



Seven Observations of Western Agriculture

- ⑦ Opportunities for product differentiation may be greater than ever:
 - ◆ Tightening of product specifications:
 - ◆ food safety/food security/Consumer fears
 - ◆ GM-free (Starlink Corn)
 - ◆ specialty niches: organic
 - ◆ functional qualities: wheat for Oreo cookie
 - ◆ technological innovations improving quality
 - ◆ Improved Horticultural/Packaging Technologies
 - ◆ Service-Based Differentiation Opportunities
 - ◆ Retailers' search for *Uniqueness*



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 - ◆ Service-Based Differentiation Opportunities
 - ◆ Demand for unique products with a story
 - ◆ Functional Foods/Nutraceuticals



Odwalla: A pioneer in functional foods

Nutraceuticals: The Convergence of Science

- ◆ **Medicine:** Genetic mapping of human DNA: identifying gene patterns increasing risk of diseases
- ◆ **Nutrition:** “nutrients” to counteract genetic deficiencies
- ◆ **Biotechnology:** genetic engineering of plants/animals to produce these “nutrients”

A food supply tailored to genetic populations

Differentiation is one of the most important strategic and tactical activities ...companies must engage. It is not discretionary. There is no such thing as a commodity, only people who act and think like commodities. Everything can be differentiated. There is no reason for any company to get stuck in the commodity trap, forever competing totally on price. Historically, companies that have taken the commodity path, even when they have driven their costs deeply down, have become extinct.

--Ted Levitt, *Thinking about Management*
Harvard Business School



Conclusions/Projections

1. Ag Industry: favorable phase in its economic cycle, supported by strength in dairy, nuts (almonds) and strengthening grape markets.
2. LT Profitability of California Commodity Agriculture will remain under pressure.
 - ◆ Low cost production is still an important, but increasingly difficult strategy for most commodities.

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3. California Commodity Agriculture will continue to shrink:
 - ◆ Fewer acres
 - ◆ Fewer Farms
 - ◆ More fallowed ground
 - ◆ Less water used
 - ◆ Shrinkage will hasten if govt support programs curtailed
 - ◆ Not the result of urbanization or water availability, but the result of inability to compete in global marketplace



4. Some commodities' futures depend almost entirely on Government support payments (acala cotton, rice).
5. Support payments will be under pressure from budget constraints and international interests promoting freer global trade.
6. Some commodities may disappear.
7. Long term, surviving, commercially significant growers will fall into two categories (excluding growers farming government programs):

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- a. Low cost producers/distributors of commodities with natural economic barriers to entry, but little product differentiation:
- 1) Almond growers
 - 2) Dairies → Alfalfa hay growers
 - 3) Processing Tomatoes



- b. Critical cogs in a competitive supply chain of differentiated products driven by the consumer:
- 1) Vertical integration (Bolthouse, Grimmway in carrots; Paramount in pistachios; Eurofresh in fresh market tomatoes)
 - 2) Contractual integration (Scheid Vineyards in winegrapes, Barkley Seed in specialty wheat)
 - 3) Joint ventures (Packaged salads, Global Berries in fresh berries)

This is where the action/profitability is and will be!

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8. As a participant in the agricultural supply chain (Input supplier → Marketer):
 - a. Vital to align with those positioned for long term success.
 - b. Vital to contribute to the success of that supply chain

Thank you!



Noah's Rule

Predicting Rain Doesn't Count;
Building Arks Does.