in using strategic marketing techniques have, along with trade restrictions, played a major role in the EC's expansion of market share. If current U.S. efforts to improve international competitiveness under the auspices of GATT succeed in "leveling the playing field," strategic marketing techniques will be more than a major factor. In the absence of trade barriers, strategic marketing will be the controlling factor in consumers' decisions. Thus, we believe the strategic marketing aspects of the EC's trade policy are appropriate areas for the United States to examine.

7. By comparing the four agencies, we point out that ES and ARS have been able to substantially shift their missions to focus more on consumer needs by establishing issue-based management structures; in contrast, FAS and AMS have not. We recognize that AMS has begun a strategic planning effort that includes marketing activities and that both agencies have made adjustments to programs that reflect increased uses of strategic marketing techniques. However, both AMS and FAS are not in a position to quickly transform to issue-based systems because their missions reflect legislative mandates that date from the 1930s and 1950s, respectively—eras when supply was the dominant factor in world trade. For this reason, we believe USDA needs to address marketing as a coordinated, Department-wide issue.

8. Although our draft report numbers came from the FAS Administrator's office, the report was changed to reflect the staffing figures cited in the letter.

9. Although we limited our detailed analysis to the four agencies, our preliminary work examined marketing activities in 13 USDA agencies. We

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believe the problems we noted in the four agencies' marketing operations are indicative of Department-wide problems in adopting to strategic marketing. Our recommendations apply to all USDA trade-related agencies, not just the four agencies we examined in detail.

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