

New Mexico Chile Association ♦ Report 29



NEW MEXICO
CHILE
ASSOCIATION

2006 Southwest Agribusiness Conference Proceedings



College of Agriculture and Home Economics
Cooperative Extension Service • Agricultural Experiment Station

In January 2006, the New Mexico Chile Association (NMCA) accepted the role of what was formerly the New Mexico State University (NMSU) Chile Task Force. The NMCA is a non-profit organization composed of processors and farmers whose mission is “To create an environment in the New Mexico region that reinstates us as the world leader in chile production, processing and innovation.” The NMCA continues to work closely with NMSU. Indeed, this partnership is key to their success.



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Southwest Agribusiness Conference

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Sponsored jointly by:



New Mexico State University



**International Food & Agribusiness
Management Association**



**The Center for North
American Studies**

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The editors have made every attempt to accurately report the information presented by the conference participants. Although the summaries were prepared by the editors, the work is solely that of the presenters. This research was accomplished by the South Central Council of Governments and the Regents of New Mexico State University. The statements, findings, conclusions, recommendations, and other data in this report are solely those of the editors and conference speakers and do not necessarily reflect the views of the Economic Development Administration.

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Southwest Agribusiness Conference

Edited by Jay M. Lillywhite and Jennifer Simonsen¹

Introduction

Growers and processors of chile peppers, onions, and pecans in the Southwestern United States and Northern Mexico are facing numerous challenges. Significant challenges include increased global competition, changing food supply chains, and changing consumer tastes and preferences. Recognizing the importance of these challenges to the profitability—and ultimately the sustainability—of the industries mentioned, conference organizers, with the support of academia, industry, professional associations and elected government officials, developed the 2006 Southwest Agribusiness Conference. The events of that conference are summarized in this proceedings paper.

Conference objectives included:

- To help industry participants better understand the issues associated with the challenges facing chile, onions, and pecans.
- To explore, with industry participants and others intimately associated with the Southwestern chile, onion, and pecan industries, new opportunities to strengthen Southwestern agribusinesses.

Each of the speakers who participated in the conference was carefully selected by the conference organizers. Each presenter represented a business or industry that had already confronted many of the issues now facing agricultural businesses and industries in the Southwest. Using their experience, the presenters were able to share successful and proven business strategies that might be adapted to the Southwest.

Acknowledgments

The ultimate success of the conference is attributable to the participants, both the growers and processors who took time from their busy schedules to attend the conference as well as the presenters themselves. In addition, the conference could not have been without the support of many other organizations and individuals, including New Mexico Senator Jeff Bingaman, the U.S. Economic Development Administration, the New Mexico Department of Agriculture, the Center for North American Studies, and the International Food and Agribusiness Management Association.

¹Assistant Professor and Graduate Research Assistant, respectively, Department of Agricultural Business and Agricultural Economics, New Mexico State University, Las Cruces, NM.

Introduction & Overview²

*William Whipple, Executive Vice President (retired)
Harris Bank
Chicago, IL*

The first annual Southwest Agribusiness Conference began with a summary of current trends in agribusiness by William Whipple, retired executive vice president of Harris Bank.

Over the past ten years the United States economy has been growing at an annualized rate of 3.7%, faster than any other major industrialized nation. This economic activity has been due in large part to innovators and entrepreneurs in the food chain. In order to create a sustainable future, however, farmers and processors will need to think strategically—discovering who their customers are and what to offer them. This strategy must be developed with an eye on trends and issues facing the industry today, such as:

- How the industry handles issues such as bacteria and contamination, which will determine the sector's growth
- The growing popularity of private label and store brands
- Global processing transactions, such as restructuring in the food sector
- The importance of Wal-Mart as a key player in food distribution
- The rapidly evolving face of technology
- Changing currency valuation between the major trading countries of the world
- The rising popularity of investment and fund opportunities

Farmers and processors provide a sense of identity and purpose, as well as a quality of life, to their employees, and their contributions to our economy are considerable. It is more important than ever that they acknowledge the global challenges confronting the agribusiness industry.

²This paper was reviewed by William Gorman, professor emeritus, and James Libbin, professor, Department of Agricultural Economics and Agricultural Business; and Rich Phillips, senior project manager, Cooperative Extension Service, all with New Mexico State University, Las Cruces, NM.

The Hass Avocado Industry: Expanding Market Demand

*Charley J. Wolk, Chairman
Hass Avocado Board
Irvine, CA*

U.S. avocado production is centered in California; growers created the California Avocado Commission (CAC) to promote their crop, but promotion was financially limited. Due to a virtually untapped East Coast market, the Hass Avocado industry had tremendous market potential in the 1990s. Offshore producers were attracted to this large market opportunity, and imports increased dramatically over the next five years. California growers felt themselves being squeezed from their primary market, but felt that if demand was increased the market could accommodate all growers.

To increase promotion funds, the CAC looked into a marketing order for avocados. A marketing order would allow an assessment on every pound of avocados sold in the United States. This money could then be used for research, marketing, and promotion of avocados in the U.S. market, making no distinction between imported and domestic production. This would increase demand and could coordinate advertising so growers and importers were not working at cross-purposes. While many domestic producers saw the order as an added expense and as increased government intervention, they also realized it would be necessary for the growth of the domestic industry.

There are two main ways to get a marketing order: one is to go through USDA channels; the other involves independent congressional legislation. Enabling legislation through the USDA follows the USDA mandate using existing federal laws. Independent legislation can be tailored specifically to a particular product; its primary advantage is that if the legislation passes, the industry has just what it wants.

The avocado industry decided to pursue the latter option, though recognizing its numerous disadvantages—both the House of Representatives and Senate had to sign the proposed bill, which meant lobbying became very important, and offshore producers were likely to balk at what they would see as a tariff. A big key to getting this legislation passed was communication with offshore producers. The avocado industry worked to show importers that their money would be used to increase U.S. avocado demand, which helps everyone, not just U.S. producers. The biggest challenge, however, came from the USDA; for the legislation to have any hope of passing, the USDA had to not officially oppose it.

Mr. Wolk suggested that outreach to growers was fundamental to gaining their support for this legislation. A marketing order must have value to local producers or it will fail; with this in mind, the CAC added a front-end referendum rather than a delayed referendum. Producers vote on a marketing order whether it goes through the USDA or independently to Congress. But when this vote takes place can vary; the CAC felt an up-front referendum was more forthright and would show that the majority of growers were behind the assessment before they began.

While the final legislation was modified due to concerns from third parties, the end result was successful for all parties involved. By taking small steps and reaching out to work with importers, the Hass Research and Promotion Act of 2000 has created dialogue and cooperation among all producers. The newly created Hass Avocado Board (HAB) comprises both domestic growers and import associations, who coordinate marketing funds and efforts and ensure a constant supply of avocados to U.S. consumers. As Mr. Wolk stated, “Who cares who pays for it, as long as it works?”

The Value of Market Information

*Jose Luis Obregon, Managing Director of Information Technology
Hass Avocado Board
Irvine, CA*

The Hass Avocado Board (HAB) was created in 2001 through an independent legislation process sponsored by the California Avocado Commission (CAC) as a joint endeavor between U.S. growers and overseas import associations. The 2.5 cent/lb assessment on all fresh Hass avocados was expected to remit to the HAB. However, the wording of the legislation allowed import associations and the CAC to request 85% of their assessments back for country-of-origin promotion and marketing. The remaining 15% of funds, then, is sent to the HAB; last year, this amounted to \$4 million.

Since funding was 15% of expected, the HAB decided that instead of coordinating a large marketing campaign they would implement an information system, accessible to all growers, importers, and industry officials. The CAC already had an Avocado Marketing Research Information Center (AMRIC) in place, which required fresh avocado handlers to report their current inventory, shipments, and prices. The HAB took over the AMRIC's domestic reporting and added importer data to create a second generation technology program. Their goals are to: 1) provide information for marketing plans, 2) reduce misinformation in the selling system, 3) coordinate harvest strategies, and 4) promote orderly marketing by handlers.

HAB compiles and presents this data to enable marketers worldwide to share information that is essential to sustainable year-round U.S. avocado marketing. The system is Internet-based to create real time data available anywhere. Launched in November of 2004, AvoHQ.com has gained widespread popularity within the industry in two years; 2,000 people are registered with the system, including 12 handlers in California, 7 exporters in Chile, and 25 exporters in Mexico. This system helps growers plan and coordinate their harvest strategies, promotes orderly marketing by handlers, and decreases the misinformation in selling systems. All the key players in the industry have access; this allows them to coordinate their promotional plans and avoid overlap, creating an efficient strategy to increase demand for Hass avocados no matter where they are produced.

The web site is administered from HAB's Network Marketing Center in Irvine, California. The Center has many technologies available, including video conferencing capabilities, to increase communication within the industry. AvoHQ.com was the first commodity marketing coordination of its kind and has greatly enhanced the capabilities of the industry; last year, the U.S. market for avocados reached one billion pounds. This information system assures retailers they can feel confident about continual marketing coverage, offering daily, weekly, and monthly marketing and production reports since 2003.

Market Development Opportunities: The Power of Partnership

*Susan Brauner, Director of Public Relations
Blue Diamond Almonds
Sacramento, CA*

California has become the main almond producer in the world: 80% of almonds are grown in California, and they are exported to 95 countries. The main almond cooperative, Blue Diamond Almonds, includes approximately 60% of California growers, primarily small family farmers. They have more than doubled sales—from \$350 to \$700 million—in the past six years. The growers of the cooperative entered into four partnerships that have yielded large increases in almond consumption.

Blue Diamond almonds are the only recognized national almond brand in the United States. Growers formed the cooperative and began marketing branded almond products to add value to their commodity crop. Today the brand is a \$100 million business. Creating successful branded products can add 7 to 10 cents to grower returns. Innovation has been the key to the success of the brand's Nut Thins, nondairy drink Almond Breeze, and specialty flavored almonds.

The Almond Board of California is a nonprofit organization whose goal is to increase almond consumption. The 3-cent/lb assessment on all California almonds funds their \$29 million budget. Most of the budget goes to public relations and marketing ventures, both international and domestic. Blue Diamond's growers saw this partnership as a huge opportunity to come together as an industry. The Board creates a new vision every 5 years. This vision is extremely important, as it directs the industry and allows them to progress toward their goal of growing the "healthiest specialty crop in the world."

The various tree nut boards have also come together to create the International Tree Nut Council. This group uses compiled board funds to increase research as a group and work towards a common goal. Their most recent accomplishment was to receive a qualified health claim regarding tree nuts' association with a reduced risk of heart disease. This health claim can be used by any participating board for marketing and promotion.

The government is also a particularly important partner for Blue Diamond growers. A lobbyist is extremely important in today's political environment; the government needs the unified input of growers to make informed decisions. Especially in key areas involving market access, everyone must work together to achieve mutual goals. The government offers many funding opportunities to help domestic growers increase demand for their product.

Sourcing Products: The Prepared Mexican Food Market

*Steven Windh, Vice President of Purchasing
Ruiz Food Products
Dinuba, CA*

Ruiz Foods is a leader in the frozen Mexican food market; the company has grown fivefold in the past nine years and just opened a new 300,000-ft² facility in Dennison, Texas. This family-owned business is considered an innovator of frozen Mexican food, serving 250 finished products—including the popular El Monterey brand—to retail, food service, and industrial segments. One of the reasons Ruiz has been so successful is its outlook on competition: if you can't compete, reinvent your product; competition spurs innovation.

The company purchases approximately 5 million pounds of chile products annually, 3 million via the traditional “wet” pack and 2 million pounds of dried or ground product. Ruiz Foods works closely with processors to define flexible quality regulations that work for both sides. Incoming chile needs to have a certificate of analysis certifying that it meets microbiological, chemical, and physical standards. The most common measures are *E. coli* counts, pesticide residue tests, and tests for foreign objects. While their plants X-ray each burrito that is processed, X-rays cannot identify non-metal foreign objects. Quality concerns can cost the company both time and money, so they are vigilant about testing ingredients.

Mr. Windh noted that to remain competitive the company must watch current issues—as well as the role of Wal-Mart, since it is such a major player in today's retail industry. Age awareness, healthy food, obesity, increased food choice, and international regulations are also important issues at every level of food production. Increasing globalization has created an “eat global, buy local” mentality in consumers. It has become common for U.S. companies to source their vegetables from Mexico; sourcing from China and India may not be far behind. These countries are attractive due to their access to the U.S. market, their ability to obtain capital, and their low-cost labor. U.S. technology can be used in these countries to build efficient plants.

While purchasing production solely from India and China may not be a viable option for companies like Ruiz at the moment, these countries' economies are working hard. Until they catch up, U.S. producers and processors must identify ways to differentiate their products and create or maintain a superior reputation within their industry.

Exploring the Growing Demand for Organic and Natural Foods

*Kenny Meyer, Produce Coordinator
Whole Foods Rocky Mountain Region
Boulder, CO*

With the growing popularity of organic and natural foods, many retailers seeking to introduce organic foods have examined Whole Foods' practices. The company seeks to reach a larger audience of people and welcomes new members to its "Whole Foods family" every day.

The company sources primarily with local family farms, preferably organic, but does go out of country for exotic produce that cannot be found in the United States. In recent years, consumers have gotten wider access to great quality, previously rare foods. Whole Foods consumers want a connection to their food and want a story about where it comes from. To broaden their customer base, the company seeks to widen selection and choices, offering a mix of organic, natural, and conventionally grown produce. Traceability has also become a large issue; consumers want to know where their food is coming from, and locally grown produce is held in high regard.

Mr. Meyer feels the future of marketing is based on differentiation. To stand out, not only must the company create a unified message for consumers, it must also deliver this difference. A company only gets one moment with the customer, and it must clearly state what the company is and what it stands for.

Whole Foods excels in offering high quality products along with exceptional service from its team members. To build solid demand, a company needs the correct systems in place, needs to offer appropriate services, and needs to have the strength of exceptional employees. Employees are an often overlooked asset; many of Whole Foods' ideas come directly from their team members, who are granted what may be seen as unusual liberty to adjust their work environment. Fostering these valuable employees has helped make Whole Foods the successful company it is today.

Commercial Organic and Sustainable Agriculture as a Business Strategy

*Fred Kirshenmann, Distinguished Fellow and large organic grower
Leopold Center for Sustainable Agriculture
Ames, IA*

Due to concentrating industries and tightening margins, in the eyes of some farmers there is no future in the undifferentiated commodity market. As processors and retailers seek to lower transaction costs, commodity markets will force greater consolidation, resulting in fewer commodity farmers. Thus, some farmers have differentiated themselves through genetic selection and production practices.

Those “farmers in the middle”—neither small farmers with direct market access nor mass production market farmers—may wish to enter the growing market between the two. This market has developed because a segment of the population refuses to eat certain foods, for health, wholesomeness or quality reasons. There has been a return to personal relationships with food; the Hartman Group believes businesses that focus on these relationships will be more successful in the future.

These consumers want local foods, but “local” does not necessarily imply “geographically close.” Instead, consumers want a narrative about an authentic place that has produced the food. Mr. Kirshenmann feels the New Mexico chile industry can use this uniqueness of place to its benefit: people emotionally connect with products that carry a story about the place they came from. As well as being attracted to “local” foods, consumers are attracted to fresh food, but “fresh” does not merely imply recently harvested. “Fresh” means the product appears in its natural form: it looks as it did in the field and thus carries authenticity.

Trends in consumer tastes and preferences have always been important factors for change in the food industry. Current receding trends—such as the decreased reliance on external authority—mean changes in how retailers market food. Consumers are starting to rely, for trusted information, more on their social networks than on an established third party, which means marketing must be done through conversation and engagement rather than traditional media. Values now drive the market. In today’s information age, in order to build loyalty with consumers companies must demonstrate a genuine alignment with their company message. It has been noted that the food of yesterday—“fast, convenient, and cheap”—is being replaced by food embodying “memory, romance, and trust.” In a recent survey, consumers ranked the following traits as “very important”: *taste, quality, nutritious and healthy, price, and the food story.*

Farmers who are part of a supply chain are price takers, while farmers in a value chain help determine fair prices. The value chain links economies of scale with differentiated products, allowing both cooperation and competition to benefit everyone in the chain. Most midsize farmers are more likely to participate in a cooperative than in independent marketing, which means that cooperating to create one brand and add value is not only possible but advantageous. Mr. Kirshenmann believes there are four quadrants in the food and agriculture system today: 1) the specialty quadrant, which involves CSAs and direct markets, 2) the opportunity quadrant, which is the new emerging market for mid-size farmers, 3) the undifferentiated quadrant, suitable for large producers basing production on price and scale, and 4) the death zone. This death zone encompasses small family farms trying to succeed in the undifferentiated commodity sector. To survive, these farmers will need to decide which of the other three quadrants their business is best suited for.

Notes

Notes

NM Chile Task Force/NM Chile Association Publication List

- Report 1:** An Industry-University Response to Global Competition
- Report 2:** Chile Seed Germination as Affected by Temperature and Salinity
- Report 3:** Yield and Quality of Machine-Harvested Red Chile Peppers
- Report 4:** Chile Seed Quality
- Report 5:** Guidelines for Chile Seed Crop Production
- Report 6:** Improving Chile Harvesting and Cleaning Technologies
- Report 7:** Farm Labor Employers' Handbook
- Report 8:** New Mexico's Chile Pepper Industry: Chile Types and Product Sourcing
- Report 9:** Economic Impact of Southern New Mexico Vegetable Production and Processing
- Report 10:** Chile Pepper Growers' Notes: 2003
- Report 11:** Developing New Marketing Strategies for the Southwestern Chile Industry
- Report 12:** Incidence of the Beet Leafhopper, *Circulifer tenellus* (Homoptera: Cicadellidae), in New Mexico Chile
- Report 13:** Plant Spacing/Plant Populations for Machine Harvest
- Report 14:** Economic Return to Adoption of Mechanical Thinning
- Report 15:** U.S. Imports and Exports of Chile Peppers and Pepper Products: Frequently Asked Questions
- Report 16:** International Trade in Chile Peppers: Data from the Global Trade Atlas
- Report 17:** Basic Research on the Use of Polarization to Sort Chile Peppers
- Report 18:** An Analysis of Farm Labor Contracting in New Mexico
- Report 19:** Use of Kaolin to Suppress Beet Curly Top Virus in Chile Peppers
- Report 20:** Using a Color Sorter to Remove Sticks from Mechanically Harvested Red Chile
- Report 21:** Regional Branding in a Global Marketplace
- Report 22:** Refinement and Testing of Mechanical Cleaners for Red Chile
- Report 23:** NMSU Crop Thinner Project: A Model for Commercialization of University Intellectual Property
- Report 24:** Chile Machine Harvesting Observations: 2004
- Report 25:** Design and Development of a Prototype Mechanical Gap Sorter for Mechanically Harvested Red Chile
- Report 26:** Good Agricultural Practices: What Growers Should Know
- Report 27:** Red Chile Pod Reclaimer Evaluations
- Report 28:** Chile Machine Harvesting Trials
- Report 29:** 2006 Southwest Agribusiness Conference: Proceedings
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