

You're Growing It. Who Wants It?

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It's good to be with you all this morning and to be with very special friends I've enjoyed working with in the past: Jack and Bee Shepherd. I was on the Agricultural Council board of directors when Jack served for a very distinguished two years as chairman. It was a great period in history; I really enjoyed working with him. It's also good to be back with my friend Al Vangelos, who's now on the Ag. Council board. I guess the highlight of the morning for me, or maybe the highlight of the year for me, was seeing Don Gordon's name misspelled in the program, and mine spelled correctly. I mean that's ...that just don't happen, folks!

My first thoughts when I think of an avocado are of an exotic fruit. If my reaction is typical, and it probably isn't since I've spent almost all my life as a California resident, that thought—"exotic fruit"—is both good and bad. Good, in the sense that we all like the exotic. Bad, in that exotic connotes high priced, and only very occasional use. But perhaps I am getting ahead of myself. Maybe I don't know what I'm talking about, much like the New York City resident who visited his cousin on a farm. After observing all of the animals in the barnyard, he said, "Tell me, why doesn't this bull have horns?" So the farmer turns to him and says, "Well, there are several reasons. Some bulls are born without horns. Some bulls get their horns later in life. Other bulls are dehorned. However, the main reason this bull doesn't have any horns is because he's a horse."

Let me begin by telling you a little about Blue Diamond—our successes (I'll skip the setbacks) and how we've grown from a minor California specialty crop to California's No. One food export, the United States's No. Six food export, the United States's No.

One horticultural crop, and the ninth most important crop in California in terms of farm income.

At Blue Diamond Growers, we've spent 80 years building our industry, developing new products, expanding markets, and extolling the virtues of almonds through the world. Our success didn't happen overnight—it didn't happen with just one person or even a few. It was truly a team effort.

The Blue Diamond team starts with our 4,700 grower-members who are located throughout California's central valley. These members grow and harvest the quality almonds that begin the cycle. The next step in the annual cycle is our plant operations: receiving, shelling, sorting, grading, and storing. During this process, "manufacturing" almonds into hundreds of different shapes, sizes, and flavors is also taking place. At the same time that these operations are going on in the plant, the office teams in accounting, logistics, administration, information services, human resources, communications, member services, purchasing, credit, marketing, and sales are working hard to keep all those orders and shipments on the right course.

Throughout the year, marketing, sales, and our Almond Research Center have been diligently at work developing new markets and working with potential and existing customers on new products. Advertising has been hard at work developing new themes to acquaint the industrial and consumer trades with the Blue Diamond® brand, its virtues, and the virtues of the almond itself.

Remember, it's just "A Can A Week, That's All We Ask."

We have a new TV series starting next month. It changes slightly to "A Can A Week, No More, No Less," because we found that each tree actually, on average, produces 52 cans per year. So the commercial ends up urging you not to destroy the balance of nature, by taking just one can each week. No more, no less.

Another vital segment of the Blue Diamond team are the vendors, suppliers, and service providers, our bankers, our advertising agencies, our attorneys, and last, but by far not the least, our large number of customers and potential customers.

It is obvious that selling almonds—or avocados—doesn't stop with just growing, or just marketing, or just sales. It involves thousands of people working together toward the same goal: getting our product into the homes and businesses of our customers.

The key to the success of the Blue Diamond® brand is our commitment to quality and service. For years, almonds were used primarily as an ingredient in candy and pastry. With our dedication to research and service to our customers, almonds today are popular as appetizers and snack foods and have become a staple in the kitchens of households, restaurants, hotels, airlines, bakeries, all around the world. You can find them in cereals, frozen foods, ice creams, baked goods, sauces, cake mixes, rice mixes, popcorn, and numerous other popular products.

Almonds are processed into sliced, diced, chopped, slivered, halved, meal, blanched, natural, and flavored, to name just a few. We have several thousand different almond products. At Blue Diamond's Almond Research Center, almonds are continually being examined not only for different flavors and various uses, but for their nutritional value and wholesome characteristics.

How did we become the world's largest almond processor and marketer? As I said earlier, it wasn't done overnight.

In the early years when we were known as the California Almond Growers Exchange, we processed a few million pounds and always sold the entire crop. In the very early years, we sold the whole crop in-the-shell. As almonds and almond products became more popular, as almonds became more profitable, and almond plantings increased, the situation became more challenging, and opening new markets was the only alternative. Back in the 1950s, the California crop was approximately 40 million pounds and domestic consumption accounted for nearly 90 percent of our business. Ten years later, our exports had grown to 20 percent of our crop; and by the mid-'70s, we were exporting more than we were consuming domestically. Today, our exports total some 70 percent of our business; and instead of producing 40 million pounds, California alone is producing nearly 700 million pounds.

Developing markets overseas is a long and difficult road fraught with many challenges: dollar fluctuations, trade barriers, foreign competition, competitive production—Spain is the next largest producer after California; they produce about 25 percent of what we do; and then they are followed in turn with pretty minor production by Italy, Portugal, North Africa, Israel, Chile, and Australia—sort of the same places avocados are growing, I noticed earlier. "Europe '92" is still another challenge we're going to have to face in the very immediate future.

How, you may ask, did we break through all these challenges and become such a major exporter?

Your first objective in exporting is to know your market.

And that reminds me of the story about the stranger who walked into a small town grocery store to buy a bottle of ketchup. Instead, as he looked around for the ketchup, he could find nothing but five-pound bags of salt; in fact the shelves of the entire store were solidly lined with five-pound bags of salt—hundreds of them, probably thousands of bags of salt. The grocer remarked, he did have a bottle of ketchup, but he'd have to go down to the cellar to get it. The customer went with him, and there to his surprise, he found another huge stock of salt stacked all over the sides of this room. "Good grief," commented the customer; "you certainly must sell a lot of salt in this store." "Salt?" said the grocer. "I can hardly sell any salt at all. But the fellow who sells *me* salt, he can *really* sell salt!"

Some major points in exporting your product—really, any product—are these:

- First, you have to develop a market, and then plan a commitment to that market. You can't do it just simply selling a surplus when you've got it; you've got to have a long term commitment.
- Secondly, I would note very importantly, each market is different. You have to understand each culture. You cannot market in the Soviet Union, for example, like you do in Japan or the United States
- Another common mistake is to think of "export" as one market. It isn't. It's a whole variety of markets.

- You've got to do a lot of basic research to begin with. You do that in the libraries and sources in the region. You can utilize the U.S. government in Washington, particularly the Foreign Agricultural Service of the USDA, and sometimes the U.S. Department of Commerce can be helpful.
- When we tried to develop the market, the next thing we've done after we've taken those steps, is to contact brokers, agents, and potential customers in the market.
- After that's done, we would generally travel to the market. You can do a lot sitting behind your desk, but you can't do it all. You've got to get out in the market and get a feel for it.
- At that point, I think "active listening" is the best thing you do to help you to understand their culture, the people, the religion, the region, their food customs, and so forth. You've got to understand their eating habits if you're selling food, obviously.
- And then, in our case, we've sometimes developed products, through our almond research center, that will suit that culture. One of them is, for example, soy flavored almonds in cans that we sell in Japan. An other one is baby dried sardines mixed with blanched slivered almonds, which we also sell in Japan, It sounds awful, every time I mention it to an American; and if you don't like baby dried sardines, it *is* awful, but the Japanese love it, and it's one of our leading products there. It's an example of a product that's perfect for a certain market.
- And then, of course, you have to aim your advertising and sales pro motion to fit the particular culture. Our "can a week" theme: We advertise in about fifteen markets overseas, but we don't use that theme anywhere except in this country—perfect here, but it doesn't work in those other markets.
- Then you want to create a market for your product, develop your own R&D department, perhaps. Our cooperative has been a leader in new products through our Almond Research Center that includes things as elementary as shelled almonds, which we really developed, to slivered and sliced to "Smokehouse." We developed a retail almond butter in the United States, an almond beverage that's selling very well in Japan but not selling here yet, and we've developed all these items that you now find in the major cereal products in this country.
- We work very closely with our users in developing these formulas.
- We've even developed what we call a "Dog and Pony show" with our research and development director and then a number of other people in the company, where we go out to major companies like General Mills or Hershey or General Foods, and put on a two-three-four hour presentation with products that might interest them. It's been very, very successful. We'll show a hundred products, and we'll feel good if they use one product within a year; and in almost every case, they've got at least one product within two years, so it works.

Emphasis on Japan

I thought that now, to make the point a little bit better, I'd emphasize a couple of markets where we've been quite successful.

First of all, Japan. It's our second largest export market now. Japan virtually didn't even know what an almond was at the end of world War II.

The first sales we made there were in the late '50s to the chocolate industry which had started imitating, in a sense, the Hershey bars with almonds that had been passed out by the occupation troops after the war. So I give Hershey's the credit for this. Our largest customer there, however, says it was his father's idea before World War II to put almonds in chocolate, not Hershey's, but that his advisers wouldn't let him do it because they didn't think it would sell. It sells extremely well there now. It was the chocolate industry that got us started there. We were dealing with one trading company, and that didn't appear to be the way to go, so we eventually appointed *several* trading companies—at one point, I think we had fifteen different trading companies that were all selling our product there—to give broader exposure and create competition to expand the use of our product.

In 1969, Blue Diamond Growers opened a Market Development Office in Tokyo, with just two people; and within four years, almond exports to Japan had doubled. The office also grew, eventually to a division of our company with four offices and fifty employees in Japan, all Japanese nationals. One of the problems we had was with distribution of our retail products, so we approached the Coca-Cola bottling companies and worked out an arrangement with them, and they now distribute all our retail products in Japan: sixteen different independent Coca Cola bottling companies distribute our products and cut several layers out of this Japanese distribution system you've probably heard so much about.

We studied the Japanese market and learned that females in Japan attend a cooking school prior to marriage—it's almost required. So we began work with the cooking schools direct, educating them in the uses of almonds, versatility, the health benefits, and so forth. We hired cooking demonstrators, put them on our staff, and then sent them around the country teaching the instructors in the cooking schools, and sometimes the students as well, how to use almonds in cooking, and that has been extremely successful.

Emphasis on the USSR

Now moving to a totally different market, the Soviet Union:

Almond sales to the Soviet Union accelerated from about 10 million pounds per year to over 45 million pounds in 1984-85. To put that into perspective, 45 million pounds represented about a 60-70 million dollar market, so it was very, very important. We started laying the ground work in that country 22 years ago, long before this aura of friendship we have today. What we did is, we basically waived our minimum shipments on 6-ounce cans of barbecue almonds to just get some in the door. It started to grow from there.

In the mid-1970s, we made a breakthrough by getting a copy of the Soviet Union's five-year plan which included a dietary plan. We turned that over to the University of California at Davis; they came back to us with a report on how almonds could be compatible and help the Soviet's five-year plan. We turned that over to the Soviets, and

within a year, our business there had more than doubled.

The next step, in getting to really large volume, was to argue that cashews and hazelnuts were far more expensive and a lot less versatile than almonds ... which is true, of course ... and we were successful there. We increased the frequency of our contacts. The Soviets imported 45 million pounds of California almonds during the 1984 crop year, and 70 million pounds—about \$100 million of business with one country—in 1985. That was our best year ever, but business continues good there; though it is much less certain today, with all the changes that are taking place.

India

The third area of the world I want to talk about briefly is India, a very poor country. You wouldn't think of it as a market for a product that some people consider a luxury—but I don't consider a luxury because I think it's an absolute essential to life, but not everybody agrees with me on that. You wouldn't think of it, though, as a very good market for almonds; but we had some large surpluses in the mid-'70s, so we said, let's go really take a look at it. We did a lot of research, as I outlined earlier. We sent some people over there. What we discovered was that there was a tremendous belief in almonds as probably the best food in the world in India. The Indians, generally, believe that ... very, very smart people; but what we also found is that ten percent of that population, perhaps twenty percent, could afford our product—while the rest could afford hardly anything; they are starving to death. Well, ten to twenty percent of India is 80 million people—a huge market that's only 10 percent; 20 percent would be 160 million. There aren't too many countries in the world that have that many people. Through a series of things, including a 301 petition with the United States Trade Representative to remove some trade barriers they had against our product, we now have made India the seventh largest market in the world for California almonds—a very, very important market for us. But a totally different approach than the others.

Whether you are marketing in India, Japan, or the Soviet Union, the first lesson is: don't think of any market as the same or similar to another. There are 159 countries in the world today, compared to 59 countries recognized just 35 years ago, and they all have differences—religious, ethnic, geographical, diet ... you've got to deal with those.

Many people refer to their customers as "foreigners," or they have an "us vs. them" attitude. At Blue Diamond, we believe that we are all people of the world who just happen to share different cultures, so we market according to each country's cultural preferences.

My suggestion is, start with the basics in each market: define what an almond (or an avocado) is, show them how to use the product, its dietary value, health benefit, visual benefit, unique taste and feel, etc.; and then create products and new reasons for demand in each market. Remember the soy almonds and the dried sardines and blanched slivered almonds?

Stress nutrition. Almonds have no cholesterol and are low in saturated fat; in fact, almonds contain less than five percent saturated fat. They're a source of dietary fiber. They contain about 20 percent protein. (I have no speaker's fee this morning, so you

must pardon a short commercial announcement here.) In fact, almonds contain 14 vitamins and minerals that are essential to good health. In many cultures and countries, almonds are regarded very highly as food that nurtures health as well as other properties. In India, for example, a baby's head is anointed with almond oil to increase the intelligence of the child.

Very highly educated Indian people, including one of the former ambassadors to the United States, will take five to seven almonds and put them in a glass of water the night before a very important meeting, then get up in the morning and crush that and drink the combination; and they truly believe that it's brain food. Of course, I'll have to say they're right; I can't prove it, but I'm sure they're correct.

As we move through the '90s, I think it's very important that we all *think differently* about what you're doing. Reflect for a moment on what the business climate may be like in the latter part of the 1990s. The future will not be like the past. The 1990s will be characterized by change with greater frequency. For example, in 1980, the estimated time from concept to product at General Motors automobile plant was approximately seven years. By the end of the '80s, this response time was reduced to about four years. Toyota's goal, however, is to shift this response time to 18 months from start to finish—18 months instead of eight years.

If that trend doesn't get you to *think differently* about your business, here are a few more that might:

- In the year 2000, the median age will be 36.
- Fourteen percent of our population today is 65 or over.
- Between 1990 and 2010, or a 20-year span, our population growth rate will be 24 percent; between 2010 and 2040, the next 30-year span, our population growth rate is predicted to be only nine percent.
- We're getting older as a population. Dentures will be worn by a much larger portion of the population. I think that's good for you; it's not so good for us. But we're working on a softening process, on ours. You think that's a joke, but it's true. We really have a softened almond in Japan now, developed over there by our own people. It's not a big seller now, but it's designed for the market that doesn't want to eat a hard almond.

The major net result of Europe '92 is going to be greater competition, but this represents a fantastic opportunity for American business—but only for those companies that are really prepared for the competition.

The developing world is extremely diverse. Advanced developing countries, such as South Korea, Taiwan, Hong Kong, Singapore, Brazil, and Argentina, have become world competitors in products such as steel, automobiles, ships, and computers. But nearly 1.5 billion people—half the entire world's population—live in about 40 countries in which the GNP per person in 1986 ranged from \$120 to \$400, compared to \$17,500 per capita in the United States.

U.S. marketers who make themselves aware of the facts, carefully develop international strategies, and effectively use the services provided by USDA's Foreign Agricultural Service and the foreign Commercial Service really can profit.

My emphasis, so far, has been on export (perhaps the more glamorous part of our business) but never, *never* forget the U.S. domestic market. In recent years, that's been our fastest-growing market, although the perception of many people is something else. In 1970, the United States consumed about 63 million pounds. Last year, the United States consumed 177.3 million pounds. This year, it's going to be about 190 million pounds. U.S. per capita consumption of almonds has grown from about one-third of a pound in 1970 to nearly three-fourths of a pound per capita this past year. U.S. consumption of walnuts, hazelnuts, and pecans has been virtually static during the same period. In fact, almonds represent 65 percent of the per capita increase in consumption of all nuts, domestically grown or imported.

Your industry has done an even better job with U.S. per capita avocado consumption. It has grown from just under one-half pound in 1970 to just over a pound and one-half last year ... a 245 percent increase. In the same period, total per capita consumption of all fruits has increased 22 percent, but you increased at 11 times that rate. You're really to be congratulated; but I noticed that Al [Vangelos] was challenging you—or challenging himself, or challenging everybody in the industry—to double and triple that again. I believe you can do it.

In the domestic market, we use a broker system. We have broker networks all over the United States—all over the world, really; and we try to find brokers to cover the entire spectrum of our products, but often have to go into specialized brokers—one for vend, for example, one for industrial, one for retail. In the bigger markets, that's not always necessary, but it sometimes is.

We've also found areas of our business that are very important to us, but where we don't seem to be able to find the right broker, and there we go out and look for an alliance with somebody, or a partner. Two cases in point are Heinz, who does all the distribution of our foodservice products now in this country, and has worked very, very effectively—we have tripled our foodservice business in the U.S. in about five years, working with the Heinz people; and another one we're just launching is for the candy and tobacco jobbers, the people who supply the small candy stores, newstands like the little newstand out here [in the hotel], bars, that type of operation. Our regular brokers just don't seem to get that type of business, so we joined with David & Sons, the sunflower seed people, for that distribution.

Research & Development works very closely with Sales to contact customers, travels to visit customers, creating prototypes of a product tailored to the customer called on. The key to this success is not having a "canned" product but something that has been developed specifically for that particular customer.

A short note on quality control: We live it ... we encourage it ... from our place to the customers' satisfaction—terribly, terribly important.

I'd also mention briefly that we have a federal marketing order on almonds that's been extremely successful in bringing some stability to the market because we had these crops—generally large crops, but sometimes small crops—and the marketing order also helps with advertising.

Our experience has taught us that there are two basic demands: Quality and assured

supply, preferably at stable (not necessarily cheap) prices.

The world has been a tough nut to crack, but Blue diamond has done it, is still doing it. We did, and continue to do, our homework. We put in extra hours. We continue to improve our quality and service—particularly working on the latter, at the moment. We continue to build new markets. We continue to research new products.

I offer *you* the challenge today: You're growing it. Who wants it?

And I think you need to ask yourself some questions, and then answer those questions. They may seem very simple, but think about them a little bit:

What is an avocado?

How do you use an avocado?

What is an avocado good for?

What are the health benefits of eating avocados?

Asking those questions, and then thinking some about the answers to those, I think will lead you into the kind of consumption pattern that Al was talking about earlier.

In considering the above questions, I began to wonder about the avocado and did a little research. I was surprised to learn that back in 1915, Ancil Hoffman, who managed the championship fighters Max and Buddy Baer, received six small plants from a friend. Not knowing what they were, he planted them as ornamental trees at his home in Fair Oaks, California—now a suburb of Sacramento, but at that time, it was farming country. It was also the place at that time, incidentally, where most of the almonds in California were being grown; they are not any more. He didn't know what the avocado was, so he just let the fruit fall to the ground and rot. The friend, upon discovering this, told him what they were and that he made \$108 from the fruit of just one tree. Hoffman gave diligent care to his trees after that, and started experimenting with different varieties. The rest is history.

In a November 1914 article in the *The Pacific Garden* magazine, F. O. Popenoe wrote: "...I shall assume that the avocado has come to stay." He further wrote: "some people confess to but a slight appreciation of the avocado upon first tasting it... due in many cases to the fact that the specimen sampled has not been in a proper state of maturity or properly served." And, he continued, "... the liking grows with further acquaintance."

As far as being properly served goes, I think that's still a problem for your industry. I came down on USAir last night, and they served me a chicken salad and avocado, and there was no way I could get the avocado flesh out. I don't know enough about avocados; I was in the middle of a conversation with somebody else ... whether the thing had been frozen or whether it was just not ripe, I don't know. I like avocados, and that thing was totally inedible as it turned out.

In closing, I leave you with this further quote of F. O. Popenoe: "The fact is, when we begin to figure the effect of avocado growing upon our future food supply, we see not only a ray of hope but a full sized sun shining in resplendent glory."

So you're growing them, and I'm sure lots of people want them. It's just a matter of educating those people as to *why* they want your product. My impression is that you've

done a very good job of that in recent years. Keep up the good work, and don't do as we do in the almond industry; that is, plant so many more trees that you again create a surplus. Thank you very much.