

## Green Giant and the Move to Mexico

The Green Giant Company is a food products firm that specialized in canned and frozen vegetables. Started as the Minnesota Valley Canning Company in 1903, it was one of the earliest to adopt a memorable advertising character, the Jolly Green Giant who, together with his friend Little Sprout, appeared first in magazines and then on radio and eventually television. The company's name was changed in 1950 to reflect the popularity of the advertising symbol and slogan.

Green Giant was also one of the first to adopt the new technology of freezing rather than canning vegetables, which helped greatly to preserve their taste and texture. Growth was steady during the 1950s and 60s, and the company expanded from southern Minnesota to central California where there was a much longer growing season. A large facility for freezing fresh vegetables was built at Salinas, California, about 120 miles south of San Francisco, in 1964.

The Green Giant Company was acquired, in a friendly takeover, by the Pillsbury Company of Minneapolis, Minnesota, in 1978. Pillsbury produced flour, baking products, and packaged cake/cookie/brownie mixes. The food industry segments of the combined firms did not overlap, so the acquisition gave Pillsbury a much broader product line with customer appeal and a much larger output with economies of scale and scope.

In 1987, Pillsbury itself was acquired, in an unfriendly takeover, by the Grand Metropolitan Company of Great Britain. Grand Metropolitan produced alcoholic beverage and owned strings of pubs and betting parlors in England, Scotland, and Wales. It was said that the senior executives of that company were concerned about the decline in the consumption of alcoholic beverages as watching television at home replaced the traditional British practice of going out in the evening for a pint of beer and a game of darts at the neighborhood pub. They were determined to enter the consumer products market, and picked Pillsbury because they felt that those products, frozen fresh vegetables and packaged baking mixes, would fit other social changes, such as the growing employment of women outside the home, that were then taking place in Britain.

Pillsbury and Green Giant, together, were acquired by Grand Metropolitan when the Pillsbury stockholders agreed to accept a payment of \$5.6 billion. Soon after the acquisition was complete, executives at Green Giant were told that they must increase the profits at that division "substantially" to help pay off debt arising from the acquisition. The executives at Green Giant were reminded that Grand Metropolitan's style of management had always been characterized as "a light but firm hand upon the throat." Failure to increase profits quickly and substantially, it was implied, could have severe career implications.

The problem with increasing profits either quickly or substantially in the canned and frozen vegetable industry is that these products have become close to commodities, with little brand recognition or consumer loyalty. Green Giant had the best known trademark in the industry and held the largest market share, but is still controlled only 14 percent of total industry sales. The remaining 86 percent was held by Birdseye, Del Monte, Dole, Heinz, and "house brands" produced for the various supermarket chains. Further, the per capita consumption of frozen vegetables in the United States was steady, not growing, and canned vegetable consumption was falling as fresh produce was brought from distant nonseasonal growing regions

by direct truck or even air shipment. Consequently there was little opportunity to raise sales through consumer advertising or to increase prices through product differentiation.

It was possible, however, to decrease costs by moving from California to Mexico. Green Giant had since 1984, operated a small freezing plant in Irapuato, Mexico. Irapuato is in central Mexico, 500 miles south of the U.S.-Mexico border. The plant had been built in this area because the hot, sunny climate and dry, fertile soil produced excellent crops of cauliflower and broccoli year round, given adequate water for irrigation. Green Giant had drilled a number of deep wells and found adequate water.

The growing, processing, and packaging of frozen vegetables for export to the United States from Mexico also turned out to be very inexpensive. The average wage in Irapuato was 65 cents per hour. The average wage in Salinas, California, was \$7.50 per hour. There were, of course, additional costs for transportation of the finished products north to the United States and for supervision of the untrained workers in Mexico, but the overall impact upon the profits of Green Giant could be very substantial and very quick if all of the California operations were moved to Mexico. It was estimated that such a move would save Green Giant \$13,200 per worker per year.

In 1988, soon after the acquisition of Green Giant and Pillsbury by Grand Metropolitan, there were 1,400 workers working in the company's processing plants in the Salinas area. Salinas was a small city, almost totally dependent upon agricultural products for its livelihood. The prosperity of Silicon Valley, only 70 miles to the north in San Jose and Sunnyvale, had never reached Salinas primarily, it was said, because the population lacked in high degree of education needed for high-technology electronics manufacturing.

The question, in 1988, was whether Green Giant should move all of its growing, processing, and packaging operations from Salinas to Irapuato. There were a number of factors that would affect this decision beyond the obvious savings in costs:

1. The gain of jobs and the resulting industrial development would be welcomed in Irapuato. Even though Green Giant paid only 65 cents per hour, this was still above the minimum wage for the area, set by the government at 55 cents per hour. People had lined up to get the early jobs offered at Green Giant—or Gigante Verde as the company was known locally—and it was expected that the same thing would happen if all 1,400 jobs were moved to the area. Mexican unions had tried, but failed, to organize the workers.

Unfortunately, their employees are very happy. We can make no progress. (Statement by Antonio Mosqueza, union organizer, quoted in quoted in the *San Jose News*, June 16, 1991, p. 6)

2. The loss of the jobs, and the resulting unemployment, would be devastating to Salinas. It was expected that the economy of the areas would remain agricultural, due to the excellent soil and weather conditions, but most of the jobs actually growing and harvesting the vegetables were considered to be too hard—bending and stooping under a very hot sun—for the people who had worked in the processing plants for Green Giant, many for the nearly 30 years the company had operated in Salinas. Most of the vegetables

grown in the area would be shipped fresh to consumers in the rest of the country. There would be a few job opportunities for the laid-off plant workers.

We helped Green Giant make their millions, and what will we be left with? Aching backs and twisted fingers. (Statement by Green Giant employee, quoted in *San Jose News*, June 16, 1991.)

3. The movement of operations from Salinas to Irapuato would have substantial environmental impacts upon the area. Central Mexico is an arid region. Water is in short supply. Green Giant has drilled wells over 450 feet deep to get adequate amounts of clean water for washing and blanching (lightly boiling for about 30 seconds) the vegetables. With increased production following the move it was expected that the deep wells would dry up the 20-foot and 30-foot wells of the local population, who would then be forced to get water for cooking and washing from the river. No money was available for a municipal water system that would extend beyond the commercial center of the town. The river water could not—according to U.S. law—be used for processing vegetables destined for export to the United States because it is polluted by bacteria in untreated sewage from towns that are farther upstream and by pesticides that are in the runoff from the agricultural fields.

Green Giant and the U.S. government are both saying that the river water is not good enough for those of us who are so fortunate as to live in the United States, but that it is plenty good enough for Mexicans. (Verbal statement of environmental activist contacted by the case writer)

4. The movement of operations from Salinas to Irapuato would also have some social impacts upon the area. It can be assumed that Green Giant will pay taxes on their property in Mexico, though at a rate below that paid previously in California. These taxes will help to pay for needed improvements in the educational system and the physical infrastructure of the community. It can also be assumed, however, that converting about 6,000 acres of land from growing corn and beans—the local subsistence crops—to growing broccoli and cauliflower for export will increase prices for corn and beans and thus increase the local cost of living.

Mexico does not have an efficient distribution system for food from one region to another. People are dependent upon what is grown locally. Water and food, of course, are the two most basic needs of life. Green Giant is going to take both of them. (Verbal statement of environmental activist contacted by the case writer)

Green Giant is operating in a socially conscious way. We pay above the minimum wage. We provide health care for our employees. We are willing to work with the community in the construction of a water system and sewage plant. Whether you or anybody else likes it or not, Green Giant has set an example for others to follow. (Statement of Terry Thompson, vice president of Pillsbury, quoted in *San Jose News*, June 16, 1991, p. 6)

5. The movement of operations from Salinas to Irapuato will, lastly, have an economic impact upon both countries. The jobs, though manual, repetitive, and dull, will be the first

step in industrialization. Some of the workers will have to be selected and trained in machine repair, quality control, cost accounting, and workforce supervision. The wages, though low, will bring increases in living standards and the start of a middle class. The United States will benefit from the export of goods designed for that middle class and from improved competitiveness in the world economy, as low cost labor in Mexico can be combined with capital and technology in the United States to counter firms from Japan and Southeast Asia who are making extensive use of the low-cost labor in parts of the Orient.

Everyone benefits from freer trade. Mexico will export more to U.S. The U.S. will export more to Mexico. Both countries will do what they are good at doing; this is the doctrine of comparative advantage, and the standards of living in each country will rise over time. (Statement of financial economist contacted by the case writer)

The emerging global company is divorced from where it produces its goods. It has no heart, and it has no soul. It is a financial enterprise designed to maximize profits. Many of the people who inhabit it may be fine, upstanding human beings, but the organization has its own merciless logic. (Statement of labor economist, quoted in *San Jose News*, June 6, 1991, p. 6)

### **Class Assignment**

Put yourself in the position of the president of Green Giant in 1988. What section would you recommend, and why? If you decide to move, how would you explain your decisions to the plant worker quoted above who said, “We helped Green Giant make their millions, and what will be left with? Aching backs and twisted fingers”? If you decide not to move, how would you explain your decision to the senior executives at Grand Metropolitan who have demanded a “substantial and quick” increase in profits and have told you that their management style emphasizes a “light but firm hand upon the throat”? Lastly, do you truly believe—as the labor economist quoted above explained—that there is a “merciless logic” to all managerial decisions, despite the presence of “fine, upstanding human beings” within the organization?