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WITHDRAWN

Where Is the Cherry Industry Headed?

by

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WHERE IS THE CHERRY INDUSTRY HEADED?*

by Donald Ricks

It is difficult to predict precisely where an industry like the cherry industry is headed in the future. It is very appropriate, however, to ask this kind of question now because the cherry industry is in an important phase of transition and is facing some challenging economic conditions as illustrated by the low prices in 1982. It is important for the cherry industry to look ahead as best we can. This will enable us to do the best job possible for planning and long-term actions for the greatest economic strength of the industry.

Overview

It does appear that the decade of the 1980s will bring a number of conditions that will be substantially different from the 1970s. That is a reason why I say we are in a change period or a period of transition. I believe it is highly likely that the following will occur:

- (1) Large increases in the trend of average tart cherry production.

This will come from the widespread young plantings that have occurred in recent years.

- (2) Some increase in demand. The magnitude of this depends in part upon the actions of the industry.

- (3) Prices which will average lower than during 1976-1981. The magnitude of the expected decrease in average prices will depend on how successful the industry is in expanding demand and in managing the expanding supplies. However, it appears that supply will probably increase more rapidly than demand at least for several years. The decrease in prices will be particularly noteworthy in comparison to the high-priced years of the late 1970s and in 1981. Hopefully, the price decrease will be not

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much lower than occurred in 1982, which was a very difficult economic year. However, the production potential seems to be much greater in the future than the production in 1982 which resulted in quite low prices for growers.

- (4) Continued wide annual crop fluctuations which will probably become even larger in the future than in the past. This is likely to occur because of the larger bearing acres.

Because of the preceding economic events which are likely to occur, there will be a need for a number of actions by the cherry industry. These needed actions include:

- (1) Realistic future planning to avoid overplanting. To amplify that I would say that the next few years are not the time to plant the rest of Oceana County nor the rest of Leelanau County with tart cherries. Hopefully economic conditions will someday warrant substantial more plantings including a lot more acreage in those two counties and in other counties. But it seems quite evident that the next few years are not the time to make extensive new plantings.
- (2) The industry will also need strong demand expansion programs in order to increase demand in a somewhat comparable fashion to the rising supply trend.
- (3) Supply and price stabilization actions will be needed. With current technology and economic conditions, probably a storage program will be the most effective way to accomplish this.
- (4) The industry will also need to continue to address the change in processing ownership patterns and the most appropriate approaches for sales, marketing, and pricing with a processing industry that

that is increasingly grower-owned in comparison to the historic situation when most of the processors were proprietary firms.

Increases in Future Production

Now let us discuss each of the above topics in somewhat greater depth. First consider the large increase in the production trend which we can expect in future years. Some long-term perspective on that can be obtained from the graph in Figure 1. which shows U.S. production of tart cherries since 1940. Although this graph shows both the wide fluctuations in annual crop size and the long-term production trends, for now let's concentrate on the long-run trends in production.

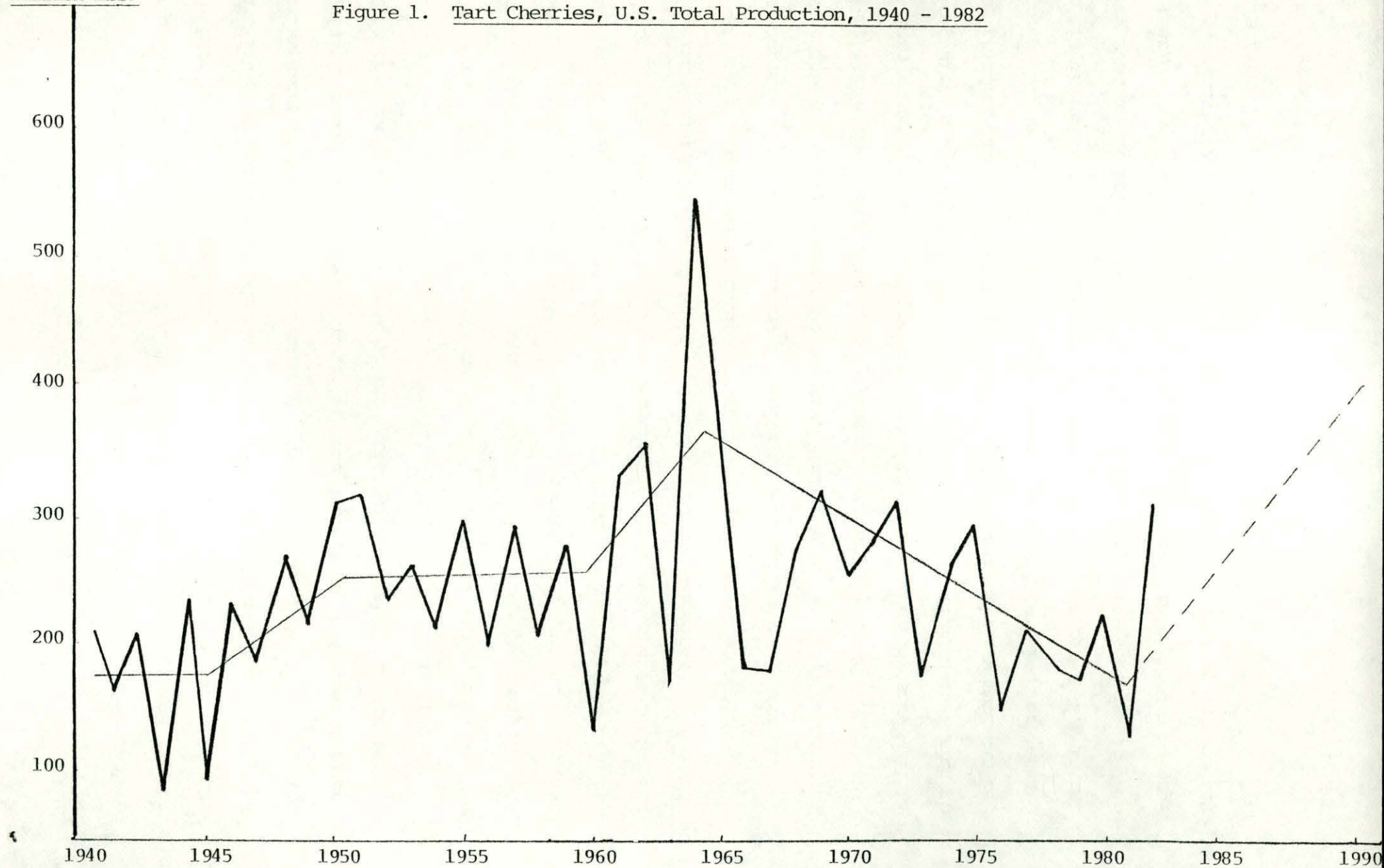
Back in the 1940s, as shown in Figure 1, production was at a fairly low level. Although that was considerably before my time, some industry older-timers tell me that there were several years during the late 1940s in which prices were very good and growers made lots of money on tart cherries. As a result of that there was a surge of many new cherry plantings in the late 1940s and early 1950s.

Production during the 1950s fluctuated, but with little trend basically on a moderate plateau as the young plantings were becoming more mature. By the early to mid-1960s, the large new acreages planted in the late 1940s and early 1950s hit peak production and the industry was plagued by large cherry surpluses during the large-crop years of 1961, 1962, 1964 and 1965. Disastrously low prices occurred at that time and economic conditions were very difficult for growers.

Since the mid 1960s, the cherry industry has had a downward trend in production, with short crops and quite high prices for several years between 1976 and 1981. We all know that these high prices have stimulated many growers here in Michigan and in other states to plant large new acreages once again. I think

Million Lbs.

Figure 1. Tart Cherries, U.S. Total Production, 1940 - 1982



there is a very important parallel between the surge of plantings that occurred in the late 1940s as a result of high prices then and the recent surge of plantings which have resulted from the high prices in the late 1970s. As a result we are likely to experience a large expansion in average production during the next few years from the new young acreage--just as happened the last time from new plantings back in the 1940s and 1950s. One difference this time, however, will be that the expected increase in production will probably occur much quicker than the last time. That is, previously there was a delay from the early 1950s to the early 1960s before the substantial increase in production occurred. With the latest expansion cycle, however, growing technology has changed. Many growers are making closely spaced plantings with trickle irrigation which have potential for high yields per acre at an early stage in the orchard's life. Therefore, this time we are likely to see the substantial increases in industry production with a time lag of fewer years after the new plantings.

Although an increase in future production seems clear, the magnitude of this increase in production during the 1980s is more difficult to predict. We will be able to estimate that more closely, I believe, after the data becomes available from the tree survey that is presently underway.

Some industry people have predicted that the U.S. cherry industry will have the capacity in a few years to produce as much as 400-500 million lbs. with the trees that are currently in the ground. I don't know exactly how much can be produced, but it does seem evident that industry can produce a lot more even than the 335 million lbs. that were predicted before harvest for 1982. In the cherry counties of this state, we have all noticed many large acreages of young non-bearing trees that have not yet produced or have only barely begun to produce a few cherries. These will all add to our industry's productive capacity in the future.

Increases in Future Demand

The large increases in the future supply trend would by themselves be expected to result in substantially lower prices. However, prices depend upon demand as well as upon supply. A key question is: What will be the trend in demand growth during future years? If demand growth is small, that is, if demand grows by much less than the increase in production/supply, then we can expect some disastrously low prices in a number of future years. However, if the demand growth is large, that is, if demand increases almost as much as the increase in supplies, then the decrease in average prices will tend to be fairly small. Substantial growth in demand is, of course, what is needed to have economic strength for growers and for the industry. That is, if demand increases by a large amount, a lot more cherries can be sold at moderately high prices and probably the results will be favorable for cherry growers and for our industry.

In order to have large demand growth, there are several things that need to happen. Substantial expenditures and effective advertising and promotion programs can contribute to needed increases in demand. In this regard both the industry promotional efforts through the National Red Cherry Institute and the substantial advertising programs of the branded cherry processors such as the pie filling cooperatives are very important.

The recent increase in grower assessment which was voted for the industry advertising-promotion program through the combination of Michigan Cherry Commission, Michigan Association of Cherry Producers and the National Red Cherry Institute is an important step considering future demand-growth needs of the industry. This will generate substantial demand-expansion budgets from growers, especially with larger crops. Also the effective advertising and promotion programs by the branded cherry firms including the pie filling sales firms

will be even more important in the future and will likely be expanding with larger crops.

In both of the aforementioned approaches to demand expansion, it is grower money which is being invested in an expanding market. In the case of the National Red Cherry Institute (and associated organizations), the assessment for grower money is easily identified to the grower. In the case of cooperatives, the grower money being invested is somewhat more indirect and is not as easily identified per ton of cherries delivered.

Growers need to make these kinds of investments in expanding markets just as they need to make investments in tractors and shakers and as they have already made in new orchard plantings. One difficulty facing growers is that they need to make the demand expansion investments at a time when prices are low, which is just the time when it is especially difficult while the growers are in an economic pinch.

The grower difficulty in financing demand expansion can be aided if the cherry industry can entice large food marketing firms with strong consumer brands to spend some of their very large advertising budgets for cherry products. Success with this approach can substantially increase the overall effective investment in demand expansion for cherries without the growers having to dig into their pockets for all of it. Thus, although growers need to have substantial programs through their cherry promotional organizations and brand owning cooperatives, the industry also needs to get some of these large food firms to spend some of their millions of dollars for both advertising and new product development on cherry products.

The expanding supply of cherries in the next few years will help encourage large food firms to be interested in cherries for their product lines. Getting these firms to commit dollars to cherry product marketing can be furthered by working with these food firms, through some joint advertising, through joint

projects on new product development, and by providing somewhat dependable supplies and prices.

One situation that discourages large food firms from developing new cherry products and from spending much money on advertising cherry products is periodic short crops and very high prices. Although the high prices are very nice for the growers in the short-run, this is quite discouraging from the point of view of the large food user firm. Very high cherry prices cause these firms to spend their dollars on other products on which they can make a better return. They want cherries to have relatively stable supplies and prices that are moderate—with at least an avoidance of the extremely high-priced years. For an example of this, I was in a meeting just recently and heard a user firm executive tell how they had recently spent about three years developing a new cherry product which will use several million lbs. of cherries per year. He said a factor that scared their firm the most was the possibility based on the cherry industry's history that there might be a short crop and very high cherry prices which would make their new product unprofitable and wipe out their investments in product development, testing and advertising. He indicated, therefore, that stabilizing supplies through the storage program was very important to a user firm in order for them to work on new cherry products as needed by the cherry industry. This illustrates one of the overall important reasons why some kind of a storage program is needed with our expected larger production in the future.

More could be said about a number of other activities to expand cherry demand in future years. Because of time limitations, however, I won't go into that more fully today.

Alternatives to Avoid Oversupply

In addition to vigorous programs to expand tart cherry demand, it is also appropriate at this time to consider alternatives for moderating the supply

increase from large new cherry acreages. One approach which our economic system tends to provide rather automatically is that when supplies increase, prices go down and the low returns encourage growers to reduce new plantings and to increase orchard removals. Some of this has occurred as a result of the low price experience in 1980 and in 1982. The rate of new plantings seems to have slowed down in the state, although some growers are still planting tarts.

As we look to the future, it appears that a needed industry adjustment is to substantially reduce new tart cherry plantings for the next four or five years compared to 1976-1980. Growers in Michigan and other states have probably already overplanted for the immediate future. Perhaps in the longer run, if demand can be expanded sufficiently, there will be another time when we need more new plantings. For the next few years consideration of selective removal also seems in order. The recent low prices will encourage growers to take out some old blocks, some blocks with a lot of missing trees, blocks on marginal sites or blocks which are marginal producers for various other reasons. As we look ahead for the next few years, it probably will be a time to speed up removal of any blocks that look like they may need to come out before long. The situation during the next few years is likely to be substantially different than during the high priced years of 1976 through 1981 which understandably encouraged growers to keep those old blocks a few more years.

While this rather natural response or orchard reduction because of low prices is needed and will occur to some degree, one of the drawbacks of relying solely on this approach is that the low prices can be extremely economically painful. Low prices in years like 1982, and possibly even worse when larger crops occur in the future, can cause some growers to not be able to repay their loans, can force some farmers into bankruptcy, and can cause some to lose their farms. When it gets really bad over a period of several years, this can be extremely difficult for many tart cherry growers. Therefore, I believe it

would be economically desirable for the cherry industry to take some steps to expand demand and moderate supplies rather than relying only on the low-price-orchard-removal adjustment phenomena.

Some supply oriented approaches that have been used and may well be used even more in the future include: (1) Cooperatives moderating supply increases somewhat by limiting membership and sometimes the tonnage that members can deliver; and (2) Proprietary processors limiting the amount of tonnage that they will take. Both of these tend to occur primarily in large-crop years. They are a way for the firm to tailor the amount of production they have to the plant capacity and to their markets. It is a logical approach for these firms and will be especially relevant as the industry moves into a period of large increases in supply. Because probably more of this will be occurring in future years, it emphasizes the importance for growers to have their market outlets lined up clearly for their expanding acreage.

Long-term contracts between grower and proprietary firms are another approach which might be used as a way to balance long-term supply and long-term demand. However, I don't think that approach will have a major impact on the cherry industry during the next few years. Although this approach may become fairly important sometime within our lifetime, because of the long lifespan of a cherry orchard and hence the inherent difficulties, long-term contracts between growers and proprietary firms probably will not be used extensively in the immediate future.

Another alternative that might be used, and which has been used by a few industries to balance long-term supply with demand, is a grower allotment type of marketing order. That is not the type of marketing order that the cherry industry has at the present time, the cherry marketing order is a storage program. The cherry marketing order is not aimed primarily at limiting

long-term supplies. If the marketing order were designed to reduce that problem, a grower allotment type of marketing order would probably be much more effective for that kind of problem than the type of marketing order which we have. However, grower allotment type of marketing orders, such as the hop industry has, are under strong political attack at this time. The political prospects for this type of marketing order do not appear positive during the next few years. Also, in my judgment, a grower allotment marketing order for tart cherries probably would not be economically desirable for the industry. Therefore, I don't think this approach is a good way for the cherry industry to solve the challenge of increasing supplies. A reason why I mention the grower allotment marketing order approach is to emphasize that the existing cherry marketing order is primarily aimed at a different type of problem--that of stabilizing the annual fluctuations in supply. This can help improve long-run demand which can help balance increases in long-run supply, but the cherry marketing order was not intended primarily to limit long-run supply.

Alternatives for Managing Larger Fluctuations in Supply

Let us now consider a bit more the future challenge for the cherry industry of continued large annual fluctuations in crop size. This situation has been a major challenge for the cherry industry and probably will be an even greater potential problem in the future. The historic production pattern as shown in Figure 1 illustrates what is likely to happen in the future. Note that when the peak production period occurred during 1961-1965 after the surge of plantings in the late 1940s and early 1950s, the larger bearing acres caused the big crop years to be very large while the short-crop years were nearly as small as the short crops in recent years when the bearing acres were much less than in the early 1960s. Thus it appears that the net effect of larger bearing acreage is to greatly expand the potential production in the large-crop

years while the effects of Mother Nature with a frost provides about equally short crops even with large bearing acreage. So larger bearing acreage has historically resulted in larger annual fluctuations. It's possible that technology could change this somewhat in the future, but past history strongly suggests that our annual fluctuations in supply will be even greater during the 1980s than during the 1970s.

An important issue is: How should the industry deal with this fluctuating supply problem? If nothing is done about the fluctuations, the result will likely be very low prices and a lack of market for some cherries in many of the big crop years. Another result will be quite small supplies in the short-crop years, with very high prices, but with few cherries to sell. Thus user firms will tend as a result of high price years to forget cherries and not be strong demanders of the product in the big crops years when we need the strong demand.

What are some approaches which might be used for the problem of fluctuating supplies? One approach is an industry-wide storage program such as we now have under the federal marketing order. This approach, I believe, makes much economic sense for this all-important problem of the cherry industry. It is probably one of the best approaches with current technology and economic conditions. We do, however, need to find ways to improve the marketing order's performance and to make it work better in view of some of the situations which have occurred recently.

Under the marketing order the basic objective, of course, is for the industry in a total joint action to take off some of the peak supplies in the big crop years, to store these cherries, and to add them into the valleys in the short-crop years. This will stabilize supplies and prices and raise grower returns.

Another approach to this fluctuating supply problem might be for storage by individual processing firms including grower cooperatives or by individual growers who have their cherries processed to their own account. Although this

is a logical approach and probably would have some desirable impact, it seems probable that the economic impact would be much less than with an effective federal marketing order storage program. Cherries stored by individual firms could be placed on the market at any time. Thus there probably would be very little price-raising effect in the big crop year. A substantially greater price effect on grower returns could be expected from an industry-wide federal marketing order storage program. Further it seems likely that storage by individual firms would probably result in fewer cherries carried in storage until the short-crop year to supplement market supplies at that time. Thus, although this is a logical approach, it seems that the economic gains to the industry would probably be less than with a well-designed and operated federal marketing order storage program.

Another approach which might be used for the fluctuating supply problem is a substantial non-harvest program under a federal marketing order. This is a provision of our current federal marketing order, although it has been fairly minor in most instances in the past. A drawback of this program, if it is a primary action program, is that it only reduces the peaks in the big crop years and does nothing about the problems caused by short supplies and very high prices which dry up demand in the short-crop years. The non-harvest feature was included in the present cherry marketing order in part because of the recognized fact that in many large-crop years, some cherries are not harvested anyway. This provision also provides flexibility for growers under certain economic circumstances who could not afford the cash-flow with pool participation. If, on the other hand, the non-harvest aspect were to become the most important part of a marketing order, it would probably not be economically sound for the industry in the long-run. Furthermore, considering the political situation with the general public, the press, Congress and with

other government agencies, it would probably be very difficult for the cherry industry to continue a marketing order that was primarily a non-harvest program. Therefore, it seems that it probably should not be the main way to remedy the overall fluctuating supply problem, although keeping this feature in the marketing order as a minor provision for unusual circumstances and for flexibility makes sense.

Another approach might be non-harvest by individual growers and processors. If nothing is done by the industry, this will probably occur extensively in large crop years along with very low prices. Some of you will remember that a very large percentage of the crop was not harvested in 1964 during the last period of large bearing acres. The difficulty of this individual grower non-harvest approach is that it is extremely economically painful to growers. It seems to me that this is probably one of the poorest approaches for an economically strong industry.

A shortcoming of non-harvest whether it is done by individual growers or with a marketing order is that nothing is received for those cherries. This approach can result in higher prices for the cherries that are harvested. However, when the cherry industry has frequent years when there aren't enough cherries to build long-run demand, it does not appear economically sound to rely heavily on non-harvest during the years of temporary oversupply. Few growers can afford to grow cherries to put them on the ground. Philosophically I have not found many growers who desire to grow cherries to put them on the ground. Furthermore, politically within the U.S. today, substantial non-harvest would be quite unpopular with many people outside the cherry industry if it were to become extensive under a marketing order. Non-harvest is an approach that has many shortcomings.

Another approach which might be used to help remedy a fluctuating supply situation is the use of market allocation and new market expansion under a

marketing order. There are provisions in the present tart cherry federal marketing order to do this kind of thing. The idea of this approach is that some of the excessive supplies in a large-crop year are taken out of normal market channels and allocated to develop new markets such as perhaps for new export markets, or for totally new product markets, or to expand markets that are quite minor. In the case of cherries, expansion of relatively minor juice markets or dried cherries, or perhaps brand new export markets all seem to be potential prospects in which this kind of approach could be used. Although the tart cherry marketing order now has provisions which would permit this type of program, it has not been used much in the past. This was, in part, because of the generally low supplies during the late 1970s. With expanding bearing acres in the 1980s, however, it appears that this kind of provision is one that would be economically beneficial to use much more extensively in future years.

The tart cherry federal marketing order storage program with the provisions of market allocation for new market development has basic concepts which seem to me to be very sound as approaches to this fluctuating supply problem. It is also probably appropriate to have the non-harvest provision, as long as it remains minor, since non-harvest often occurs anyway with the large crops. Some say, however, that the federal marketing order program did not work in 1980-1981-1982 as well as was expected, or perhaps some say it didn't work as well as it should have. It is recognized that there were many disappointments in the marketing order performance during the last time it was used, particularly in comparison to the results that seemed likely in summer of 1981 when the short crop occurred. The pool cherries did not move back into the markets at strong prices as well as was expected. It ended up that some of the pool was sold to the USDA for school lunch. This probably was the best solution at the time for an unfortunate situation that had developed. Nevertheless, returns on

the pool cherries were much less than it seemed would occur in the summer of 1981.

Despite the problems and disappointments of the marketing order the last few years, participating growers made some money on the pool cherries, plus growers gained considerably from stronger prices on the open market tonnage in 1980 than would have occurred with no marketing order. Therefore, overall the industry probably gained from the marketing order used in 1980 even though the results were not as high and hence were disappointing relative to what it seemed like they might have been at one time. To illustrate what I think is a fairly realistic evaluation, a grower was telling me recently his assessment. That is, he said, "Despite the problems and the things that seemed to go wrong, as a grower, I came out pretty good on the 1980 marketing order. I made some money on the pool cherries and I gained in price the first year. Therefore, I think the marketing order concept is good, but we need to improve it to make it work better."

Possible Changes in the Federal Marketing Order

A major agenda item for our cherry industry at this point is to try to find ways to improve the performance of the marketing order program. While the fluctuating supply problem is very important for the industry and the marketing order program is basically sound, there is a need to consider alternatives to make the marketing order work most effectively for industry benefits.

When the marketing order program doesn't work as well as growers think it should, some changes and modifications seem in order just as if your tractor or shaker doesn't work like it should, you repair it or overhaul it. That same approach can be applied to a marketing order tool. If a tractor breaks down, perhaps in the middle of the spraying season, we don't say "Tractors are no good, we should go back to farming with horses." With a tractor, a grower

repairs it, perhaps overhauls it, perhaps trades it in on a new model. But a grower doesn't throw away the tractor which is an indispensable tool for growing cherries. Similarly, it seems to me we should not throw away an effective marketing program tool--rather we should consider what changes are needed and work on repairing it, perhaps overhauling it, or perhaps even trade it on a new model--but continue to use it as an important marketing tool in a period when marketing is going to be even more challenging than it has been in recent years.

There seem to be many issues in regard to possible improvements in the marketing order. However, as I listen to many growers and processors, it seems that two of the most important issues are: (1) finding ways to get the pool cherries sold more effectively, and (2) finding ways to improve financing of the pool.

It seems clear that many growers have difficulty with cash flow when the marketing order is used. The grower, under the present system, has to come up with the money for processing and storage of the pool cherries which is especially difficult recently since the industry has moved primarily to a downpayment basis on the open market tonnage. Even though the open market tonnage will sell for more with the use of the marketing order than without it, still in a big crop year when the order is used, the price tends to be fairly low. Therefore, paying for the pool costs out of the downpayment for the open market cherries causes a very difficult cash flow for many growers. This is a problem that probably can be improved by some different approaches to financing. It seems to be an important area for the industry to explore to see if there are effective ways to reduce the problem.

Many growers have told me that they feel strongly that ways need to be found to see that the pool cherries sell when the pool is released--especially in a short-crop year. This situation involves a number of factors which need

to be carefully considered. A number of different ideas have been suggested by industry people as possible approaches to improve pool sales. Some of these include suggestions such as: (1) Asking for bids before a pool release, (2) Pricing the released cherries differently, (3) Releasing at somewhat different times in the year, (4) Having a somewhat different release approach in the short-crop year than in the large-crop, regulation year, (5) Allowing receipts from a first-round pool sale to go back to growers of the processors who buy the released cherries, (6) Permitting pool cherries to be packed in several different forms, (7) Establishing conditions at the time a pool is formed that would trigger a release during the permitted release periods, (8) Having a few more possible release periods, (9) Change the pool to an individual-supplier reserve, and (10) a number of other ideas. Some of these suggestions would require amendments to the marketing order, while other suggestions could be implemented by the CAB without amendments.

Each of the suggestions which have been made seem to offer possibilities for improvement, but many also have some potential drawbacks. At this stage I think it is important for the industry to carefully consider all possible approaches which might be used to give the most beneficial economic results for growers and processors. In this way hopefully the marketing order can be improved so that it performs as a most effective marketing tool.

Adjusting to Changing Processor Ownership Patterns

Another major continuing agenda item for the cherry industry in future years will be to develop strong sales, marketing, and pricing approaches in view of the continued trend to more grower ownership in processing through cooperatives or grower-processors. There will be a need to continue to re-evaluate, to strengthen certain approaches, to modify other approaches and to try new approaches for this changing situation.

The move to more grower owned processing is also occurring in commodity

industries in other parts of the country. We need to watch closely how some of the other industries adapt to this and to see if some of their strategies can be adapted to benefit the cherry industry.

Probably in the future the following approaches will be increasingly important in the cherry industry because of changing ownership patterns:

- (A) Central sales cooperatives for commodity marketing.
- (B) Strong brand marketing cooperatives for pie filling and other products.
- (C) Emphasis on pricing of processed products through various organizational approaches.
- (D) A joint export association as is being discussed now.
- (E) A set of modified programs which MACMA is working on and other innovations being tried in similar commodity industries.

Summary

In summary, it seems that the cherry industry in the future is headed toward:

- (1) Substantial increases in supply;
- (2) Some increases in demand, but as yet it is undetermined how large and how quickly the demand will increase;
- (3) Continued and probably wider annual fluctuations in supply due to the effects of weather on a larger bearing acreage; and
- (4) Continued changing ownership trends in the processing industry with a number of implications.

With adequate planning and concerted industry actions, the challenges posed by these likely future events can probably be met by our cherry industry. However, meeting these challenges for an economically strong industry will not occur automatically. It will take a lot of hard work and strong resolve by our industry. If we sit back and just allow events to occur naturally, the results may well approach economic disaster for several years. Some of the needed actions can be handled by individual growers and processors. Much of the needed action, however, will need widespread cooperation among the industry.

If we face the future economic challenges squarely and work together with great resolve, I believe the industry can meet these challenges and make the future have very positive results for a continued strong industry.