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# PRIVATE STRATEGIES, PUBLIC POLICIES & FOOD SYSTEM PERFORMANCE (NE-165)

## Strengthening the Competitive Position of Commodity Marketers

### Two Case Study Approaches

by

Edward W. McLaughlin and Debra J Perosio

WP - 30

March 1993

## WORKING PAPER SERIES

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## **Strengthening the Competitive Position of Commodity Marketers**

### **Two Case Study Approaches**

#### **Abstract**

Producers and marketers of agricultural commodities are often beset with a similar set of problems that generally may be reduced to the following question: "how can we modify our product or program in such a way as to gain a competitive edge on our competition?" As every commodity marketer knows, there is, unfortunately, no easy answer to this question. Obtaining higher prices and returns for agricultural products is possible, but requires commitment, vision and attention to the ever-changing marketplace.

The current monograph contains two case studies that approach this perennial question from different agricultural commodity industries--fresh produce and turkeys--that are surrounded by different sets of basic supply and demand conditions. Yet, in each case, the companies depicted have been particularly aggressive in their approach to marketing and at least moderately successful in their quest for higher producer returns.

Both of these cases are based on real companies and current data. In the first instance, *TruFresh International (TFI)* has been substituted for the company's actual name but the circumstances documented in the case have not been altered, and in the second example, *Plainville Turkey Farm (PTF)* is indeed the name of the firm. The story of each is instructive in a different way.

Simply put, TFI, long an innovator in fresh produce marketing, is confronted with the challenge that several of its competitors are beginning to duplicate certain of its most successful product and market innovations. The case focuses on the strategic alternatives that TFI may have at its disposal to address this problem, typical to so many commodity industries.

In the second instance, PTF is faced with a related but narrower issue: the PTF brand of fresh turkey products has been received enthusiastically in Central New York State as a high quality brand and one for which consumers have demonstrated a willingness to pay a premium. The dilemma for PTF is whether, and with what strategy, should it attempt to expand its well established branded line of turkey products to new regions and new markets?

Both of these firms are confronted with a set of marketing challenges that will sound familiar to nearly all commodity-based companies. In discussing the events that led to the situations faced by these two companies and the strategic options available to address them, students, executives and industry practitioners will gain an improved understanding of the process involved in adding value to differentiate agricultural commodities.

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### Usage Note

Both case studies contained within this monograph are accompanied by a "Teaching Note" to assist in understanding possible strategies either firm might pursue.

The *TruFresh International* Case is intended to be brief, with the major focus on past strategies and subsequent actions employed by the firm. It is perhaps best suited as a teaching vehicle to generate discussion and inquiry into general strategies a commodity producer might consider to strengthen its competitive position within the marketplace.

The *Plainville Turkey Farm* Case is more detailed and contains a brief overview of the turkey industry at the national level. It is instructional by itself; providing the reader with an overview of the turkey industry and a glimpse of how one producer grew a highly successful regional company. Like the *TruFresh* Case, its focus is on strengthening its competitive position within the industry, however, more specifically, it addresses the issue of branding.

With both cases, working either as individuals or in groups, students can be asked to prepare reports, regarding what they recommend as the appropriate strategic steps, what data are needed, and what further opportunities lie ahead.

Of course, before distributing the case to students, the "Teaching Notes" should be detached to be distributed later according to the style of the instructor. Anyone with questions about usage is encouraged to contact us at Cornell University, (607) 255-1588.

## TruFresh International

"Consumer change leads to marketing response." While this marketing adage has always held true, at no time has consumer change taken place as rapidly as it did during the 1980s. Major shifts in consumer demographic and lifestyle patterns gave rise to exciting new opportunities for some businesses and to substantial downturns for others. In the U. S. food system, producers and markets of certain traditional foods, red meats and eggs, for example, faced difficult strategic decisions as they witnessed precipitous declines in sales as a result *inter alia* of consumers' new concerns with the nutrition and healthfulness of foods. These same trends, however, have resulted in strong sales growth in certain other industries, such as fresh produce. But growth leads to different kinds of strategic problems.

### A Story of Growth

TruFresh International (TFI) was founded in 1976 by three business colleagues, all born into long time California agricultural families. Their vision was to create a company that would extend beyond the time-honored model of produce packing houses as "commodity" sellers. "Stretch" Lawson, one of the founders, often remarked in those early years that, "the saddest thing about this industry is that only one thing distinguishes one produce packer from another--price."

TruFresh saw diversification and new products as the key ingredients needed to break out of the commodity mold. Almost immediately, TFI began to acquire other companies, additional packer labels and new technology. In 1978, TFI became the first company to aggressively market the Red Flame Seedless grape, developed by scientists at the University of California at Davis. The Red Flame became an overnight marketplace success and was to become the first of many more convenient, better tasting produce items the TFI would introduce.

The new resolve to develop new products at TFI was strengthened when the onset of the 1980s gave rise to a set of problems that few in agriculture had foreseen. Many crops across the United States, especially in California, had been drastically overplanted due to the favorable tax treatment given agricultural developments by previous tax laws coupled with over-optimistic demand forecasts. The resulting abundant supplies created an industry-wide climate of lower fresh fruit and vegetable prices, driving TFI to intensify its efforts to differentiate itself from its competitors. Rick Conrad, Senior Vice President of Marketing, remembers this era: "We saw it becoming more clearly evident that to be successful, we had to be different, and being different meant developing patented or proprietary commodities that others didn't have."

However, not all of Conrad's industry colleagues shared this conviction. In fact, the fresh produce industry was of two opposing minds regarding its endorsement of the so-called "marketing orientation." New products, were believed by certain top managers, like Conrad, to be the key to a leadership position in the produce industry for a number of reasons. Most critical, consumers and retail customers demanded it. By the early 1980s, the number of fresh offerings in the average supermarket produce department had more than doubled from the 1975 average of about 65 items. Consumers were increasingly looking to the produce department for mealtime excitement: it fit their new health, diet-

minded lifestyles and increasingly represented exotic places from around the world. Naturally, retail produce directors, anxious to capitalize on new consumer interest, began searching "all corners of the globe" in attempts to continue the fresh produce expansion.

What's more, these managers suspected that, like in packaged goods marketing, new product "introductions" in produce offered the possibility of converting the value or "equity" already established by a firm's past record into new areas of opportunity and profit.

However, to cover the costs required to develop such distinctive new products, "special status" for their products would have to be established, in other words, brands. Yet the corollary to brands was that premium prices would have to be charged. It was this issue that divided industry leaders into two camps. The other faction of the industry, including several prominent industry spokesmen, argued that the requisites for brands--consistency, stable pricing, national promotion and advertising, research and development spending, and true differentiation--did not, and could not, exist in the fresh produce industry. As one of them commented, "It's suicide. In commodity industries, 'brands' are a contradiction in terms." Indeed, even the advocates within the industry understood that with few exceptions, "brands" was an alien concept in fresh produce and realized that following a branded strategy meant walking a high wire.

Nevertheless, in the early 80s, the "brands" proponents prevailed in several progressive firms. TFI embarked on an aggressive campaign to develop and acquire new products. In 1983, TFI introduced its first branded product in the specialty produce category when it obtained exclusive rights to market a brilliant, flaming red, sweet pepper. It was followed by an exclusive tomato in 1986, a carefully bred, vine-ripened succulent tomato with an extended shelf life when compared to ordinary tomatoes. In 1990, after more intensive hybrid improvement, a new version of this tomato was introduced to the nation's produce departments. By 1990, TFI also had proprietary rights to produce or market a growing number of other specialties as well: exotic citrus products, multi-colored peppers and seedless watermelons and grapes.

### **Problems Along the Way...Some Responses**

As the early nay-sayers had warned, the differentiation approach followed by TFI during the 1980s was fraught with problems. A number of weather incidents in California nearly devastated supplies of several of TFI's most important crops, making service and pricing levels committed to earlier nearly impossible to maintain. Fortunately, in many of these instances, total disaster was averted, by the extensions of seasons from contra-seasonal production areas, often from Mexico or South America, where TFI had engaged in numerous joint venture arrangements with various producers. Such geographic diversity, offering multiple areas of supply, was a key factor permitting TFI to be a year-round supplier.

Capital availability, too, was a constraint. The new product credo that some at TFI were preaching was modeled directly on the experience of many of the large grocery manufacturers and, as such, relied heavily on research and development and advertising spending. In less than two years at the end of the 1980s, Procter and Gamble alone had spent \$1.5 billion to launch its new "Ultra-Pamper" diaper, these moneys being allocated to R & D as well as advertising and promotion. Although this outrageous amount was an exception, it was true that the large grocery manufacturers routinely spent \$20 to \$40 million to introduce a new product. These enormous sums, many at TFI pointed out, were simply prohibitive for the relatively meager resources of a produce company.



At the same time, it was argued by some that innovation can take place for less than \$1.5 billion. In 1989, TFI acquired Super Fresh Farming Company, a major grower and marketer of special patented table grapes and treefruit located in the San Joaquin and Coachella Valleys. The acquisition included one of the world's largest fruit-breeding laboratories, a certified pesticide residue testing center and a professional staff of 22 technicians and scientists. By the early 1990s, TFI spent about \$2.5 million yearly in research, much of it at its Super Fresh Laboratory Facility. It experimented, for example, with 90,000 table grape and 40,000 stone fruit crosses a year. Such research activity was required for TFI to reach its ambitious goals in the marketplace: extended seasons, early and late; easier handling products; and improved flavor.

Yet, of all the goals, Joseph Ferrell, TFI's chairman and CEO, believed that taste was the most critical: "...the consumer isn't interested in production problems. If the product doesn't taste good, regardless of how difficult it was to produce, the consumer will not buy it."

Another crucial but largely unresolved issue at TFI was how to handle advertising and promotion. Borrowing from the experience of the grocery manufacturers again seemed inappropriate: budgets to advertise to the consumer mass market using national broadcast media seemed clearly out of the question. Yet some at TFI wondered: was not such continuous exposure required to engender the consumer recognition upon which brands rely? Although a number of "push" and "pull" promotional techniques were tested, neither faction of the TFI management could decide the optimal course of action.

### Positioning for the 1990s

TFI's progress during its first 15 years was made in fits and starts; the problems, some predicted some unforeseen, inherent in bringing a commodity based industry into the era of marketing were not inconsequential. Nevertheless, in an industry where steep year-to-year sales and earnings variations were accepted as an inevitable fact of doing business, TFI's sales growth spoke for itself (Table 1):

TABLE 1: TFI Sales and Earnings

<u>Year</u>	<u>Est. Sales (millions)</u>
1975	\$ 75
1985	160
1990	240
1992	300

Executives at TFI regarded the impressive record of sales growth as strong indication that they were indeed following the right path--perhaps the marketing orientation would work out despite the misgivings of certain industry critics. What other conclusion to draw? Although reliable market share data were unavailable, industry estimates suggested that TFI's share of business was also growing.

Throughout this period of healthy industry debate--not, incidentally restricted to just the fresh produce industry--over proper interpretation of market conditions and the best strategic course to follow rarely was there agreement on any particularly issue, until the

early 1990s: virtually every produce company expected the increase in competition during the 1990s to be fierce.

New competition was already changing the rules of the game. The proprietary and patented varieties that TFI had worked so long to perfect were being copied, and with considerable success. Relatively nameless packers were now selling credible imitations of some of TFI's proudest items: the multi-colored peppers, the seedless grape and watermelons and the vine-ripened tomato. A rule of thumb that hold in most industries is that imitators can make a new product for two-thirds of the cost and time that it takes the innovating firm. This reality coupled with their very low marketing budgets enabled the imitators to undercut TFI's premium "branded" prices. TFI felt cheated. After all, it was they who developed the niche, who built the business of branded specialties and now some "crossroads packer" was stealing the show. There were some who pointed out that TFI had taken great (too much?) satisfaction in having boosted the commodity produce business into the era of branded marketing only to now watch it decline into a game of one generic item chasing another.

Moreover, other threats loomed just over the horizon. As the so-called sophisticated packaged grocery marketers developed their own five year plans in the late 80s and early 90s, their market research told them the thing that TruFresh already knew: consumers wanted more fresh food, less packaged food and, even worse from their perspectives, retailers were responding to meet these new consumer desires. Retail fresh food departments were everywhere being expanded, at the expense of the traditional stronghold of the branded manufacturers, the dry grocery aisles. Not surprisingly, then, many of these manufacturers whose historical sales had been limited to packaged groceries were beginning to make major commitments to fresh foods. Experiments were appearing everywhere with familiar household names and other large companies without previous fresh produce background who were beginning to look for "greener" pastures for the 90s: Pillsbury, Birds-Eye, Cargill, and Carnation came to mind. Many observers at TFI took solace in the fact that many of these early trial balloons did not fly very high. "They'll learn that the fresh produce business is a lot more complex than the assembly line of dry groceries" was a common attitude. They remembered with vengeful satisfaction the experience of Tennaco Oil, Campbell Soup, and Nestle. Others, however, were concerned. What could happen to the produce industry if even a few of these major food industry players, with their deep pockets for advertising and R & D expenditures, began to put some of their marketing and technical expertise to work in fresh produce? Moreover, it was common industry knowledge that while many of the initial forays of these manufacturing companies into fresh foods had not produced immediate success, nearly all of them had made a public commitment to enter the industry in the long run.

As TFI managers prepared for their upcoming Sales and Marketing Meeting, scheduled for February 1993, they were worried. Should they continue to spend heavily on innovation? Should they adopt an aggressive or a defensive strategy? Or, more basically, how should they position their company for the 1990s in such a way as to enhance their demonstrated industry leadership? Quite a list of problems and questions remained unanswered.

## Teaching Note

to accompany

### TruFresh International

#### Summary

The TFI case describes a set of conditions that is recognizable in many, if not most, commodity-based industries. Perhaps the single feature of the TFI firm that distinguishes it from many of its competitors is that it has a long history of taking steps to differentiate itself and its products from the vagaries of commodity markets. TFI began to "add-value" to its product/service package twenty years ago and has continued in that tradition until today. In so doing, TFI has established its company as one of the true leaders in the produce industry not just in terms of innovation but also in terms of sales and profitability.

#### Approach to Case Discussion

This case lends itself particularly well to discussing the marketing challenges of a fresh produce producer and/or marketer but the issues range much broader than just the produce industry and thus the case may also serve as a catalyst for discussion for any commodity-based industry. Although the points developed below are restricted for the most part to the produce industry, a discussion leader should have little difficulty expanding the scope of discussion to fit almost any commodity with the use of appropriate examples.

To varying degrees, the following challenges are implied in the case, and should be addressed by any group attempting to describe the range of strategic options open to TFI, or any other produce operator wishing to differentiate itself from "the crowd."

#### Strengthening the Competitive Position of a Commodity-Based Marketer

The first two of the strategies below are perhaps the most effective in both the short and the long-runs, but they have the considerable disadvantage that they often require the most resources and sophistication.

- Develop new products and/or packages
  - specialty products (hydroponic vegetables, "baby" vegetables, organic products, etc.)
  - "value-added" products through technology (hybrids with better flavor, longer seasons, more disease resistant, better color, more consistent sizing, etc.)
  - more convenient packaging (e.g., microwavable)
  - more environmentally friendly packaging
- Undertake advertising and promotion efforts
  - national or regional consumer advertisements
  - trade ads--directed primarily at the retail buyer
  - in-store promotional activity

- Adopt cost reducing technology
  - packing and shipping technologies that improve quality and consistency, gets the product to the market faster, maintains freshness better, etc.
- Expand in size to gain market power
  - acquire another firm
  - merge with a larger firm
  - expand into additional commodities or additional geographic regions--to offer "one-stop shopping"
- Change products to fit changing market needs. Appeal to customers and consumers by staying abreast of their current and changing needs and preferences. The following, for example, may fairly represent the "changing agenda" of today's consumers with respect to fresh produce:
  - nutrition
  - taste, flavor, variety
  - packaging
  - safety
  - price and value
  - convenience
  - service
  - quality and consistency
  - information/understanding

This list becomes the basis for the development of new products and new strategies. A similar list should be generated for wholesale/retail customers

- Develop means to coordinate with growers to obtain adequate supplies--optimum quality and consistency
  - form joint sales agency
  - consider various forms of cooperative activity, etc.
  - experiment with various forms of contracting
- Recognize that marketing and innovation is not a one-time application--it is a continuous process.
  - develop some system of "market research", however rudimentary.



## Plainville Turkey Farm

Traveling down the rural roads of Plainville New York, it appears that this is a quiet farming village or perhaps a bedroom community to nearby Syracuse. Heading east down Plainville Road brings no surprises until over a knoll, a sprawling complex of neatly manicured buildings comes into view. Upon closer inspection, the passerby notices a feed mill, several barns and buildings, a visitor center and retail store. This is the home of Plainville Turkey Farm, the largest turkey producer in New York and New England.

Today Steve, the marketing manager for Plainville is contemplating several marketing strategies for the firm. While considering many options, he can't help but ponder Plainville's long history.

### Early History

Now in its sixth generation of operation, this family owned business began in 1835 as a general farm with 72 acres. William Ward (the owner) raised such crops as corn, oats, wheat, hay and potatoes. Cows, horses, hogs and sheep were also kept on the farm. In 1923, under the watchful eye of Harry Bitz and William Ward Jr. they began growing turkeys commercially. By the late 1930's about 6,000 turkeys were raised a year. Although turkey production was growing, the farm still continued to be diversified, with such crops as peas, tobacco, potatoes, dry beans and cabbage. A small dairy herd was also maintained on the farm. When Harry and Mettas' son, Robert joined the business in 1952 they began to focus their energies on turkey production.

Since then the farm has changed dramatically. Small scale production of a variety of crops and animals has given way to specialized production of turkeys and a variety of turkey products and services. By 1991, Plainville Turkey Farm produced and processed more than 450,000 turkeys. The farm consists of over 800 acres, with 15 of the acres taken up by 30 turkey growing buildings. The remainder of the tillable land is planted in corn.

Robert's son, Mark, became the 6th generation to operate the farm, joining the business in 1985. Today, the farm is known in New York State for its high quality turkey products. Plainville turkey can also be enjoyed in a turkey dinner at *Plainville Farms Restaurant* or in a sandwich at *Plainville's Turkey and More Restaurant* located in a nearby mall. Plainville's stated philosophy helps the observer better understand the spirit of this family run business:

"We believe that goals, positive mental attitude, teamwork, knowledge and hard work are the keys to great accomplishments. With this in mind, we seek to provide our customers with fresh, nutritious and delicious products and excellent service. Further, we seek to provide safe, rewarding and profitable employment for all employees. As we work together towards these ends, let integrity, workmanship, industry and friendliness be our hallmarks."

## A National Perspective

### Production: Past and Present

The United States turkey industry has undergone enormous changes in the past 50 years. During the 1940's and 50's small farming operations gave way to large scale technologically advanced enterprises. After the Second World War, turkey breeding began to move from being centered around individual farms to being centered around processing plants. This shift towards concentration around processing plants combined with significant technological advances in turkey production, resulted in industry-wide shifts in geographic distribution, organization and marketing patterns for the turkey industry. Turkey production became more efficient and more profitable which enticed small family companies to become much larger, and large corporations to begin to invest in the turkey business. As a result of this restructuring, the turkey industry today shares many organizational features with the poultry industry. Owner integrated and contract production units account for greater than 80 percent of all production.<sup>1</sup>

Production costs related to turkey production are largely influenced by the cost of feed. Typically seventy percent of the cost of production is attributable to feed cost. Processing and distribution to markets add substantially to the cost of producing poultry meat. The U. S. Department of Agriculture estimates that these functions add an additional 16 cents per pound to the cost of production. Of this additional cost, approximately 29 percent is attributable to labor, 16 percent to packaging and 24 percent to assembly and distribution. The remaining factors contributing to this cost include fixed costs and other miscellaneous items.

### Industry Concentration

Traditionally located in the North Central states and California, the turkey industry has shifted in its locus of production. Today, the industry is concentrated in the South Atlantic, West North Central and Western states.<sup>2</sup> The New England, Mid-Atlantic, and East North Central regions produce less than they consume, while the rest of the country produces a net surplus.<sup>3</sup> The top ten producing states account for 81 percent of the turkeys grown nationally (Table 1).<sup>4</sup>

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<sup>1</sup>Austic Richard E. and Nesheim Malden G., *Poultry Production*, Thirteenth Edition. Lea and Febiger, 1990, p 8.

<sup>2</sup>Lasley, Floyd; Henson, William; Jones, Harold. *The U. S. Turkey industry*. Washington, DC., U.S..... Dept. of Agriculture, Economic Research Service, no. 525, p1.

<sup>3</sup>Ibid., #4.

<sup>4</sup>1992 Turkey Statistics, National Turkey Federation

TABLE 1: Top Ten Turkey Producing States\*

In millions of turkeys	
1) North Carolina	62.0
2) Minnesota	44.0
3) Arkansas	26.0
4) California	24.0
5) Missouri	21.0
6) Virginia	19.0
7) Indiana	15.0
8) Pennsylvania	8.8
9) Iowa	8.5
10) South Carolina	6.0
<b>TOTAL</b>	<b>234.3</b>
<b>TOTAL U.S.</b>	<b>289.3</b>

\* Based on estimated production in 1992.

Source: 1992 Turkey Statistics, National Turkey Federation

Since 1980, the United States turkey industry has been dominated by several large firms. The top ten firms, for example, have produced between 56 and 59 percent of all live turkeys produced nationally. Furthermore, in 1992, the top three companies, Butterball Turkey Co., Carolina Turkeys and Rocco Inc. produced over 25 percent of the turkey meat in the U.S. Much of this growth was attributable to a number of acquisitions by several of the top firms. In the last decade, some of the nation's largest food companies, including ConAgra, Sara Lee, Hormel, and Philip Morris's Oscar Mayer bought turkey companies, partly as a hedge against a decline in their red-meat operations. These big companies have valuable supermarket connections and marketing expertise that helped insure wider distribution of turkey.<sup>5</sup>

### Industry Growth

During the 1980's the industry experienced rapid growth. Farm income grew by 36 percent between 1983 to 1990.<sup>6</sup> During that same period, there was a 65 percent increase in the number of turkeys produced. In 1960, approximately 20 percent of meats consumed in the U.S. were poultry. However, by 1987 more than 36 percent of meat consumed by Americans was poultry.<sup>7</sup> This shift in consumption patterns largely resulted from a simultaneous decrease in pork and beef consumption accompanied by a dramatic increase in turkey consumption (Table 2) due to changing consumer preferences for meat.

<sup>5</sup>*Is a Whopper in Turkey's Future?* New York Times, November 25, 1991.

<sup>6</sup>1990 Turkey Statistics, National Turkey Federation

<sup>7</sup>*Ibid.*, #1., p. 289.

TABLE 2: Per Capita Consumption of Red Meat, Pork, and Poultry, 1985-1992.

Year	Pounds per Capita				
	Beef	Pork	Lamb & Mutton	Chicken	Turkey
1985	79.2	51.88	1.45	52.06	11.6
1986	78.83	48.99	1.40	53.19	12.9
1987	73.85	49.17	1.34	56.33	14.7
1988	72.64	52.46	1.40	56.43	15.7
1989	69.30	52.00	1.46	58.65	16.6
1990	67.80	49.80	1.50	61.10	17.6
1991	67.30	50.40	1.50	64.00	18.0
1992**	67.30	53.50	1.50	67.20	18.3

\*\*Estimated

Source: 1992 Turkey Statistics, Prepared by National Turkey Federation

### Current Trends

Over the past several years as a result of rising consumer and retailer interest, there has been a strong push towards fresh turkey among processors, with fresh turkeys now almost equaling frozen turkeys in the number processed annually (Table 3). According to *Supermarket News*, "Fresh turkeys are being promoted more, and their prices are edging closer to those of the frozen birds. As a result, fresh turkey volume is looking better than ever".<sup>8</sup>

TABLE 3: Pounds of Turkey Processed, 1985-1992.

Year	Fresh	Frozen	Total	Fresh %
		Million Pounds		
1985	1,037	1,763	2,800	37%
1986	1,256	1,875	3,131	40%
1987	1,559	2,158	3,717	42%
1988	1,706	2,218	3,924	43%
1989	1,970	2,204	4,174	47%
1990	2,291	2,384	4,675	49%
1991	2,120	2,532	4,652	46%
1992*	2,252	2,538	4,790	47%

\* Estimated

Source: 1992 Turkey Statistics, National Turkey Federation

In addition to the shift towards fresh turkey, there was a move away from whole birds by the end of the 1980's. Retailers reported greater consumer interest in turkey breast and turkey roast as alternatives to large whole turkeys.<sup>9</sup> According to Julien Den Tandt, Norbest Inc. president, "More and more, food will be purchased in a semi-prepared state that's in attractive, more shelf-stable packaging, is health-and-diet-oriented, easily/quickly

<sup>8</sup> *Turkey's Fresh Course*. *Supermarket News*, 10/21/91, p45.

<sup>9</sup> *Ibid.* #3.



prepared and is delicious tasting".<sup>10</sup> In addition, there was more emphasis on producing turkey cuts similar to those cuts found in beef and pork.

By 1991, 92 percent of all turkey was eaten at home. Further, in the past, nearly 90 percent of turkey had been consumed during the fourth quarter of the year. By the 1990's, however, only 35 to 40 percent of all turkey was consumed during this time of the year (Table 4).

TABLE 4: Per Capita Consumption of Turkey in Pounds by Quarters, 1984-1989.

Quarter	Year					
	1984	1985	pounds per capita		1988	1989
			1986	1987		
I	2.0	2.1	2.4	2.6	3.1	3.2
II	2.2	2.3	2.5	3.0	3.5	3.5
III	2.7	2.9	3.1	3.6	3.9	4.3
IV	4.5	4.9	5.3	5.9	5.5	6.1
<b>Total</b>	11.4	12.1	13.3	15.2	15.9	17.1

Source: 1990 Turkey Statistics, National Turkey Federation, numbers rounded

In 1991, turkey producers/processors were eyeing fast food restaurants as a potentially lucrative market. Several chains, including Burger King, McDonalds, and Wendy's were considering adding turkey to their menus. In a 1991 trade industry article, Thomas E. Howe, president of the Butterball Turkey Company stated, "We are talking to major [fast-food] chains", predicting that a major chain would begin testing a turkey burger within six months.

### Growth Slows

However, the rapid growth of the 1980's resulted in an oversupply, leaving growers with the lowest prices in recent history. Evidence of this continue to plague the industry into the early 1990's. During 1992, Swift Butterball and Louis Rich each closed a processing plant. Operating losses or low returns, slower growth in demand for turkey products and fewer "new" turkey products were cited as reasons for the plant closings.

### Plainville Today

Plainville Turkey Farm is a privately held corporation with a non-union labor force of approximately 125 employees. Throughout most of the 1980's, Plainville has experienced a 8-10 percent rate of annual growth. During this same period, the number of turkeys produced almost tripled (Table 5). The corporation is vertically integrated consisting of five divisions:

- Division 1: Corn Production, Feed Production, Turkey Production,
- Division 2: Processing
- Division 3: Marketing.
- Division 4: Human Resources
- Division 5: Accounts/Office

<sup>10</sup>Norbest now!. Turkey World, March-April, 1990. p 23.

TABLE 5: Production Growth at Plainville Turkey Farm, 1980, 1985, 1990.

	1980	1985	1990
Production (no. of turkeys)	140,000	225,000	425,000
Pounds of liveweight turkey	2.52 million	4.05 million	7.65 million

### Product Line

In 1992, Plainville offered over 75 products, which they separate into three product categories ( Table 6).

TABLE 6: A Partial List of Plainville's Product Line

HOLIDAY	DELI	FRESH MEAT
Fresh whole turkeys	Turkey ham	Ground turkey
Smoked whole turkeys	Turkey bologna	Turkey sausage
Cooked whole turkey	Turkey pastrami	Breast filets
Dressing	Cooked turkey breast	Turkey parts
Gravy	Smoked boneless turkey breast	Bone-in breasts

Annually, the greatest percentage of sales at Plainville are attributable to deli, fresh and holiday related products (Table 7). As might be expected, during the holiday season (Thanksgiving and Christmas), 90 percent of production is dedicated to whole turkeys. For the remainder of the year 90 percent of the turkeys grown are processed for value added turkey products.

TABLE 7: Distribution of sales across categories.

Retail Holiday Products	17 %
Food Service Products	14 %
Deli Products	31 %
Fresh Brand Identified Products	8 %
Fresh Bulk Turkey Products	14 %
Frozen Bulk Turkey Products	17 %
<b>TOTAL</b>	<b>100 %</b>

All Plainville fresh, uncooked products are 100 percent natural with no added oils, water, salt or preservatives. Every product that leaves the farm is distributed under the Plainville name and trademark. Currently, no private label work is conducted at Plainville.

### Sales Area and Distribution

Plainville's market covers New York State from Watertown, east to Albany, south to Binghamton and west to Buffalo. Steve estimates that Plainville holds a 30-40 percent market share for fresh whole turkeys during Thanksgiving and a 10 percent share for both

deli items and parts in the Syracuse market during the year. Plainville's primary competitors for both deli items and whole turkeys include: Butterball (ConAgra), Louis Rich (Kraft General Foods) and Bilmar (Sara Lee). During the period from 1985 to 1990, both Plainville and its primary competitors experienced a great deal of growth, however, Plainville's growth was substantially higher, posting a 47 percent increase in the pounds of liveweight turkey produced annually during the five year period (Table 8).

TABLE 8: Selected Industry Growth, 1985 and 1990.

Company	Pounds of Liveweight Turkey Produced in Millions		Percent Change 1985-1990
	1985	1990	1985-1990
Louis Rich	347	490	29%
Bilmar	137	220	38%
Butterball	310	419	26%
Plainville	4	7.65	47%

Plainville products can be found in supermarkets and at a small retail outlet located on the farm, in food services establishments (restaurants, colleges and hospitals) and in two restaurants operated by Plainville. In the past, sales were about evenly split between food service and retail, however in recent years there has been a greater emphasis on retail sales (Table 9). Furthermore, when Plainville relied more on brokers, a greater proportion of sales are made directly to the retailer than in the past. Steve would like to see this trend continue because he believes the retail market provides more stability due to increased customer loyalty and subsequent demand for Plainville products.

The retail store located at the Plainville Visitors Center is not an outlet store, simply a retail store with an educational exhibit and petting zoo attached. The management at Plainville viewed the center as a way to bring the community to the farm. Since building the new visitor's center and retail store, on-farm sales of turkey and turkey products has increased between 10 and 20 percent. However, only 1 to 2 percent of Plainville's total retail sales come from the on-farm retail store.

Steve's sales force consists of 2 outside sales people, 1 inside salesperson, the President and himself. He uses food service distributors for the food service segment of the business.

TABLE 9: Distribution of Sales as Plainville Turkey Farm, 1990.

Direct to Retail Outlets	52%
Distributors to Retail Outlets	13%
<b>TOTAL RETAIL SALES</b>	<b>65%</b>
Direct to Food Service	14%
Distributors to Food Service	21%
<b>TOTAL FOOD SERVICE</b>	<b>35%</b>

### **Promotion/Merchandising**

Steve, the marketing manager, is in charge of all marketing functions. His annual budget is 9-10 percent of sales from which all marketing related expenses are deducted (including payroll, trucking, advertising etc.). Steve has developed a general promotion program targeted towards the retail audience. It is based on setting price based on volume, "cents off" on advertised promotions and point of purchase (POP) displays.

Additionally, Plainville currently participates in an instore couponing program. This program offers members of a frequent shoppers club discounts on selected products which are electronically discounted at the front register upon checking out. This has been a very successful means of promoting new and/or specific products for Plainville.

In the past, Steve has experimented with manufacturers coupons in weekly circulars as a way to get retailers to highlight specific Plainville products. However, he has decided against pursuing this strategy because he feels it is not cost effective.

Steve is targeting the "high end" of the consumer market (25-54 years old, more than 12 years of education, average to above average income) by featuring "high" quality. To accomplish this, Plainville stresses the nutritional value of its products by 1) using a minimal amount of additives and 2) supplying nutritional facts with all items. In addition, Plainville provides recipes which utilize several cuts of turkey.

### **Steve's Challenge: The Future**

After considering the past and current status of Plainville, Steve glances at a magazine article opened on his desk which describes the current challenges of marketing a brand name. He is also thinking about a recent conversation with a buyer from large supermarket chain who would like to purchase Plainville turkeys and turkey products to include in its newly expanded private label program.

These recent trends in branding have roused Steve's interest in the subject. As an MBA with a degree in Marketing, Steve ponders the pros and cons of branding strategy.

### **Brand Strategy**

Steve is familiar with the various branding strategies a manufacturer can employ and their purported benefits. He believes a manufacturer's brand allows the manufacturer to maintain control over the marketing strategy of a product line. This includes all decisions regarding promotion, pricing, and distribution. The management at Plainville believes this allows them to control their image thus differentiating themselves from their competition. Steve feels a Plainville brand offers several additional advantages:

- Plainville's brand name and trademark provide legal protection for the unique product features which could otherwise be copied by competitors.
- A brand name gives Plainville the opportunity to attract a loyal and profitable set of customers.
- Good brand names help build corporate image for Plainville Turkey Farm.



Steve is less familiar with private label branding. He has observed that private label products seem to be lower priced than national brands and may provide the retailer with a higher profit margin; perhaps twice as high as their branded equivalents. Steve has heard that the major advantage of private label branding is that it appeals to budget conscious shoppers. He is also very cognizant of the fact that private label brands can undercut manufacturer brands such as his.

Steve is very aware that many manufacturers engage in "mixed" branding. He has been against this strategy for Plainville. He feels that as a tightly controlled family operation, entrance into private label operations would threaten Plainville brand loyalty and erode the control now exercised over the business. He feels secure with this strategy because of a strong demand for the Plainville name in current retail outlets.

As Steve well knows, branding can be seen on everything from services, to what was traditionally viewed as commodities, to virtually every product in the marketplace. However, recently he has read about some reversion towards non-branding. Generics, unbranded, plainly packaged and private label, less expensive versions of common national brands are growing in popularity.

A recent magazine article he read said that according to The Private Label Manufacturers Association, "Store brands amounted to 18.2 percent of supermarket sales last year, compared with 17.7 percent in 1989.<sup>11</sup> Loyalty to national brands is dwindling. Three years ago, 56 percent of those polled by Roper Organization said they know what brand they want to buy when they enter a store. That figure fell to 53 percent in April 1990 and plunged to 46 percent in 1991.<sup>12</sup> Today, consumers who were formally loyal to one brand are increasingly becoming "brand switchers".

One explanation for this phenomenon is that retailers have been responding to consumer demands by providing them with exciting new lines and renewed emphasis on established store brands. Quality has been improved, packaging has been re-designed and product lines have been widened.

Although Steve continues to believe that consumers are very loyal to the Plainville brand name, he's wondering how he can maintain this loyalty and brand recognition as Plainville heads towards the 21st century and considers future growth strategies.

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<sup>11</sup>A Tale of Two Brands. Supermarket News 10/28/91. p16.

<sup>12</sup>Brands in trouble. Advertising Age 12/2/1991. p16.

## Teaching Note

to accompany

### Plainville Turkey Farm

#### Summary

The major issues which faced Plainville in this case study revolved around Plainville's branding strategy and how this would influence /impact future growth of the business. Plainville utilized only it's own brand on all of it's products while nationally, the rest of the processors engaged in mixed brand strategies.

#### Approach to Case Discussion

The PTF case lends itself very nicely to a discussion focused on whether, and with what strategy, it should attempt to expand it's well established branded line of turkey products to new regions and new markets.

Although the PTF case focuses exclusively on the turkey industry, the discussion leader is encouraged to consider expanding the scope of this discussion to other commodities.

The following discussion reviews PTF's competitive environment, various branding strategies and suggests several growth strategies which PTF might consider as it looks to the future. Any group studying the PTF case is encouraged to engage in a discussion which addresses these issues as it considers how PTF might continue it's long tradition of successful growth and expansion.

#### Plainville's Competitive Environment

On a national level, Plainville was a very small turkey grower/processor while regionally, it was the largest firm in the northeast.

##### *Competitive advantages:*

1. Regionally Plainville had name brand recognition, and people were familiar with the firm.
2. Plainville products could be found in a number of retail outlets in the market area.
3. Product line was deep while offering the highest quality products possible.
4. Plainville features fresh products which are gaining consumer popularity.
5. Plainville was located in a net deficit turkey producing area.
6. Plainville was within a reasonable distance of the high populations of New York City and New England markets. This would allow them to deliver fresh turkey which the national competitors may not be able to do.
7. Others brought up by the class.

##### *Competitive disadvantages:*

1. Brand name recognition for Plainville was limited to a very small geographic region.

2. Plainville did not have the market power to effectively compete with the national brands in an enlarged market.
3. Plainville did not have the budget to compete with national competitors on promotional deals.
- a. Plainville did not have the resources to do serious research and development for new products.
4. Others brought up by the class.

### **Manufacturer, Private and Mixed Brands**

#### **Manufacturer brands**

*Advantages:* Several advantages were mentioned in the case which included:

1. They allow the manufacturer to maintain control over the marketing strategy of a product line. This includes all decisions regarding promotion, pricing, and distribution.
2. They help control image, thus differentiating a manufacturer from competition.
3. A brand name makes it easier for the seller to process orders and track down problems.
4. Seller's brand name and trademark provide legal protection of unique product features which would otherwise be copied by competitors.
5. A brand name gives the seller the opportunity to attract a loyal and profitable set of customers.
6. Good brand names help build corporate image.

There were two very important reasons that were not mentioned in the case which should be discussed. They include:

1. A brand name helps the seller segment markets. That is, the manufacturer can target specific segments of the market by positioning its products to appeal to consumers in that segment.
2. Brand loyalty gives sellers some protection from competition.
3. In Plainville's case, it had experience in developing and merchandising brands.

#### *Disadvantages*

1. Manufacturer may be limited as to how to dispose of excess supply.
2. Brand work alone, may not utilize plant capacity fully.
3. The manufacturers market area may be limited in size due to inability of manufacturer to promote and merchandise its own brand.
4. If there is ever a problem with the product or the corporation, this could severely hurt the firm if it operates with only one brand label.
5. All distribution and promotional costs are the responsibility of the manufacturer.

### Private Label Brands

**Advantages:** Most producers/manufacturers of turkey and turkey products engage in some degree of private label work. Manufacturers who engage in private labeling typically follow this approach when the retailer has a large number of outlets and a strong reputation. The advantages for a manufacturer of using a private label branding strategy include:

1. Promotional costs are shifted to the retailer.<sup>13</sup>
2. Private label work provides the manufacturer with an outlet for excess product and a means to operate its manufacturing facilities at or close to full capacity.
3. Private brands are typically lower priced than national brands and they appeal to budget conscious shoppers.
4. They typically get more prominent display space since a supermarket often gives its own brands preference.
5. Private label is generally more profitable (thus attractive for retailers).
6. All product and image responsibility is the retailers'.

### Disadvantages

1. The private label products produced by the manufacturer may compete directly with the manufacturer's own brand name.
2. The manufacturer may lose some control over its operations as a result of strong retailer influence.
3. A manufacturer may not have the plant and/or personnel capacity to take on the additional work.

### Mixed Branding

Most producers/manufacturers engage in some degree of mixed branding. Some argue that this is attractive to them because it helps to segment their market and shifts some of their marketing costs to the retailer purchasing the private label products. Typically one segment is attracted to the manufacturer's brand name while a different type of customer purchases private label brands so ideally, the two brands produced by a given manufacturer do not compete against each other, rather complement each other.<sup>14</sup>

### Strategies for Growth

#### Expansion of current market area

One strategy for growth to consider might be for Plainville Turkey Farm to remain in the same market area but increase its product line (e.g. chicken, beef, carrots?) and/or engage in private label work.

#### Expansion into new market areas

Plainville Turkey Farm is a very successful closely held, family owned and operated business. It now faces the challenge of how to insure continued future growth. One obvious option is to extend their distribution area into downstate New York and

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<sup>13</sup>Berkowitz Eric N., Kerin Roger A., Rudelius William. *Marketing*. Irwin, 1989. p274.

<sup>14</sup>Ibid.,#3. p272-3.



perhaps New England since this area is a net deficit turkey producing area. However, the major constraint Plainville Turkey Farm will face is the most likely loss of name brand recognition and stress on its hands-on management style.

In order for Plainville to expand into the New York/New England market it would have to engage in one or more of the following activities:

1. Differentiate its products from the competition (e.g.; fresh, value added).
2. Advertise and promote its products to build brand name awareness.
3. Adopt cost saving technologies to bring its costs down to allow them to more efficiently compete with existing brands in the market.
4. Develop products and packaging to match market needs.

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# PRIVATE STRATEGIES, PUBLIC POLICIES & FOOD SYSTEM PERFORMANCE

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## Working Paper Series

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**Purpose:** The NE-165 Working Paper Series provides access to and facilitates research on food and agricultural marketing questions. It is intended to be a publication vehicle for interim and completed research efforts of high quality. A working paper can take many forms. It may be a paper that was delivered at a conference or symposium but not published. It may be a research report that ultimately appears in full or abbreviated form as a journal article or chapter in a book. Using the working paper series enables a researcher to distribute the report more quickly and in more extensive detail to key research users. A working paper may also be an end product in itself, for example, papers that collate data, report descriptive results, explore new research methodologies, or stimulate thought on research questions.

**Procedures:** Working papers may address any issues in the food and agricultural marketing area as described in the NE-165: Private Strategies, Public Policy and Food System Performance, project statement. This research agenda is available from Professor Ronald Cotterill, Chair of NE-165 at the address given below. A prospective working paper should be forwarded to the Chair who will coordinate a review of the paper by two research peers. Alternatively authors may submit two independent peer reviews with their paper. Based upon independent reviewer comments the Chair may accept, accept with revisions, or reject the submission. If accepted the Chair will issue working paper covers, and a mailing list to the author who shall have responsibility for preparing and distributing copies to all persons and organizations on the mailing list. Additional copies of working papers are available from the author or from the Food Marketing Policy Center at The University of Connecticut.

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