

# **Burley Tobacco Grower Magazine**

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Kelly J. Tiller

*Assistant Professor*

*Agricultural Policy Analysis Center*

*The University of Tennessee*

## **The Customer Is King**

True. Ninety-nine percent of tobacco discussions these days revolve in some way around the buyout issue. But regardless of the buyout outcome—or program changes or anything else on the buyout periphery—tobacco production will remain an important industry in U.S. agriculture. And for those growers who are planning their future around tobacco, there's an old maxim that bears repeating: "The customer is king."

Ultimately, in a market economy, it is in the best interest of the seller to provide the buyers with what they want. I do not by any means want to imply that U.S. tobacco farmers do not consistently produce an excellent quality crop. They certainly do. But the real catchphrase for the future is "competition in a global marketplace." The global nature of the tobacco industry makes this golden rule of marketing even more relevant today than ever before.

Quite simply, a lot of things have changed a lot over the last few decades. There was a time when U.S. tobacco was about the only game in town. There's a lot more competition from a lot more countries today. In the past, U.S. tobacco enjoyed a quality advantage that was difficult to replicate outside the U.S. But that quality margin is shrinking all the time. In part, the federal tobacco program has insulated growers from their customers. Federal grading, minimum price guarantees, and the auction market system all limited direct interaction between the supplier—the tobacco grower—and the customer. The rapid rise of direct marketing or contracting creates a much more direct seller-buyer link. In light of these new global realities, the important thing to remember is that if one grower is not willing to meet a customer's needs, another one is. That's the nature of competitive markets.

One example I recently heard recounted from Dr. Bob Miller, plant breeder with the University of Kentucky and University of Tennessee, was an observation of crop production responses in the Santa Cruz do Sol region of Brazil. When he visited the region several years ago, approximately half of their acreage was planted in TN90. In a visit last year, he noted that acreage of TN90 had decreased substantially and approximately 30% of the crop was planted in NC3. Apparently, conditions in the region result in a TN90 crop that is a half percent higher in nicotine content than their customers' blend specifications. Since NC3 closely resembles TN90 in growth habit and

smoke characteristics but has lower nicotine content, Santa Cruz farmers quickly adjusted their production practices to address the nicotine content issue.

It's not just tobacco farmers who need to occasionally repeat the mantra. As U.S. agriculture in general moves further into the global arena, there are new customer demands for all of agriculture to face. A good example is the issue of genetically engineered (GE) crops. Farmers of major export crops in the U.S. have been quick to adopt herbicide-tolerant soybeans and cotton and insect-resistant cotton and corn. Herbicide-tolerant soybean acreage expanded from 17 percent in 1997 to 81 percent in 2003. This rapid growth has occurred in spite of uncertainties about economic and environmental impacts and consumer acceptance, particularly in Europe.

In the head-to-head battle between the U.S. and its import customers over GE crops, the U.S. perspective has generally been that resistant countries are using the GE issue as a protectionist cover, ignoring U.S.-provided "proof" of safety claims. Personally, I don't perceive most GE foods as a health risk. I would probably feed (probably have, unconsciously) my one- and three-year-old children "safe" GE foods. On my own personal risk-o-meter, I figure they probably consumed worse yesterday picking something up off the floor or playing with the dog. But that's hardly a sufficient reason to discount the concerns of others, especially when those others are potential paying customers.

When it comes to customer preferences, it is not a matter of science or right or wrong or what might ultimately be acceptable. It's simply a matter of what the customer wants to buy. Meeting some of a customer's demands may be expensive. But then, consumers regularly pay more for certified organic food products than they would pay for non-organic products. And despite the premium price, the organic segment of food demand is growing at a rapid rate.

No, the customer is not always right. When it comes to new technologies or production practices, there are potential benefits to being an early adopter. But at the same time, there are potential risks to adopting technologies or practices that have yet to stand the test of time. Farmers have to make sound business decisions and carefully weigh potential risks and benefits. But right or wrong, the customer is still the customer.

I don't have any idea what the tobacco customers' future needs and preferences will be. But the reality is that in today's global marketplace, if U.S. tobacco farmers aren't willing to supply a product that customers want to buy, there's a long line of countries and farmers out there who are. If U.S. tobacco farmers aren't willing to make the customer king, the kingdom may not be so vast.