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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)**

The Food and Agricultural Marketing Consortium Research Conference  
Shadow Ridge Hotel, Park City, Utah  
July 31-August 2, 1998

**"Sunkist Case Study: Developing a Strategy for a Changing  
Production, Marketing, and Regulatory Environment"**

**A Discussion**

**Randall E. Torgerson, Deputy Administrator**

**Andrew A. Jermolowicz**

**Cooperative Services**

**Rural Business-Cooperative Service**

**U.S. Department of Agriculture**

Jerry Siebert's paper serves as a good overview and history of Sunkist Growers, a citrus marketing cooperative that has been in business for over 100 years and is recognized as one of the most successful agricultural cooperatives in the United States. The most substantive issue or critical point for discussion presented in this paper is the revocation of the citrus marketing order in 1994. This issue relates directly, or indirectly, to a number of the questions posed in the summary.

The basic challenge of Sunkist Growers is to expand consumption of California-Arizona citrus both at home and abroad while maximizing member returns. Climatic conditions necessary for cultivating citrus crops have, and will continue to, restrict domestic production to California, Arizona, Texas, and Florida. Further, given factors such as saturated domestic markets, escalating land values, increasing production costs, foreign competition, regulation, etc., it is quite unlikely that significant amounts of new acreage will be planted to citrus in these areas.

Paper presented at the Food and Agricultural Marketing Consortium's "Economic and Policy Implications of Structural Realignments in Food and Ag Markets: A Case Study Approach," pre-conference workshop, 1998 American Agricultural Economics Association Annual Meeting, August 1, 1998, Park City, UT.

The exception being Florida, where navel orange bearing acreage has been on a steady rise in response to industry efforts to recover from freeze damage. Florida is by far, the largest orange producing State, however, approximately 90 percent of Florida's orange production is destined for the processed market. In contrast, nearly all California production goes to the fresh market.

Consequently, Sunkist's primary competitors, domestically and internationally, will likely be foreign producers. South American producers have a history of established citrus production. However, there is some indication that Brazil may become less of a competitor in the near future as the citrus industry there contemplates a major tree pull to halt the spread of citrus canker. Also notable is the recent increases in citrus production in China and Mexico. Therefore, if Sunkist intends to grow, expand, or diversify their operations, it is most likely that the cooperative will have to at least examine global sourcing of citrus products.

Federal marketing orders for California and Arizona (CA-AZ) navel and valencia oranges were terminated in 1994. Both orders authorized the use of weekly volume restrictions on the amount of fruit that handlers could ship to domestic markets. The regulation of weekly shipments of CA-AZ citrus has a long history. Attempts to regulate the weekly shipment of oranges began as early as 1933 with the passage of the CA-AZ Orange and Grapefruit Marketing Agreement, which required shippers to conform to a schedule of "orderly distribution." The flow-to-market regulations, known as prorate, were the predominant feature used by these industries and also generated most of the controversy concerning these orders. The use of prorate set a limit on the quantity of citrus that could be shipped to fresh domestic markets each week. These provisions were used by the industries as an attempt to provide sufficient supplies to domestic markets throughout the season while avoiding price-depressing gluts. The supply management feature of these orders was used in most seasons.

One of the benefits that marketing orders try to achieve is "orderly marketing." While the concept of orderly marketing plays a central role embodied in the Agricultural Marketing Act of 1937, the concept is subject to varied interpretations. This makes it difficult to evaluate the effects from the use or suspension of prorate. Various interpretations of the orderly market concept, which provide the basis for use of prorate, result in the following goals that the Secretary of Agriculture might use the marketing order to attain: avoid unreasonable fluctuations in supplies and prices; assure consumers a steady supply of quality products; increase average grower prices gradually to a level of parity; and extend the shipping period of the citrus products seasons.

The termination of the marketing order did not produce any change in the Sunkist marketing system. The cooperative continues its policy of exclusive control of all fruit grown by members under terms of the marketing agreement. However, the marketing order provided a comprehensive information system which was available to all growers and handlers. The order tracked pre-season crop estimates, shipments, volume, prices, etc. Removing the marketing order put an end to this information network and subsequently introduced a greater level of uncertainty for decision makers developing marketing plans.

The dominant position (volume) and well developed system of packinghouses and exchanges maintained by Sunkist has enabled the co-op to assume the role of information processor for its grower-members. Sunkist continues to be able to exercise substantial influence in establishing and enforcing quality standards. Further, Sunkist's ability to instill discipline among its membership in the absence of the marketing order is an indication of the confidence the membership has in the association. Sunkist's successful track record and dominant position in the market has resulted in their occupying a leadership role in the navel orange marketplace. Whereas the market order was previously used to stimulate sales, competitors are now likely to consider Sunkist's actions when making their own marketing (volume and price) decisions.

The Sunkist brand is synonymous with quality in the marketplace. The ability to go to market with a national brand increases sales since consumers frequently base purchase decisions on their ability to recognize brands and specific labels. Additionally, consumers often actively seek out these particular products at retail. Possessing a strong national brand may become an increasingly important factor for fresh fruit marketers as the retail grocery industry evaluates extending slotting fees to the produce department and the number of available products vying for shelf space grows. Brand recognition is also likely to open new markets for Sunkist, particularly export markets where an emphasis is placed on quality and consistency. Sunkist is widely recognized as the premier citrus marketer and grower-members directly benefit from being affiliated with the cooperative's brand.

Sunkist's export sales are heavily weighted to Japan and Southeast Asian markets (e.g. Hong Kong, Singapore/Malaysia, Korea). The impact of the Asian economic crisis is of some concern since there has been a reduction in sales due to currency devaluations and tighter credit. However, all of the economies are expected to rebound. Domestic weather conditions have been more of a factor and have negatively affected California citrus production. Consequently, Sunkist is finding it difficult to fill all the international orders it has received. In spite of these conditions, the cooperative is intent on providing the volume and quality this market requires in an effort to assist the economic rebuilding process as well as maintain Sunkist reputation and brand loyalty.

The success of the Sunkist label has also enabled the cooperative to enter into several profitable trademark licencing agreements for juice, soft drink, and other fruit products. Sunkist's licensing agreements have capitalized the co-op and yielded additional returns to growers. These marketing and revenue enhancing activities are the result of the years of commitment Sunkist has made to establishing a reputation for quality and reliability in the citrus industry.

The selection of Vincent Lupinacci as successor to Russ Hanlin is an indication of the future direction Sunkist Growers intends to pursue. Lupinacci is a respected executive who brings a considerable amount of brand experience to Sunkist from his employment with Pepsi. The fact that Sunkist went outside of its organization to find a successor may be indicative of the emphasis that the co-op is placing on continuing to build on the success of its brand.

While the need to maintain the integrity of Sunkist's brand is critical to long-term viability, maintaining the unique information sharing system linking its packinghouse members is equally important. By removing price competition, packinghouse managers can devote their full efforts to operations and maintaining costs. Sunkist houses are among the most technically advanced in any commodity, and some credit should go to the stability of the Sunkist System and the ability for house managers to focus on their operations. Also, Sunkist's sophisticated information system promotes confidence among

members that no one is "getting a better price."

Florida citrus packinghouses operate more independently than those on the west coast. Consequently, the competition for fruit from so many different sources has a tendency to keep prices low. In contrast, the CA-AZ citrus industry is characterized by a high degree of consolidation among packinghouses in addition to having a national brand. This structure has been more successful at avoiding the negative result of depressed commodity prices.

The merits of the Sunkist system and the corresponding economies of size have influenced a number of other cooperative efforts. The red tart cherry industry has been bedeviled by intense, mostly cutthroat price competition that drives down grower price. Recognizing that the industry could benefit from the coordination and sophisticated information sharing of a Sunkist-type structure was the impetus for the Michigan Agricultural Cooperative Marketing Association's initiative in establishing CherrCo. CherrCo is the industry's effort to unite tart cherry growers under a single organization to stabilize supply and prices. In only its second year of operation, this effort is showing promise. Another example is the Michigan Blueberry Growers who also looked to the Sunkist model as their organization grew and the co-op sought to establish a more orderly market.

The elimination of prorated restrictions was expected to result in new seasonal shipment and pricing patterns. Historically, navel orange shipments increased rapidly each week once the season began, eventually leveling off, then declining as the season concluded. Prices typically began the season relatively high then fell rapidly as fruit matured and supplies increased. Prices generally rebounded at the end of the season as supplies dwindled. Without restrictions, growers were expected to ship a larger proportion of the crop earlier in the marketing season anticipating the declining seasonal prices. Under prorated restrictions, grower and shipper marketing strategy would be to ship as much fruit as possible early in the season given prorated restrictions since delaying harvest would be expected to result in lower fruit prices. Without prorated restrictions, prices would be expected to be driven lower earlier in the season as the crop matures and growers and handlers increase shipments in an effort to obtain higher early season prices. With this behavior pattern, increased volume/declining prices would continue to the point where grower expectations shifted from expecting lower to expecting higher prices later in the season. Prices would need to increase enough to reward growers for delaying harvest and incurring additional risk. Without prorated restrictions, the marketing strategy would be expected to shift toward growers deciding whether to harvest and market the fruit as soon as it matures or to hold it with the expectation of receiving higher prices later in the season. This new strategy would be more complex than just harvesting the maximum amount of fruit allowed under the prorated restrictions.

There has not been a sufficient amount of information collected yet to fully evaluate the effects of revoking the marketing order and prorated. However, preliminary information, from the years immediately following the elimination of prorated, indicate that the CA-AZ orange industries did not experience significant changes in regards to price levels, increased variation in prices, or shipment levels.