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Sunkist Case Study: A Discussion

by

Richard T. Rogers

Department of Resource Economics

University of Massachusetts–Amherst

I am pleased to discuss the Sunkist case study as I grew up on a family farm in California's Central Valley and my family still markets their oranges with Sunkist. My parents have 20 acres of oranges and as a youth I worked every summer and weekend for a corporate farmer who had over 600 acres and was also a member of Sunkist. Such size diversity is representative of Sunkist's membership—about 6,500 members that range in size from the very small to the very large. In addition to the local Sunkist house, a few of the twenty or so independent citrus packers that compete with Sunkist operate within a 20 mile radius of our farm. Farmers have choices, although evaluating those choices is not an easy task as head to head comparisons of an independent packer and Sunkist are not available and require serious study. I was often asked by neighbors if Riverbend Farms was a better deal than staying with Sunkist, but based on the limited information provided I never could give a clear answer. Riverbend Farms has since gone bankrupt and its growers have returned to Sunkist or sought out another independent packer who continues to chase those elusive dollars that make up the marketing bill. Nevertheless, citrus growers do have alternatives to Sunkist and with the cooperative's limited commitment policy, farmers can leave or join annually leading to a fair amount of churn in the membership base.

Jerry Siebert has done a great job pulling together the information for this Sunkist case study, but if there is a fault it lies with his not having done even more. Although asking for more is an easy and unfair criticism, the current study would benefit from a more thorough evaluation of information he has provided. The study is more in the spirit of a teaching case study than a research study in that Jerry provides the information and asks the important questions, but leaves it for others to address the subtitle of his paper, "Developing a Strategy for a Changing Production, Marketing, and Regulatory Environment." The story of Sunkist is a textbook-perfect example of the reasons for growers to form a marketing cooperative and the benefits the growers/ members receive. Even with the usual frictions, membership squabbles, rent-seeking behavior, and other real world frustrations the cooperative remains an important choice for growers.

Dr. Siebert has correctly identified the three biggest challenges that Sunkist has or is currently facing. First, there was the 1977 monopolization case brought by the Federal Trade Commission. In that case, FTC economists mistakenly applied neoclassical microeconomic theory to an agricultural marketing cooperative and concluded that with a dominant market share, Sunkist possessed market power. Mueller, Helmberger, and Paterson evaluated the FTC case in a book which drew on economic theory, including cooperative theory, and applied it to the California-Arizona citrus industry. That book remains a classic example of the useful applied economics our profession is known for. They demonstrated that even though Sunkist had a large market share (ranging from 50% to 80%) in the citrus industry, that with an open membership policy and short-run contracts (one year) Sunkist lacked meaningful supply control and without supply control no lasting market power could be achieved.

The second challenge was, and still remains, the loss of marketing orders and prorate in 1994. Although, the evidence to date is inconclusive and Sunkist leaders state they are no longer concerned about this issue, small growers are worried about their stake in the future of the industry. The other discussant, Dr. Randy Torgerson, has done a fine job discussing this issue and readers should see his comments. Also, Dr. Siebert hints at his own research on this topic but without providing details of his analysis leaves it as being inconclusive. I look forward to hearing more about that analysis.

The third challenge remains the increased world production of citrus and the resulting country to country competition. Dr. Siebert has done an excellent job providing data showing the treats from this new global competition. Sunkist operates most heavily in fresh citrus, both domestic and international. The export markets have been very lucrative for Sunkist and it allows them to use some price discrimination, but without supply control growers often spin off to capture those export market premiums from their former cooperative. Clearly, the Sunkist name carries some weight in international markets, but the premium it commands has its limits.

Sunkist has increased the use of licensing its brand name, as Jerry found 450 products that carry the Sunkist name, resulting in $1.2 billion in sales and paying $16.2 million in royalties. Sunkist benefits from the marketing/advertising exposure these licensed products provide to the Sunkist name. Jerry found that in 1996 this advertising amounted to $120 million, but I have trouble with such a high number. That amounts to a remarkably high 10% advertising-to-sales ratio for the those licenced products. I used Competitive Media to find all media advertisers that used the name Sunkist and found all users spent only $6 million in 1996 (see Figure 1) and only Cadbury was advertising its soft drinks with the Sunkist name using measured media, which includes advertising on network, spot, syndicated, and cable television, in magazines, newspapers, and newspaper Sunday magazines, on network and spot radio, and on outdoor billboards. I am concerned that Sunkist is over using licensing and overstating the benefits received. The large amount of royalties paid to Sunkist allows for minimal equity contributions from members, but does raise questions for the future as to who owns the cooperative.

Although the Sunkist name is well known and is often used as an example of a successfully differentiated agricultural product, Sunkist is not the large advertiser some consider it to be. Sunkist's advertising pales in comparison to the large national brand food advertisers. Dole has had similar success with brand names for agricultural products and outspent Sunkist by over three-fold in 1996 (Figure 1). Sunkist spent $2.1 million advertising its oranges in the measured media in 1996, whereas Dole spent a like amount on its ready-to-serve salads and $3.4 million on its canned pineapple and juices. Neither Sunkist nor Dole come close to matching the spending by the likes of Coca Cola or PepsiCo, which spent $337 million and $774 million in 1996 respectively (Figure 1). In general, agricultural cooperatives are not big advertisers. In 1992, 26 agricultural cooperatives used measured media advertising (Figure 2) and collectively spent $77 million, not quite as much as Ralston Purina spent, which made it the 20th largest food and tobacco advertiser, and tremendously less than the number one food and tobacco advertiser, Philip Morris, which spent $1.1 billion. Ocean Spray, an agricultural cooperative from the east coast with a similar success story to Sunkist in differentiating its agricultural product, was the largest cooperative advertiser but only placed 42nd among all food and tobacco advertisers in 1992. Among just cooperatives, Sunkist was the fifth largest spender, just ahead of Citrus World. PepsiCo is about to buy Tropicana (see Figure 3) from Seagrams, which spent $32 million advertising its citrus juices in 1996. Clearly, Sunkist is not in this elite group of food processors who spend mightily to create and maintain product differentiation with subjective advertising.

Sunkist has de-emphasized the processed citrus markets as it increased its focus on fresh citrus markets. Florida growers are more constrained to the processed market, so much so that growers talk of raising solids rather that oranges, whereas California growers raise a table orange that is not well-suited to making orange juice (although Sunkist has led some technological breakthroughs to improve the use of navels in orange juice). Consumers, however, do not know this and fully expect the Sunkist label to be in the orange juice case. The refrigerated orange juice market is growing yet Sunkist has decided to license its brand name to Lykes-Pascoe, a large investor-owned, Florida juice company. Lykes-Pascoe is a direct competitor to Citrus World an agricultural cooperative in Florida that has increased its share of the orange juice market, in part by appealing to consumers with an advertising theme that emphasizes its cooperative, grower/ owner structure This decision by Sunkist to give an IOF a much valued brand name to compete against another agricultural cooperative is likely to stir some resentment in cooperative circles. I think Sunkist and Citrus World should have formed an alliance of some kind to challenge the likes of Minute Maid and Tropicana for leadership in the orange juice markets.

Sunkist once had a respectable small share of the refrigerated orange juice market. In 1987 (see Figure 4), Sunkist was the sixth largest brand in the refrigerated orange juice market, just ahead of Citrus World, with both holding around a 2 percent national share. Sunkist received just under (47 cents per unit) the average branded price (49 cents) and Citrus World received an even lower price (40 cents). Sunkist's price does suggest the brand name is capable of capturing premium prices even with minimal market share and almost no advertising support. Since 1987, Sunkist has shifted to the licensing strategy as mentioned above and Citrus World has increased dramatically to hold 8.7 percent of the market (see Figure 3), making it the third largest branded product in the category. Sunkist, in my opinion, should have remained in this growing market and considered aligning itself with its Florida counterpart. Even Ocean Spray has tried to enter the citrus juice market and has strategic alliances with PepsiCo (which are now jeopardized by PepsiCo's decision to buy Tropicana).

Another important area of Sunkist that Jerry discussed in his case study was Sunkist's leadership in research and development. The industry depends on Sunkist and no one, now not even the U.S. Department of Agriculture, has the quality of industry data that Sunkist has. Sunkist has led in patents issued in the citrus industry for years and its analytical abilities are unsurpassed by anyone in the industry.

Jerry completes his paper with a review of the financial trends in the industry and for Sunkist in particular. I would like more analysis of these data and for Jerry to share his insights with us. A good case study should add the flesh to the bones of economic and management theory and allow for transferable insights to be gleamed. At times, the paper reads too much like an annual report, without performance benchmarks that allow the reader to judge performance relative to alternatives. Are growers better off marketing their fruit with Sunkist? Do we as a society reap the benefits of an open membership cooperative bringing both excellent firm and market performance? Is the premium Sunkist receives consistent with their higher value chain? Should consumers fear Sunkist? In short, does Sunkist benefit both growers and consumers?

The study needs more research analysis and for Jerry to offer his expertise as to what strategies he thinks Sunkist should embrace. We are left to our own judgements as to what those strategies should be for dealing with the challenges Jerry has identified. Can we assess and evaluate a competitive strategy for Sunkist? We need to answer the nine excellent questions that Jerry closed his paper with. This conference has everybody we need: industry experts, government leaders, and academic researchers. I use Michael Porter's techniques when thinking about a firm's competitive strategy (see Figure 5), the often-called SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats). We would benefit from another case study of Ocean Spray and their emphasis on the processed markets to contrast to Sunkist and its emphasis on the fresh markets. Granted, Ocean Spray's fresh agricultural product has a limited market, despite their creative marketing efforts, whereas Sunkist markets the "golden apples of the Greek gods," which have always enjoyed favored status by fresh fruit consumers.

Sunkist clearly has strengths: economies of scale and absolute cost advantages, a successfully differentiated brand, the market leader in technology, information, and research and development, its grower-member ownership, political muscle (e.g., USDA granted Sunkist $2.1 million of its total $90 million for export promotion even after it faced criticism for the large sums it had given to large agribusiness companies the previous year), and its distribution system. Its weaknesses seem fewer: lacking a strong presence in processed products, its being a cooperative has a downside, and the power of its brand name may have been exaggerated. As to other internal factors, its leadership is about to change. Vincent Lupinaccii will replace Russ Hanlin as President this fall. Vincent brings his experience with branded, processed food products from his days at PepsiCo and could lead Sunkist to even greater reliance on brand-name marketing.

As to the external factors that impact Sunkist, the biggest threat is the increased global competition and dependence on export markets. The experience of the California-Arizona industry with the Med-fly problem shows how a biological production problem can lead to trade barriers as countries use the fear of the fly to ban products. Also, the Sunkist brand name is not without challenge. Consumers may regard it highly, but others have similar names that can challenge Sunkist for consumer loyalty. The brand is not as secure as Coke's and Marlboro's in the world of consumer marketing. Sunkist has some further opportunities in product licensing, but also potential problems in my opinion. The cooperative can enter or reenter into processed products, especially orange juice, or seek out alliances with others. The fresh market may not be saturated and sales may expand with greater promotion of fresh oranges to households and to food service companies.

Lastly, Sunkist as an agricultural cooperative has some social expectations that exceed those of investor-owned firms. The Capper-Volstead Act allows farmers to form cooperatives, but also provides protection for consumers with Section 2 regarding undue price enhancement. Consumer advocates place cooperatives under greater public scrutiny than is often given investor-owned firms (see Figure 6). After all, cooperatives are to benefit both farmers and consumers. So far, I contend that Sunkist has managed to do just that.

References

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Figure 1. 1996 Media Advertising by Sunkist and Selected Related Firms[1,2]

Sunkist Growers Inc.	Media Advertising	Dole Food Co.	Media Advertising
California Pistachios	0.9	Salad Mix	18.0
Various Food Products	31.8	Fruit & Juice Frozen Bars	33.8
Natural Soft Drink (Cadbury)	43.1	Canned Pineapple	38.7
Growers Regional	47.9	Special Blend Salad	66.4
Fruits	66.7	Dole Fruits	111.2
Frozen & RTS Orange Juice	68.8	Various Videos	151.7
Citrus Fruit Vignette	83.5	Bananas	216.2
Lemons	182.0	Various Food Products	345.8
Various Soft Drinks (owned/ licensed) (Cadbury)	1,461.3	Juices Frozen & RTS	404.9
Regular & Diet Soft Drink (Cadbury)	1,872.9	Lunch for One Salad Mix	1,419.6
Oranges	2,146.5	Complete Salads	2,182.9
		Canned Pineapple & RTS	3,371.2
SUNKIST TOTAL (w/ soft drinks)	6,005.4		
SUNKIST TOTAL (w/o soft drinks)	2,628.1	DOLE TOTAL	8,360.4
State of Florida (1995)[3]			
Fresh Citrus Fruit and Juices	2,308.3		
Minute Maid (Coca-Cola Co.)	**Media Advertising**	**Tropicana (soon PepsiCo)**	**Media Advertising**
Frozen Orange Juice	8.1	Homestyle RTS Orange	1.2
Frozen Fruit Juice	115.2	Vignette	4.6

Frozen Lemon Juice	118.5	Twisters RTS Fruit Drink	15.1
RTS Orange Juice	218.6	Seasons Best RTS Orange	21.4
Premium RTS Orange Juice	354.1	RTS Orange Juice	257.9
Premium Fruit Drinks &	729.6	RTS Fruit Juice	470.1
Premium OJ Frozen	5,027.0	Fruit Juice	949.8
		Grovestand RTS Orange	1,372.0
		Pure Premium RTS	28,998.5
MINUTE MAID TOTAL	6,571.1	TROPICANA TOTAL	32,090.6
COCA-COLA TOTAL[4]	337,000.0	PEPSICO TOTAL[4]	774,000.0

1. Data from Competitive Media Reporting, Ad$Summary, 1996, unless otherwise noted.

2. All figures in thousands of dollars.

3. Data for State of Florida from Competitive Media Reporting, Class/Brand $, 1995.

4. Data for Coca-Cola and PepsiCo media advertising from Advertising Age, Leading National Advertisers, Web Site (9/27/97).

Source: Prepared by T. Robert Fetter, Research Assistant, Department of Resource Economics.

Figure 2. Media Food Advertising by Agricultural Cooperatives, 1992

Rank	Company	Total (thousands)	% in SIC 20	% of Total
1	Ocean Spray Cranberries Inc	27,398.6	100.0	35.60
2	Land O Lakes Inc	10,297.0	99.7	13.38
3	Sun-Diamond Growers of California	8,429.4	97.4	10.95
4	Agway Inc	5,227.8	87.1	6.79
5	Sunkist Growers Inc	4,265.5	3.7	5.54
6	Citrus World Inc	3,707.9	100.0	4.82
7	California Almond Growers Exchange	3,561.8	50.0	4.63
8	Alexander & Baldwin Inc	3,132.4	100.0	4.07
9	National Grape Cooperative Assn	2,963.2	98.8	3.85
10	Tri-Valley Growers	2,030.4	100.0	2.64
11	Sioux Honey Assn	1,330.5	100.0	1.73
12	Gold Kist Inc	1,161.2	98.8	1.51
13	Farmland Industries Inc	1,118.8	89.4	1.45
14	Darigold Inc	743.1	100.0	0.97
15	Knouse Foods Inc	252.9	100.0	0.33
16	Roberts Dairy Co	223.4	100.0	0.29
17	Upstate Milk Corp Inc	202.9	100.0	0.26

18	Tillamook County Creamery Assn	183.2	100.0	0.24
19	Dairymen Inc	175.6	100.0	0.23
20	Golden Guernsey Dairy Coop	141.9	100.0	0.18
21	Cream O Weber Dairy Co	124.2	100.0	0.16
22	Prairie Farms Dairy Co	119.8	100.0	0.16
23	Riceland Foods Inc	80.7	100.0	0.10
24	Cabot Farmers Co-Op Creamery Co Inc	44.9	100.0	0.06
25	Tree Top Inc	29.8	100.0	0.04
26	Growmark	24.1	100.0	0.03

Source: Compiled form Competitive Media by Richard T. Rogers, Department of Resource Economics, University of Massachusetts-Amherst.

Figure 3. PepsiCo to Buy Tropicana

Chilled Juice		Frozen Concentrate	
Total Sales: $2.45 billion		Total Sales: $551 million	
Company	Market Share	Company	Market Share
Tropicana	39.8	Minute Maid	44.7
Minute Maid	19.3	Tropicana	5.4
Citrus World	8.7	Other	10.5
Other	9.7	Private Label	39.4
Private Label	22.5		

Source: Wall Street Journal, July 21, 1998, page b1.

Figure 4. Market Share, Media Advertising, and Pricing, in the U.S. Refrigerated Orange Juice Market, 1987

	Market Share	ADS87 Total $ (000)	ADS87 Share	A/S %	Average Price	% > PL Price
Category Total	100.00	28,698.6	100.00	2.01	0.46	35.29
Branded Total	82.44	28,698.6	100.00	2.43	0.49	44.12
Unbranded Total	17.56				0.34	0.00
Manufacturer						
BCI Tropicana	36.21	10,835.4	37.76	2.09	0.53	55.88
Coca-Cola	22.51	6,907.9	24.07	2.15	0.48	41.18
Procter & Gamble	11.25	9,126.1	31.80	5.67	0.47	38.24
Lykes Pasco	3.12	1,210.4	4.22	2.72	0.37	8.82
Kraft	2.94				0.54	58.82
Sunkist	2.08	4.7	0.02	0.02	0.47	38.24
Citrus World	1.78	419.3	1.46	1.65	0.40	17.65

Hood	1.14	190.5	0.66	1.17	0.42	23.53
Tree Fresh	0.44				0.47	38.24
Knudsen	0.32				0.60	76.47
Maplehurst	0.14				0.28	-17.65
Land O Lakes	0.13				0.47	38.24
Sunborn	0.11				0.35	2.94
Everfresh	0.07				0.39	14.71
Deans	0.06				0.40	17.65
Florida Fresh Pack	0.05				0.48	41.18
Vita Gold	0.04	4.5	0.02	0.82	0.40	17.65
Franklin Groves	0.03				0.35	2.94
West Lynn	0.02				0.49	44.12
Private Label	17.47				0.34	0.00
Generic Private Label	0.09				0.36	5.88
Association Advertising		2,952.1				

Source: Jennifer Lewis, "A Comparison Between the Advertising Strategies of Agricultural Marketing Cooperatives and Investor-Owned Firms in Food Processing," Masters Thesis, University of Massachusetts, 1997.

Figure 6

Periodic Challenges to Sunkist in Particular or Cooperatives Generally

1977 — Federal Trade Commission issued complaint charging Sunkist Growers, Inc., with monopolizing the California-Arizona citrus industry (Mueller, Helmberger, and Paterson).

1979 — A National Commission stated: ". . . the threat of monopoly by some cooperatives is now substantial" (Rogers and Marion).

1988 — FTC Chairman Oliver stated: "There is no good reason to continue the antitrust exemption for agricultural cooperatives" (Rogers and Marion).

1993 — "The OPEC of the citrus industry (Sunkist) is on the verge of breaking up, and the U.S. consumer may eventually benefit.

***The Wall Street Journal*, March 18, 1993, p. A2.**

1997 — "With a little help from friends in Congress, Sunkist got a sweet deal when the Justice and Agricultural departments dropped fraud cases against the ...cooperative. ... by squeezing Sunkist so

gently, the government harvested a lemon for ordinary law-abiding citizens." ***Insight on the News*****, 9/15/97**