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The Proceedings of Economic and Policy Implications of Structural Realignments in Food and Ag Markets

**A Case Study Approach
(Proceedings Include Revisions)**

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Sunkist Case Study
Developing A Strategy for a Changing Production, Marketing,
And Regulatory Environment
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August 1, 1998

Sunkist Growers, Inc. is a marketing cooperative of primarily fresh citrus. It has been in business for over 100 years since it was organized as the Southern California Fruit Exchange, a small federated marketing cooperative, in 1893. Today, it is acknowledged by its peers as one of the most successful agricultural marketing cooperatives. Few companies can match the worldwide success that Sunkist has attained in consumer brand recognition, quality, and acceptance. Its sales of \$1.075 billion in 1997 rank Sunkist in the top 40 companies in food processing in the U.S.

However, given these trappings of success, Sunkist is in the middle of facing many challenges as well as opportunities. It has faced challenges before with shifting markets, an anti-trust challenge from the Federal Trade Commission, and the elimination of industry marketing orders featuring pro-rate provisions by the U.S. Department of Agriculture. However, these challenges pale by comparison to the changes that are taking place in domestic and worldwide markets, large scale consolidation in all sectors of the food change, and shifts in policy towards a more open and liberalized trading venue.

Russ Hanlin, the current President of Sunkist expressed the challenge and opportunities for Sunkist best in a message to its membership. Hanlin stated "Our world has become a village. The world's economies are becoming increasingly integrated through trade, financial flows, transportation, and communications technologies. Sunkist must also grow to compete in this demanding marketplace. Tremendous consolidation is occurring in the retail trade throughout the world. A relatively small number of giant supermarket chains now have the capability to determine growers marketing destiny. Even countries such as Japan and Hong Kong that have normally relied on small green grocers for the distribution of produce are now giving way to supermarket chains. If Sunkist is not able to supply these giants with the citrus they want, in the packaging and form that they want, they have two options: 1) go to a supplier who will, or 2) begin multiple point sourcing, gathering citrus from anywhere and everywhere and to repackage and re-brand on their own terms. In order to protect the Sunkist premium, brand, and allegiance of customers, Sunkist must be the most complete and effective citrus supplier possible. It is vital to growers' future economic well-being that Sunkist maintain its relative share of marketing reach in the years ahead. Sunkist must grow, not shrink, as the markets for citrus inevitably become global in nature."

This case study will explore the trends and issues in the citrus industry, domestic, and globally, and the capabilities that Sunkist possesses to continue its successful record in marketing. In doing so, the case study will look at Sunkist's organization, structure, governance, financial record, and history to provide a foundation for evaluating its potential and probability for success.

History

Sunkist was originally known as the Southern California Fruit Exchange and has its roots in the unstable market conditions for California citrus arising in the late 1800's. In these early days, orange growers had few choices in marketing their fruit. Many of the Commission buyers, who purchased fruit still on the trees, were indisposed to provide a "fair" price in the eyes of the growers, and auction dealers were selling the fruit far from the point of origin. When growers shipped individually, they found that far too often their fruit arrived at the same time in the same city, thus creating a glut on the market and lowering prices while leaving some cities short of supplies. Much of the growers' profits were being taken by "dealers'" expenses.

In order to address the problems encountered by growers in marketing their fruit, a few growers formed "The Southern California Fruit Exchange" in 1893. This organization created a "pool" to process and market its members fruit cooperatively. The packing houses which belonged to the cooperative graded, packed, and shipped the fruit, which the Exchange marketed. Each grower received a share of the proceeds based on quality, as well as the quantity of the fruit that was marketed. The Exchange was a grass roots effort in that growers designed and owned it and served as a prototype for future formation of cooperatives.

The initial organization of The Exchange consisted of eight district associations with local associations organized within each one. Each association packed its own fruit and established a local brand. Fruit picking was prorated among grower-members so that all would have an equal chance for delivery of fruit. Sales orders were also prorated among associations. To this date, prorate is a necessary concept to provide equity among growers and packers but has also been controversial and contentious.

As the Exchange grew, its staff worked to create new markets and expand existing ones. Using advertising and promotions, it began the evolution that changed the orange from a luxury household item to a necessity. The name of the cooperative was changed to "California Fruit Growers Exchange" in 1905. The trademark "Sunkist" was developed in 1907 to indicate the highest grade of fruit that was marketed by Exchange members. So successful did the trademark become, that the Exchange assumed it as its own. Since 1952, the Exchange has been known as Sunkist Growers and markets more than half of the oranges, lemons, grapefruit, and other citrus grown in California and Arizona.

Among the milestones in the development of the Sunkist organization, the following accomplishments are noted:

- - 1907: The first farmer group to advertise a perishable product in a national campaign.
 - 1916: The first to promote orange juice with its "Drink an orange" campaign thus setting the stage for the creation and development of the orange juice industry.
 - 1916: The first food group to offer premiums to consumers for purchasing its fruits.
 - 1922: The first to use the word "vitamine" (vitamin C) in its advertising.
 - 1926: The first to successfully stamp its trademark directly on to fresh produce.
 - Late 1920's: The first to sponsor radio commercials between California and the East Coast as well as the first to use motion picture stars to promote its products.

These early efforts set the stage for future marketing strategies for Sunkist. These efforts led to the development of an international market for Sunkist fresh citrus and citrus products. Sunkist is the 43rd most recognized trademark in the United States and the 47th most recognized in the world. In many places, Sunkist is synonymous with fresh citrus. Over its 100+ year history, Sunkist growers has developed the most diversified citrus processing and marketing operation in the world.

The history and development of Sunkist into its current organization has not been without challenges, particularly with respect to government regulation. Three events in particular within recent history are described. The first deals with an anti-trust suit challenging Sunkist's standing as a cooperative. The second deals with the complaint filed by the Federal Trade Commission in 1977 against Sunkist; and the third deals with the termination of the navel orange, valencia orange, and lemon marketing orders by U.S.D.A. in 1994.

The anti-trust suit was brought by Case-Swayne Co., Inc., a small fruit processor in Southern California, in 1958 alleging violation of federal anti-trust acts. After initially being dismissed by a federal district court in 1964, the case was appealed to the U.S. Supreme Court. In 1967, the high court ruled that Sunkist did not qualify as a cooperative under the Capper-Volstead Act. The reason was because Sunkist had members who were not producers or associations of producers. In response to this decision, Sunkist re-organized in 1968 to ensure compliance with the Capper-Volstead Act. The result is the current organization of a federated cooperative with three classes of members: growers, local cooperative packing houses, and district exchanges.

The FTC complaint charged that Sunkist engaged in actual and attempted monopolization of the California – Arizona citrus industry. It was brought under Section 5 of the FTC Act, which prohibits unfair methods of competition, and Section 7 of the Clayton Act which prohibits mergers that may substantially lessen competition or create a monopoly. The Section 7 charge was subsequently dismissed. After four years of litigation, the case was settled with a consent agreement without trial or adjudication of any issue of fact or law. Legal and economic review of the FTC case reveals that it was flawed and may not have been brought forward to begin with if the appropriate conceptual framework had been used for analysis. In 1980, the FTC and Sunkist entered into an agreement settling the litigation which had no effect on the long-run structure of the California – Arizona citrus industry or Sunkist's position within the industry.

A more contentious issue centered on the marketing orders used in the California – Arizona citrus industries. An order for lemons was instituted in 1941, for navel oranges in 1953, and for valencia oranges in 1954. All three were terminated in 1994 by U.S.D.A. after contentious litigation by non-Sunkist growers and shippers who complained that the orders prevented them from selling all of their citrus. In addition, the opponents claimed that the orders served as a crutch for smaller producers by keeping their returns artificially high and preventing necessary efficiencies from taking place. At issue also was the practice of "block voting" by Sunkist where Sunkist votes for its entire membership; opponents said it blocked dissatisfied Sunkist members from voting against the marketing order.

The core issue was the use of prorate in the marketing orders where each shipper was allocated a weekly allotment through the marketing season in order to stabilize supply and in turn prices. Opponents, which did not include all of the non-Sunkist shippers and growers, felt that they should be able to ship any quantity at any time to any location. Sunkist's policy at the time was that the prorate provisions worked well to maintain a constant level of volume to market through the season and, in turn, produce consistent returns to growers. Recent interviews with Sunkist officials indicate that prorate is no longer an issue and that Sunkist will use its superior marketing capability to produce above industry average returns to its grower members. In some of the analysis presented in this case study, before and after prorate periods will be evaluated.

Structure and Organization

Sunkist is a "Federated" form of marketing cooperative in which both growers and packing houses are tied together by a cooperative agreement. The system links four distinct levels: the grower, the packing house, the district exchange, and Sunkist Growers, Inc. There are 6,500 grower-members of Sunkist, most of whom are small and medium sized family farms, located in California and Arizona, 51 packing houses, and 18 district exchanges. The linkages among these entities are illustrated in Figure 1.

Unique to this organization is the decentralized nature of Sunkist's fruit packing operations. Sunkist owns and operates relatively few assets used to prepare fresh fruit for marketing. Fresh fruit is shipped directly from the packing house to the buyer. Costs of operating the packing house to sort, grade, and pack fresh fruit to Sunkist's specifications and standards is borne at the packing house level. There is no guarantee that the packing house will make a profit or stay in business. However, each component has a role in the process.

The contractual arrangements are the following: 1) all growers are direct members of Sunkist Growers, Inc. to ensure compliance with the Capper-Volstead Act; 2) all growers must be affiliated with a District Exchange via a) membership in a local association which is a member in the Exchange, or b) a direct member in the Exchange by using a licensed packing house; 3) licensed packing houses sign a simultaneous licensing agreement with the District Exchange and Sunkist; 4) all District Exchanges and local associations sign membership agreements with Sunkist; and 5) all agreements in the Sunkist system are for one year and renewed automatically unless terminated by either party

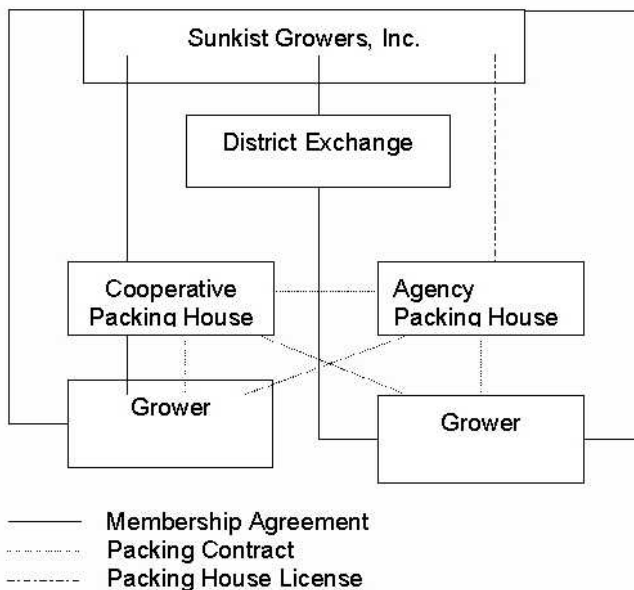


Figure 1. Sunkist Organization

The packing house is the basic unit of Sunkist's structure. Most production, harvesting, and packing functions are coordinated by these entities. Growers have the right to decide what varieties to grow and the acreage to be planted. Decisions on fruit harvesting, hauling, and packing are made by the packing houses. Growers may use either a cooperative packing house or one of the agency houses (non-cooperative). All packing houses must comply with Sunkist standards and regulations. Packing houses market their fruit through a District Exchange.

District Exchanges are organized as nonprofit cooperatives controlled by Boards elected by the cooperative associations and direct grower-members of the exchange (those growers who pack with agency houses). District Exchanges do not physically handle fruit but serve as a mechanism for collecting and disseminating information between Sunkist and the local packing houses and coordinating sales orders and shipments. A key District Exchange function is in governance of the Sunkist system through the election of Directors to the Sunkist Board. Each District Exchange is entitled to one director on the Sunkist Board with additional directors based on their percentages of total Sunkist volume. District Exchange expenses are deducted from funds received from Sunkist and distributed to the packing houses. Packing houses, in turn, distribute returns to growers based on their pro-rata share of shipments to a particular pool, after deducting packing expenses allocated to the pool.

The central Sunkist organization has several functions in the system. Through its agreements with the local associations and district exchanges, it has the sole responsibility for selling fresh fruit, maintaining foreign buyers, receiving and distributing to exchanges receipts from fruit sales, establishing grades, organizing advertising and promotion programs, and regulating the use of trademarks and patents. The central organization also determines the method of transporting fresh citrus and the packing materials to be used. Revenues from fresh fruit sales are returned to the district exchanges after deducting assessments for marketing, advertising, and capital funds

A key feature of the Sunkist system is the cooperative nature of pricing fruit. Sunkist sets f.o.b scale prices which can be adjusted after information is received from the exchanges supplies of fruit in the packing houses. Prices are then adjusted to assure an orderly flow of fruit at the best possible prices in a competitive marketplace without accumulating excess inventories. Packing houses have the right to determine if they will fill an order, but control over price quotations rests with the central sales office of Sunkist along with contacts with buyers.

One aspect of the decentralized nature of the Sunkist system is competition between packing houses to fill many of the orders placed with the sales office. With prices set by Sunkist and each packing house responsible for its own costs, houses compete with each other based on their operating efficiencies. For a given sale, net returns and a packing house's willingness to take an offer depends to some degree on its packing costs. Also important in filling buyers' expectations is the ability of individual packing houses to provide quality and consistent service. This competitive situation in the Sunkist system is beneficial by providing the incentive for individual packing houses to become more efficient and pay attention to buyers' need for quality and service.

Affiliated Operations. Sunkist operates a number of enterprises that serve to support its operations. These include licensing, processing, packing house supply, and research and development.

Licensing. Sunkist began licensing its trademark in the early 1950's and has evolved into one of the largest food and beverage licensing programs in the world. The licensing program is one of the reasons why Sunkist is one of the top 50 recognized brand names in the world. Currently, Sunkist licensed products are manufactured and marketed by 45 licensee partners, and sold in 50 countries on five continents. Counting all the different sizes and package styles, more than 450 products bear the Sunkist name. These products vary from juice, baking mixes, vitamins, fruit drinks, carbonated beverages, frozen novelties, snacks, confections, and chilled jellies. Sales of Sunkist licensed products approached \$1.2 billion in 1996 with royalty income reaching \$16.2 million. In addition, Sunkist licensees are among Sunkist's largest customers purchasing nearly \$25.5 million in processed products in 1996. Revenues generated by licensed products are used towards reducing growers' capital investment in Sunkist. For example, capital investment for processed products has dropped from \$6.00 per ton to about 53 cents per ton for processed products, and from two cents per carton to one cent for fresh products.

One of the greatest advantages to Sunkist from its licensing program is the advertising that growers receive at no cost to them. In 1996, Sunkist licensees spent more than \$120 million advertising the Sunkist brand. This amount is a sizeable supplement to the fresh fruit advertising that is

carried out by Sunkist from its own resources.

In order to reduce the risks from the licensing program, Sunkist looks for companies that share its values for high standards and superior quality. In addition, the companies must commit to building effective marketing programs and to purchasing member products.

Processing Operations. Sunkist has both a lemon processing and an orange processing facility. Because it is primarily a fresh fruit marketing organization, the Sunkist processing operation is mostly a residual one. Depending on fresh market conditions, supplies of fruit for processing can vary tremendously. Hence, its marketings of processed products in the past have mostly been of a bulk product nature. However, more recently, Sunkist has begun to take a more active posture in processed product marketing, including consumer packaged products. This change was precipitated by two factors. The first was the development of new processing technologies which allowed Sunkist to greatly improve the flavor of its juice products, especially those using navel oranges, the most common in the Sunkist system. The second factor involved putting the Sunkist brand on single-strength and concentrated orange and grapefruit juice products that benefited from name recognition.

In addition to the Sunkist operated facilities, some of its members operated their own processing facility. The largest among these is Paramount Citrus, a recent addition to the Sunkist system. Sunkist members, under their marketing agreement, must market all of their product sent to processing through Sunkist.

Fruit Growers Supply. This organization supplies Sunkist members most of the materials needed to grow, harvest, package, and deliver citrus. Supplies are provided to members at cost. Fruit Growers Supply also provides technical support in the design and use of different supplies.

Formed in 1907 by Sunkist's predecessor, the California Fruit Growers Exchange, Fruit Growers Supply is not a division of Sunkist, but is a cooperative supply corporation. It is a separate entity owned by Sunkist members and closely affiliated with Sunkist. Fruit Growers Supply and Sunkist share nearly the same board of directors and officers. Packing houses are not required to join Fruit Growers Supply. Under the Fruit Growers Supply membership agreement, a packing house agrees to buy all containers required in harvesting, storing, and packing its citrus. Purchase of other items is voluntary.

When citrus was packed in wood boxes, Fruit Growers Supply purchased and operated a block of forest land in Northern California. At present, Fruit Growers Supply owns sawmills, manufacturing plants, and more than 350,000 acres of timber, making it a leading timber company in California.

Research and Development. Sunkist's Research and Technical Services Division is a stand alone company offering Sunkist affiliated packers technology and technical services. Once a subsidized division of Sunkist, it is now operating on the basis of a profit center for the organization. Its mission is to maintain and promote competitive position of Sunkist, its grower-members, and the packing houses through scientific and technical innovations and services. Its innovations are at the cutting edge of fruit handling technology which is provided to members at cost-effective rates. The division generates operating revenue to finance research programs at no cost to the fresh fruit marketing assessments. It is generally regarded as a leader in fruit handling and packing technology. The development and introduction of new, advanced technology has enabled packing houses to be competitive.

An example of the technology that is being adapted by the division for packing house technology involve ideas used in spacecraft design, medical imaging, and military optics. These advances in technology are being adapted by Sunkist engineers in designing and manufacturing improvements in sizers and graders used in packing houses. In addition, advances in X-ray technology are leading to developments in increased detection of mold, decay, and frost damage thus improving overall fruit quality.

Financial Performance

Tables 1, 2, and 3 contain financial data from the 1997 Sunkist Annual Report. 1997 revenues are divided among fresh fruit sales (\$606.7 million/56 Percent of total revenue); export fresh fruit sales (\$305.4 million/28 percent); fruit products (\$112.6 million/10 percent); and other (\$50.6 million/5 percent). Other revenues includes revenues from the trademark licensing program, non-member fruit sales, equipment rental and other activities conducted by Sunkist's Research and Technical Services Division, and transportation services for non-Sunkist related products and incidental activities of Sunkist subsidiaries. Both fresh domestic and export sales have shown revenue growth since 1988; fruit products revenues had remained relatively flat until 1995 and have shown significant decreases in 1996 and 1997. Other revenues have also shown revenue growth since 1988, especially from the trademark licensing program.

The decrease in fruit products revenues were attributed to a number of reasons. Among these was a discontinuance of production and sale of consumer products in order to concentrate on core industrial product lines. In addition, particularly in 1997, there was a decrease in the amount of fresh fruit going to products due to a higher percentage of the crop sold as fresh fruit since it had higher quality and vitality. Also adversely impacting 1997 operating results was increased competition from the world's other citrus producing countries. A worldwide excess supply of orange juice slowed sales volume for Sunkist as well as adversely impacting pricing. In addition, Argentinean producers channeled some of their lemon juice products into the U.S. for sale at low prices which combined with cold weather during some of the key marketing periods resulted in reductions in lemon sales volume and revenues. However, lemon oil sales revenues increased by 15 percent in 1997 despite pressure from lower priced Argentinean products as customer demand remained strong for Sunkist products. The results seen from this review of fruit products contribution to Sunkist revenues point to the increased world competition that Sunkist is facing and underscoring their core business emphasis as a fresh fruit marketer.

However, the decline in fruit products sales is not without a positive side. Sunkist completed the transformation of its processed products division in 1997. When the process began in 1995, fixed overhead costs were \$54 million; entering 1998, fixed costs were \$23.5 million, or less than half. The restructuring discontinued the direct manufacture and sale of consumer products, allowing inventories to be kept at a minimum. Unprofitable lines were eliminated; those with good potential were licensed to firms specializing in those categories. Because of these structural changes, even though processed product revenues decreased by \$33 million in 1997, grower earnings increased by \$9 million despite the lowest orange juice futures market in history.

Fresh fruit sales accounted for nearly 85 percent of total Sunkist revenues. This percentage has been increasing since the late 1980's when it was nearly 10 percent lower. However, 1997 was a good fresh fruit year from the standpoint of quality, but the increasing percent of fruit sold fresh underscores Sunkist's core business as fresh fruit sales. Fresh fruit sales are divided into five major categories: navel oranges, valencia oranges,

tangerines, lemons, and grapefruit. Table 4 presents data for sales and prices for 1996 and 1997. Overall, Sunkist reported a "very good year" to its grower-members which is evidenced from Table 4. The 86 million cartons of fruit sold in 1997 was a significant increase over 1996 and two firsts were reached. For the first time domestic fresh fruit revenues topped \$600 million and total fresh fruit revenues topped \$900 million. In reaching these revenue records, Sunkist also set a new record for total payments to members of \$867 million (see Table 1).

Navel oranges account for over 40 percent of total shipments followed by valencia oranges at over 25 percent. Lemons account for over 20 percent of total shipments while grapefruit accounts for under 10 percent. Tangerines accounted for about 2 percent. Total shipments increased for navel and valencia oranges and grapefruit. Shipments were down for lemons and tangerines. Lemons in particular were affected by disease problems in the desert production region and windstorm damage which particularly affected the availability for fruit for export.

Prices for exports show a significant premium over domestic shipments. Exports show a heavy dominance in the Asian markets, especially Japan, as evidenced in Table 5. Revenues from export sales have shown growth since 1988 and in 1997 accounted for about one-third of total revenues. This data clearly show that Sunkist is able to operate successfully in highly competitive export markets. One piece of information that is not available at this time is the impact that the Asian financial crisis is having on Sunkist's ability to sell in these markets. However, the long term future for these markets is bright given their population and economic growth once the financial crisis is resolved.

The contribution to revenues from the trademark licensing program has been detailed elsewhere. The Research and Technical Services Division is a net contributor to Sunkist's basic research needs from the sale or lease of state-of-the-art packinghouse equipment. Income from the division subsidizes basic research, the fruit sciences department, and engineering operations so that there is no charge to fresh fruit marketing assessments.

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Equity. Members equity amounted to \$55.8 million in 1997 (see Table 3). It is composed of a Capital Fund, Allocated Retained Earnings, and Unallocated Retained Earnings. As of 1997, Sunkist is almost entirely capitalized by income generated by non-member business activities. There is only token grower investment required.

To provide a portion of the capital required to operate Sunkist's business, a non-interest bearing Capital Fund is maintained through annual assessments against members' fruit shipments. Total requirements from this source are determined annually by the Board of Directors. Each member's capital obligations is determined based on the member's proportionate use of the facilities and services furnished by Sunkist. Once the member's proportionate assessment shares are calculated, each member's capital fund obligation is determined. The Capital Fund retention period is a rolling five-year period. As such, for growers who have an existing five-year capital fund balance, the net assessment or refund in the sixth year will be the difference between the sixth-year (current) assessment and the first year refund.

The amounts assessed and refunded, both in aggregate and for individual members are based on 1) comparative volumes of fresh fruit marketed and products fruit processed, 2) the assessment rates applied to such volumes, and 3) the length of the capital retention periods. The assessment rates and retention periods which are established by the Board have not changed for several years. The assessments are applied on a per-carton or per-carton equivalent basis for all grower fruit. The Capital Fund balance as of October 31, 1997 was nearly \$6.1 million after a net refund of \$144,000.

Allocated Retained Earnings represents the retained earnings allocated by the Board in 1985 and 1986. The allocations were attained by issuing non-qualified written notices of allocation which are not taxable to the recipient until redeemed in cash. Such allocations were made to members on the basis of relative equivalent carton volumes of both fresh and products citrus fruit handled by Sunkist for all members during the fiscal year corresponding to the year of the income. Since the 1987 fiscal year, retained earnings have not been allocated in the year in which they have arisen, but they have instead been taken into unallocated retained earnings. Allocated Retained Earnings amounted to \$9,425,000 both in 1996 and 1997.

Unallocated Retained Earnings amounts include accumulated income derived from trademark licensing and other non-member activities, except for the allocated amounts discussed previously. Also included are amounts resulting from differences between the depreciation methods used for ACRS and those used for generally accepted accounting principles as reflected in Sunkist's financial statements. Additionally, the Board has authorized certain charges in past years against Unallocated Retained Earnings for under-absorbed overhead and for member payments in excess of margins earned.

The Citrus Industry

Sunkist is part of the California-Arizona citrus industry. Its membership and packing operations are in these two states. California is the dominant producer of the two with nearly 90 percent of the acreage used for production of citrus crops. Fresh fruit shipments for the California-Arizona production region and Sunkist are exhibited in Table 6 for 1995-97 and for different fruit varieties. Navel oranges account for nearly 45 percent of fresh fruit shipments, valencia oranges for 28 percent, lemons for 16 percent, grapefruit for 7 percent, and tangerines for the remainder. Sunkist fresh fruit shipments are divided as 42 percent for navel oranges, 26 percent for valencia oranges, 22 percent for lemons, 7 percent for grapefruit, and the remainder for tangerines. For the region and for Sunkist, navel and valencia oranges are the major fresh fruit varieties. Sunkist is more heavily weighted in lemons than the region as whole. Overall for California-Arizona, Sunkist's share of fresh fruit shipments is higher for lemons and valencia oranges than for navel oranges, grapefruit, and tangerines. Market share is important to Sunkist in stabilizing the California-Arizona fresh citrus market. Sunkist has 80 percent of the fresh lemon market. A key area for the production and marketing of fresh oranges is the San Joaquin Valley which has been growing in production as urban development and high water costs have forced production out of Southern California. In this important area, Sunkist estimates that their market share of valencia orange production is about 65 percent, while their share of navel production is under 60 percent. Sunkist feels that a market share above 60 percent is more conducive to stabilizing market forces through their market leadership.

Data comparing California-Arizona production with the U.S. is contained in Table 7. Two relevant observations can be made from this data. The first is that, except for lemons, the California-Arizona citrus industry is small in comparison to the rest of the U.S. (basically Florida and Texas). The second is that the California-Arizona industry is primarily a fresh fruit industry, where the rest of the U.S. is heavily weighted towards processing.

In terms of bearing acres of citrus, California-Arizona represents about 25 percent of the total orange acreage in the U.S., one-third of the

tangerine acreage, 13 percent of the grapefruit acreage, and most of the lemon acreage. It should be noted that in Table 7-2, the data there represents all of California-Arizona; no data was available from U.S.D.A. NASS on the rest of the U.S.

In terms of total orange production, California-Arizona represents about 20 percent of the total; however, it represents 80 percent of the fresh market. For grapefruit, California-Arizona represents 10 percent of total U.S. production, but 15 percent of the fresh market. Similarly for tangerines, California-Arizona represents about 28 percent of the total, but 35 percent of the fresh market. The value of utilized production data also clearly show that for the U.S. as a whole, the rest of the U.S. looks towards the processed market for a significant share of returns while the processed market in California-Arizona provides residual value.

World citrus fruit production is contained in Table 8. In this table selected countries are listed which could impact on California-Arizona citrus production both domestically and internationally. The largest producer of citrus is Brazil with nearly 25 percent of world's production. The second is the U.S. with nearly 16 percent. Increasing rapidly is China, which has nearly tripled its production in the last 10 years, and accounts for nearly 10 percent of world production. World production has increased over 35 percent in ten years with Brazil increasing its production by 50 percent and the U.S. by 35 percent. Mexico has nearly doubled its production in ten years and now accounts for about 6 percent of world production becoming the fourth largest producer.

The data in Table 8 strongly suggest that competition in world markets will increase, especially in asian markets which have become a strong market for California-Arizona exports, especially for Sunkist. Processed citrus markets are already dominated by Brazil and Florida, however many countries are looking to the higher valued fresh market. While South America exports heavily to Europe, there is a great deal of interest in exporting to the U.S.

One country looking at the U.S. is Argentina, especially the U.S. lemon market. Argentina is the second largest producer of fresh lemons in the world after the U.S., but expects to eventually take the lead. It is planting more trees and has increased its lemon exports the past three years by 73, 17, and 49 percent respectively. The Netherlands continues to be Argentina's main customer followed by France, Spain, and Russia. In 1996, the U.K., Portugal, and Canada also imported Argentine lemons. Argentine and U.S. officials are discussing the entry of Argentine fruit into the U.S., possibly as early as 1998, if phytosanitary standards are met. Argentine lemon production is harvested year round with the bulk of harvest taking place in May and August. Argentine officials petitioned the U.S. for certification for lemons, grapefruit, and sweet oranges to be allowed into the U.S. market. Before imports will be allowed, Argentine fruit must meet the sanitary and phytosanitary requirements regarding black spot, canker, scab, and fruit fly concerns.

Regarding the various fruits that Sunkist markets and the marketing season, Table 9 provides this information. Most of the varieties are highly seasonal. However, between navel and valencia oranges, Sunkist is in the market nearly on a year-round basis. With respect to lemons, Sunkist markets year round although it does have peaks and valleys in its harvest season. Hence, the import of lemons into the U.S. poses a significant source of potential competition.

Returns to California growers of citrus are presented in Table 10 for oranges, grapefruit, and lemons. Returns are variable on a year-to-year basis depending on supply and market conditions. The high prices seen in 1990-91 for oranges and lemons were the result of a freeze in California. California prices for citrus also benefit from adverse weather conditions in Florida.

As noted before, the marketing orders for navel oranges, valencia oranges, and lemons were terminated in 1994. Hence, there are only two years of data to evaluate possible impact on growers and no conclusions can be drawn. An analysis was performed on variation of prices by constructing a coefficient of variation. This analysis, too, was inconclusive in that the same variability in prices was detected before and after 1994.

Summary.

As the new millenium approaches, Sunkist Growers, Inc. can look back on a successful history. It enters the next 100 years in solid financial shape boasting a world recognized trademark which in itself is a net contributor to Sunkist's revenues. However, the world is rapidly increasing its citrus production. Increased competition looms not only in Sunkist's highly lucrative export markets, but domestically as well.

On November 1, 1998, Russ Hanlin will retire as President of Sunkist. His successor will be Vincent Lupinacci. Mr. Lupinacci brings to Sunkist an extensive background in food and beverage marketing involving such high profile brands as Pepsi Cola and Sara Lee. According to Sunkist sources, Lupinacci's background in brand name marketing fits perfectly with the future objectives of Sunkist. As the board and new president look at the challenges and opportunities before them, a number of questions can be posed:

1. 1. What are the challenges and opportunities facing Sunkist?
2. How well is the organization prepared to face the challenges and take advantage of opportunities?
3. What changes in marketing strategies should be considered?
4. Is the current organization a positive or negative in developing new strategies?
5. Is a cooperative form of business structure flexible enough to accommodate production and marketing strategies that need to be developed?
6. Will Sunkist need to develop global alliances and joint ventures to supply the integrated nature of markets, or can it go it alone?
7. How important was industry marketing order for navel oranges, valencia oranges, and lemons to the marketing success of Sunkist?
8. How important is a marketing order in meeting the domestic and global challenges facing Sunkist and the California-Arizona citrus industry?
9. How valuable is Sunkist's brand name in meeting increased competition domestically and globally?

Presented to the Food and Agricultural Marketing Consortium, Park City, Utah, August 1, 1998.

² See Sunkist Magazine, Summer 1997.

³ A detailed and comprehensive history of Sunkist can be found in a special publication, Heritage of Gold, published by Sunkist, which provides an overview of the people and events which built it into the present organization. Much of this historical description was found on the Sunkist Internet Web Page, "sunkist.com".

⁴ For more detail, see Cooperatives in the U.S. Citrus Industry, RBCDS Report 137, U.S.D.A., Rural Business and Cooperative Development Service, December 1994.

⁵ The case is the subject of a book, The Sunkist Case, authored by Willard F. Mueller, Peter B. Helmberger, and Thomas W. Paterson, Lexington Books, 1987.

⁶ The following information is largely taken from Cooperatives in the U.S. Citrus Industry, RBCDS Report 137, U.S.D.A., Rural Business and Cooperative Development Service, December 1994.

⁷ See "Have Name, Will Travel", Sunkist Magazine, Summer 1997, pp. 8-9, published by Sunkist Growers, Inc.

Table 1. Sunkist Growers, Inc., Summary of Revenues and Member Payments, 1988-97

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988
Sales and Other Revenue (millions of dollars)										
Fresh Fruit, All Varieties										
Domestic Sale	607	546	540	510	585	521	481	523	452	427
Export Sales	305	281	338	293	294	270	261	293	264	258
Total	912	827	878	803	879	791	742	816	716	685
Fruit Products,	113	146	176	164	175	201	178	217	183	170
Total Sales	1	973	1,	967	1,	992	920	1,	899	855
Other Revenues	50	52	42	38	38	37	36	33	35	32
Total Revenues	1	1,	1,	1,	1,	1,	956	1,	934	887
Payments to Members (millions of dollars)										
Fresh Fruit, All Varieties										
Domestic Sale	567	507	501	475	544	488	459	493	423	396
Export Sales	245	220	273	233	228	202	216	232	203	198
Total	812	727	774	708	772	690	675	725	626	594
Fruit Products	55	46	36	15	49	49	38	70	53	46
Total Member Payments	867	773	810	723	821	739	713	795	679	640

* Includes revenues from the trademark licensing program, non-member fruit sales, rentals and services from the Research and Technical Services Division, transportation services for non-Sunkist related products, and incidental activities of the company's Subsidiaries.

Source: Sunkist, 1997 Annual Report