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## **Sunkist Growers, Inc.: Refreshing the Brand**

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It was another nice day in southern California. Tim Lindgren, President and CEO of Sunkist Growers, Inc., liked to be at his desk early in the morning. Those who lived outside California often asked about the traffic and smog but Tim, like other native Californians were quick to say, “What traffic problem?” Nonetheless, being in early before the headquarters office filled with people and traffic really got bad allowed him to get some thinking done. Tim had been hired by the board of directors just over a year earlier, in October 2006. Prior to that, Tim had served for nearly 30 years as the president of Fruit Growers Supply Company, (a cooperative formed in 1977 as Sunkist’s manufacturing and supply affiliate) until his retirement in 2003.

One of the strategic initiatives that Tim undertook was taking a hard look at the future of Sunkist. While its financial performance was good, its status as the world’s largest citrus cooperative and a successful branded food and beverage licensor was something Tim knew Sunkist could not take for granted. The strategic initiative asked each senior manager to look at all aspects of the business to find ways to reduce costs and increase returns to Sunkist’s members, who were citrus growers in Arizona and California. The main goal was to reexamine Sunkist’s competitiveness in an increasingly global economy with fewer retail buyers.

A global economy meant that international trade policies and regulatory policies helped determine the overall competitiveness of Sunkist. Competitors in countries such as Brazil, China, Mexico and Spain had increased their competitiveness in the U.S. domestic market in recent years. Regulatory policies with regard to agricultural chemicals, pesticides and fungicides, coupled with increased labor costs due to uncertainty over immigration issues, had increased the costs of citrus growers. And, consumer tastes and preferences continue to change, which meant that Sunkist needed to communicate to its members the types of citrus varieties that had greatest potential for profitability. Sunkist’s mission is to find a home for the citrus products produced by its members. It was not easy to find a home for all of the citrus. However, California citrus growers harvested citrus over a 30-week time period, beginning in the south and working north. This was the longest such harvest window of any geographic region in the world, which gave Sunkist greater flexibility than its competitors.

Tim was preparing to talk to his members about the strategic initiatives. He needed to set the stage and help the Sunkist members better understand various measures to enhance Sunkist’s competitiveness by reducing costs and improving returns to its grower-members.

## **History**

In 1840, growers planted the first citrus seeds in California. Citrus fruits were needed due to their preventive power against scurvy disease and the industry created a significant economic base for California. As a result, the acreage of the citrus crops grew from 3,000 acres in 1880 to 40,000 acres in 1893. At the beginning, citrus growers did not have any direct control on the marketing of their fruit and were dependent on distributors and middlemen. Sometimes the market was affected by saturation or shortage, causing demand to control the prices (Hoffman and Libecap). Growers contracted distributors to package and ship the fruit. The distributor shifted the risk to the grower handling citrus on consignment, causing losses to the growers and increasing their costs. Fruit pests were a major problem during the 1880 to 1920 time period and virtually devastated the California fruit industry at various times. But a coordinated effort among local, state and federal agencies to regulate fruit pests and develop a fruit standardization law enabled

the citrus industry to thrive by 1920 (Seftel). In addition, the tariff laws enacted by the U.S. Congress enabled imports of citrus from Europe and other countries to vanish and the U.S. quickly became a net exporter of citrus (Critz, Olmstead and Rhode).

Consequently, citrus growers formed associations to pack and ship their fruit themselves. On August 29, 1893, several associations agreed with a plan to unify these associations into one general federated cooperative of citrus growers. They called the cooperative Southern California Fruit Growers Exchange and started using the Sunkist name, which was trademarked in 1909 (Merlo). By the end of the 1920s, more than 13,000 citrus growers were marketing through the cooperative, which had 75 percent of the California citrus crop. In 1952, the California Fruit Growers Exchange officially changed its name to Sunkist Growers, Inc. in order to associate its trademark with the corporate organization that has made it famous. Sunkist had begun using the name on fresh oranges in 1926 and followed that with frozen concentrate in the 1950s and the 1970s saw an aggressive approach to licensing the Sunkist name on other products.

Sunkist is divided into 16 district exchanges owned by 6,000 citrus growers in California and Arizona. A district exchange is a regional marketing cooperative organization whose members are local associations or licensed packers. Every district exchange is a center that receives and fills regional orders, ensuring their more equitable distribution. A 27 (varies annually depending on volume) member board of directors governs Sunkist. The directors are elected by the district exchanges and the number of directors is based on the volume of fruit the exchange ships through Sunkist. Every director of the district exchanges is elected by the local member associations and direct grower-members' groups in voting units based on packinghouse affiliation.

In 2007, the members of Sunkist Growers consisted of 16 district exchanges, 31 local associations or packinghouses and more than 6,000 growers in California and Arizona. All growers are also members of either a local association or a district exchange. Every grower has to sign a written membership agreement with Sunkist and a local association (e.g., cooperative packinghouses owned by grower-members); a licensed packer (e.g., commercial packinghouses); or a Sunkist district exchange (e.g., regional marketing cooperative organizations whose members are either local associations or growers packing with licensed packers), which serves as a regional center for filling orders. Packinghouses and exchanges are separate companies affiliated with, but not owned or managed by, Sunkist.

Sunkist members paid an annual, non-interest bearing unit retain in proportion to their business with Sunkist, which was a revolving fund (Larsen and Erdman). The exact amount is set annually by the board of directors and revolved back to the membership after five years. However, the majority of Sunkist's equity is comprised of unallocated retained earnings, which were derived primarily from its licensing program and other non-patronage sourced business. Sunkist has a strong balance sheet that was needed because it operated in a global industry.

### **Overview of Citrus Production**

Citrus fruits include oranges, lemons, tangerines, mandarins, tangelos, grapefruits and limes. These fruits are very important for human nutrition because all of them contain vitamin C, folic acid, beta carotene, carbohydrates, fiber and other minerals. Processed citrus products include

concentrate, juices, oils, pulp and purees. Byproducts include aromas, essence oils and peels. A juice extractor separates the pulp and the juice from the membrane, peel and seeds. The juice is processed in natural strength or concentrate, after being pasteurized, and then is chilled.

Over the 2002 to 2006 time period, Florida (67 percent) and California (29 percent) were the two largest citrus-producing states in the United States, with Texas and Arizona producing the remainder. Oranges comprised the greatest value of citrus production with almost 66 percent, followed by grapefruit (16 percent), lemons (14 percent) and tangerines (four percent). On a per acre basis, production is small with approximately one million acres of citrus production in the United States. Oranges comprise the greatest acreage with almost 80 percent.

Most of the citrus crops are grown in tropical and subtropical climates in the area situated between 40°north and 40°south latitude. The citrus are very sensitive to cold weather, with an ideal crop temperature ranging from 60 to 89 °F. The biggest producers, such as Brazil, China and the United States, benefit from this climate advantage. Spain is the world's largest exporter of citrus with almost 30 percent of all world exports.

In general, producers prepare the soil before sowing plants resistant to phytophthora, a devastating disease that plagues citrus. Citrus growers plant trees on a rootstock from a tree that is known for special qualities like disease resistance. After the rootstock is a year old, a single bud is taken from a branch of a different citrus tree that has the desired quality characteristics and inserted into the bark of the young rootstock seedling. This bud grows into the top of the tree that produces the fruit. This process is called grafting, where the single bud is grafted into the rootstock.

Citrus buds form in the early winter and develop throughout the winter and spring. More than 99 percent of all buds fall from the tree and thus, less than one percent of the buds develop into fruit after pollination. Most citrus will freeze when fruit temperature drops to 28° F for a few hours, so protection from frost is critical. Furthermore, because most citrus production is within the same geographic region, a frost can affect a significant portion of the Arizona or California citrus crop. The main methods of frost protection in California and Arizona employ wind and water. Large fans on poles lifted about fifty feet above the grove are turned on when the temperature's near freezing. The fans mix the slightly warmer air above the grove with the colder air near the ground, which warms the air around the tree. By applying water to trees, the heat built up in the soil during the day is lost more slowly, and air temperatures around the fruit stay warm a little longer. Nonetheless, a frost can occur in some part of the citrus-growing region every five years or so and this may cause the supply of citrus to be cyclical. Higher quality fruit stresses a fruit tree and the following year, the yield from the tree is not as great.

The irrigation practices are very important to determine the growth and health of the crop. The most difficult and important cultural practice is the control of plagues and diseases. For example, Florida's production has been negatively affected by the citrus canker. The full productivity of the trees is realized 8 to 10 years after planting and the harvest is carried out 5 to 6 months after flowering. Harvesting is done manually, but a unique feature of oranges (and avocados) is that they can be stored on a tree for as long as two to six months.

### *Orange Production*

Orange production in Florida is primarily for processing into juice and similar products, while California orange production is for the fresh market. Climate is a large factor because Florida has a warm and humid climate, which yields oranges with thin skin and greater juice. The thin skin is not as attractive to consumers because of the greater incidence of blemishes, while the increased juice has great yields for processing into juice. California has a drier climate with cooler nights during the winter, which produces an orange with thicker skin and more dense pulp that yields a cosmetically more attractive orange that is good for eating out of hand.

The typical orange varieties for the fresh market are Navels and Valencias. Navel oranges are the earliest to ripen, beginning in early November until July of the following year. Peak production occurs in January, February and March. Valencia oranges ripen later and harvest generally begins in March with peak production in May, June and July. Navel oranges are a seedless orange and generally regarded as the best for fresh eating, while Valencias have some seeds and are juicier with a thinner skin.

Orange production in California and Arizona is enough to meet the U.S. domestic market needs, with about 25 percent being exported to countries such as Canada, China, Hong Kong, Japan, Malaysia and South Korea. Almost 2/3 of all exports occur in February, March, April and May. Imports of oranges, primarily Navels from Australia, have increased from 2.5 percent to almost four percent over the 2002 to 2006 time period primarily because the demand for Navel oranges is greater than the demand for Valencia oranges and U.S. Navel oranges are not widely available late in the summer.

### *Other Citrus Production*

Grapefruit production takes place in Florida (56 percent), Arizona (25 percent), California (18 percent) and Texas (one percent). The same conditions exist with regard to climate, juiciness and peelability for grapefruit, with processing production concentrated in Florida (60 percent in fresh market and 40 percent in processing market) and fresh market in Arizona and California. Japan is the largest destination for U.S. grapefruit exports at 49 percent for the 2002 to 2006 time period. Canada (13 percent), France (8.66 percent), The Netherlands (7.27 percent) and South Korea (5.19 percent) are the four other largest destinations for fresh U.S. grapefruit and the U.S. is the world's largest producer of grapefruit. Over half of all exports occur in January, February and March. California produces over 90 percent of all lemons and Arizona produces the remainder.

Over time, much of the California citrus production has moved from Los Angeles and Orange counties to the southern Central Valley (Griffin and Chatham). Tangerines are produced in Florida (60 percent) and California (39 percent) with the remainder in Arizona with a small amount in the Gulf Coast states. Tables 1 and 2 show the production of orange varieties and lemons for Sunkist and the United States. Sunkist's market share, as a percentage of the Arizona and California fresh orange supply, averaged 46 percent over the 2002 to 2006 time period (Sunkist Growers, U.S. Department of Agriculture). Its processing market share was almost the same while its lemon market share was almost 70 percent for fresh and processing. Sunkist's grapefruit, tangerine and imported lime businesses were small relative to its orange and lemon business.

## Overview of Sunkist's Marketing Program

Over 80 percent of Sunkist's oranges are sold in the fresh market, and the remainder are used for processing. After the citrus are picked by hand and put into bins, they are transported by trucks to the packinghouses where the fruit is cleaned, graded, separated by size and packed with robotic carton packing machines.

Consumption of fresh oranges in the United States has remained relatively constant at 11 to 12 pounds per capita. However, the U.S. population has been increasing at a rate of almost three million people annually, which means that while consumption is relatively stable, the market size is growing.

Although Sunkist is a cooperative owned by citrus growers, it is not vertically integrated in the sense that Sunkist can dictate the production of citrus. Rather, Sunkist can educate its members on what varieties and production practices will yield the best fruit that will generate profits. Like many other fruit-marketing cooperatives, Sunkist's business model is to market its members' fresh citrus and find ways to add value to the citrus that is not suitable for the fresh market. Membership in Sunkist is voluntary and on an annual basis. Members are not required to market all their acreage with Sunkist, but they must market through Sunkist all the acreage they sign up each year. Thus, forecasting the supply of citrus available for the fresh and processing market is important for Sunkist to optimize the use of its facilities and to provide the sales.

Table 1. Sunkist's Fresh Fruit Tonnage and Market Share for 2002 to 2006.

Fresh Fruit <sup>a</sup>	2002	2003	2004	2005	2006
Domestic Navels and Misc.	18,463	23,431	21,000	20,962	20,345
Export Navels and Misc.	5,321	7,523	8,167	5,727	7,437
Products-Grade <sup>b</sup>	1,319	1,068	1,273	1,522	1,343
Domestic Valencias	7,029	6,327	8,489	7,029	6,462
Export Valencias	6,267	4,925	6,453	6,267	4,814
Products-Grade	2,013	2,039	1,988	2,067	1,822
Domestic Lemons	16,339	16,378	16,838	16,061	16,354
Export Lemons	3,659	3,756	3,421	3,359	3,094
Total					
Domestic Orange	25,492	29,758	29,489	27,991	26,807
Export Orange	11,588	12,448	14,620	11,994	12,251
Products-Grade Orange	3,332	3,107	3,261	3,589	3,165
Total Oranges <sup>c</sup>	40,412	45,313	47,370	43,574	42,223
Lemons	19,998	20,134	20,259	19,420	19,448
Arizona and California Production <sup>d</sup>					
Oranges	1,677	1,882	1,683	1,857	1,659
Lemons	548	557	540	499	686
Sunkist Market Share					
Oranges <sup>e</sup>	45.19%	45.13%	52.79%	43.98%	47.72%

Lemons<sup>f</sup> 69.33% 68.74% 71.29% 73.96% 53.86%

<sup>a</sup>Fresh fruit volume is measured in thousands of cartons from Sunkist annual reports.

<sup>b</sup>Products-grades is bulk sales of processing quality fruit sold to outside processors and fresh juices and accounted for as fresh fruit sales.

<sup>c</sup>Total orange production is the sum of Navels and Valencias.

<sup>d</sup>Arizona and California fresh production is taken from the U.S. Department of Agriculture *Citrus Fruits Summaries*.

<sup>e</sup>Sunkist orange market share is calculated as follows: Total orange production times 1,000 cartons times 37.5 pounds of oranges per carton. This product is divided by the Arizona and California Orange Production times 1,000 tons times 2,000 pounds per ton.

<sup>f</sup><sup>e</sup>Sunkist lemon market share is calculated as follows: Total lemon production times 1,000 cartons times 38 pounds of lemons per carton. This product is divided by the Arizona and California Lemon Production times 1,000 tons times 2,000 pounds per ton.

Table 2. Sunkist's Processed Fruit Tonnage and Market Share for 2002 to 2006.

Fruit Products <sup>a</sup>	2002	2003	2004	2005	2006
Navels	69	141	82	156	220
Valencias & Misc.	63	82	31	92	75
Total Orange <sup>b</sup>	132	223	113	248	295
Lemons	177	346	190	258	256
Arizona and California Production <sup>c</sup>					
Oranges	274	460	229	577	646
Lemons	254	469	258	371	294
Sunkist Market Share					
Oranges <sup>d</sup>	48.15%	48.46%	49.38%	42.95%	45.70%
Lemons <sup>e</sup>	69.75%	73.70%	73.62%	69.48%	86.97%

<sup>a</sup>Fruit Products are oranges utilized in processing and measured in thousands of tons.

<sup>b</sup>Total Orange is the sum of Navels and Valencias and other miscellaneous varieties.

<sup>c</sup>Arizona and California fresh production is taken from the U.S. Department of Agriculture *Citrus Fruits Summaries*.

<sup>d</sup>Sunkist orange market share is calculated by dividing Total Orange by Arizona and California Production.

<sup>e</sup>Sunkist lemon market share is calculated by dividing Lemons by Arizona and California Production.

and marketing managers with accurate information for satisfying customer needs. Sunkist markets its fruit internationally to a wide range of customers – retailer, foodservice operators and wholesalers. The pacing of orange sales benefits from the fact that oranges can be stored in trees and not picked until a customer was ready for the citrus.

Sunkist has traditionally used personal selling as its key marketing tool. Historically, its sales force has been decentralized, facilitating as much personal contact as possible with its customers (Moses). This has meant somewhat higher costs relative to its competitors in recent years that

had reduced resources available for personal selling. Consolidation among retail supermarkets has increased significantly and buyers have moved to single desk purchasing in many companies.

The top 30 North American grocery retailers held 43.4 percent market share in 2005 (Planet Retail Ltd.). The firms (and their percentage of market share) are Wal-Mart Stores (9.9), The Kroger Co. (3.9), Ahold (3.7), Safeway (2.7), Costco Warehouse Group (2.7) and SuperValu, Inc. (2.6). Planet Retail Ltd. predicted that by 2010, Wal-Mart's market share would increase to 11.3 percent while Costco would increase to 3.6 percent (tied with Kroger). This means fewer customers for Sunkist's products and increases emphasis on being relevant in retailers' minds. Retail consolidation also means that these buyers may have more bargaining power over Sunkist, which could result in lower margins and, hence, lower prices paid to growers. Table 3 shows the prices received by Sunkist for its citrus fruits over the 2002 to 2006 time period. Despite having fluctuations in supply, Sunkist had managed to increase its prices from 2002 to 2006.

Table 3. Prices per Carton for Sunkist Citrus Fruits for 2002 to 2006.

Fresh Fruit <sup>a</sup>	2002	2003	2004	2005	2006
Domestic Navels and Misc.	\$10.78	\$8.07	\$9.42	\$10.26	\$10.78
Export Navels and Misc.	\$13.54	\$10.80	\$11.79	\$13.23	\$13.22
Products-Grade <sup>b</sup>	\$2.74	\$2.48	\$2.60	\$2.93	\$2.68
Domestic Valencia's	\$7.79	\$7.28	\$9.65	\$9.50	\$13.74
Export Valencia's	\$9.40	\$9.28	\$11.71	\$11.20	\$12.40
Products-Grade	\$2.62	\$2.47	\$3.20	\$3.23	\$4.36
Domestic Lemons	\$15.53	\$13.27	\$14.39	\$15.37	\$17.21
Export Lemons	\$19.47	\$16.02	\$17.44	\$18.56	\$10.51

<sup>a</sup>Sunkist Growers, Inc.

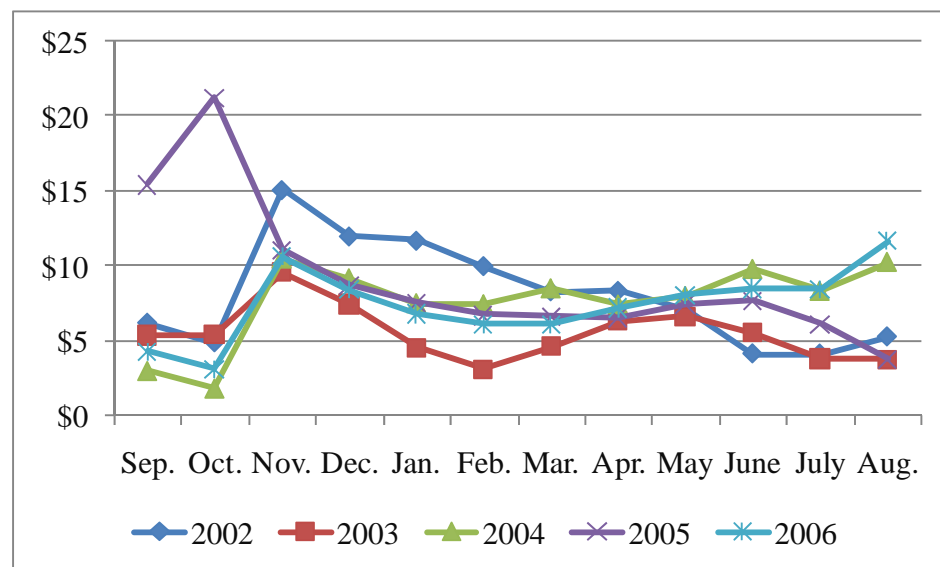


Figure 1. U.S. Department of Agriculture's Orange Grower Returns by Month per Box, 2002 to 2006.

Figure 1 shows the monthly calculated returns to orange growers for a box of oranges, where one box weighs 75 pounds (U.S. Department of Agriculture, National Agricultural Statistics Service). Note that in the fall, when the supply of oranges is less, prices are highest, while in the spring as harvest commences, prices decline as supply increases. In addition, prices tend to mirror the cycles in supply from year-to-year. But, in general, prices were higher in 2002, 2004 and 2006. But this is a little misleading because 2002 and 2004 were years with less supply, and hence, growers needed volumes to benefit from the increased prices. Figure 2 shows the increase in orange imports over time. Total supply is equal to production plus imports and historically, consumption has averaged 72.6 percent of production since 1998 and imports have averaged almost three percent since this time period but have steadily grown since 2001.

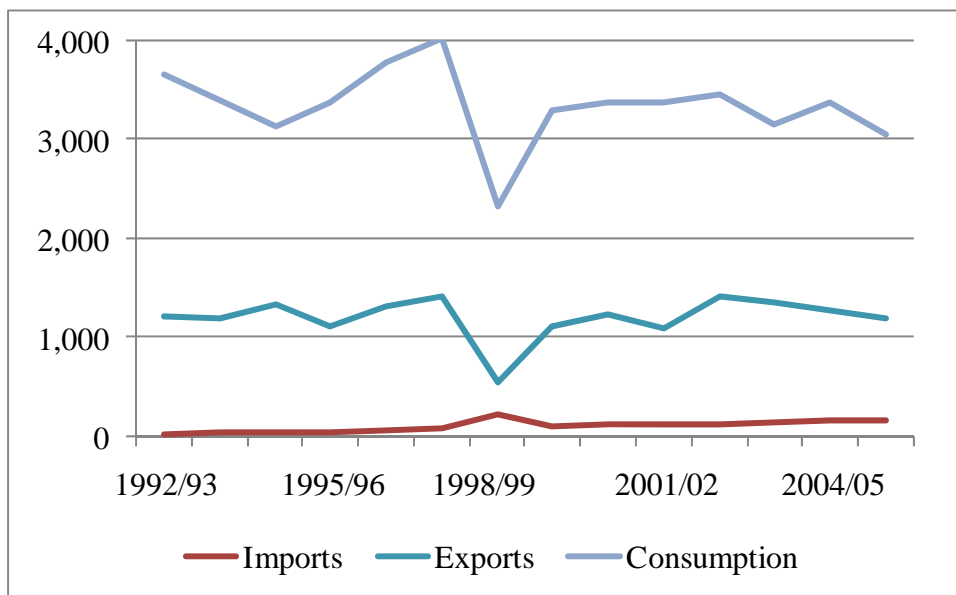


Figure 2. Imports, Exports and Consumption of Oranges over the 1992/93 to 2005/06 Marketing Years.

Sunkist is a globally recognized citrus supplier, with more than 600 products in over 45 countries and a leading food brand and beverage licensor. Its brand reflects freshness, health and quality. Sunkist had long used advertising to promote its brand (Nerlove and Waugh). The Sunkist licensing program allows different products to carry its brand. Sunkist’s products, other than fresh citrus, are not manufactured for the company but the cooperative does oversee quality control and advertising standards. Sunkist has established a trademark licensing program with over 50 food and beverage companies. The royalties and Sunkist’s trademark licensees are also the single largest purchasers of Sunkist-processed products overseas, adding millions of dollars to revenues.

Sunkist brand products can be found in several categories, including fruit juice and fruit juice drinks, carbonated beverages, fruit snacks, beverage concentrates, vitamins, frozen fruit confections, chilled fruit jellies and powdered fruit drinks. Sunkist actively pursues co-branding

and co-marketing strategies, which allow the company to open new local and international markets and diversify its products, taking advantage of its recognized brand. Companies such as Jelly Belly, Cadbury Schwepps, General Mills, Morinaga Milk Industry Co. (Japan), HaiTai (Korea), Wafer (Middle East), Paramount Farms and others work closely with Sunkist and have worked together to develop new products such as fruit and cereal bars, fruit candies, fruit drinks, jellies and juices, orange soda and pistachios and almonds.

The overall theme of its marketing efforts is to promote citrus as being healthy and nutritious, including the idea that a splash of citrus in food or beverages adds healthiness to a consumer's diet. Sunkist conducts a great deal of research to better understand the benefits of citrus and uses that knowledge in working with its customers.

### **Key Issues in 2008**

Sunkist had undergone changes in the last five years. Although Sunkist was the world's largest fruit marketing cooperative, it faced challenges like any other organization. Tim believed that these challenges revolved around key issues: difficulty in perfectly matching supply and demand, increased competition globally, a decrease in the number of buyers, a perception among some grower-members that Sunkist was not as competitive as other citrus marketing organizations and the success of new ventures.

#### *Matching Supply and Demand*

Like any company that marketed a perishable crop, Sunkist is not able to accurately predict the supply of citrus in any given year. This has implications for its pricing of citrus. Frost and other weather issues are a critical issue in any given year and these affect the supply of citrus. The California-Arizona marketing order, which had long helped regulate the volume and pricing of citrus between the fresh and processed markets, had been terminated in 1994 and this had caused some price instability in the citrus industry (Shepard). However, Sunkist's marketing team has been very successful over time in creating the reputation for having the highest quality fresh citrus in the industry and having a successful product development and licensing program that add additional value to citrus. Fluctuations in supply affected the ability of Sunkist to meet buyer needs. For example, Tables 1 and 2 show the fluctuation in the tonnage of fruit from 2002 to 2006. An increase in the variability of supply made it difficult for the marketing managers to provide consistent supply from year-to-year. Tim was a little skeptical of the data available to properly analyze global warming, but there was a little evidence that weather variability had increased in Sunkist's production areas in recent years.

#### *Increased Global Competition*

The increase in imports was due to several reasons but, in general, countries like Australia could supply Navel oranges competitively in months when Sunkist had less supply later in the harvest. This was offset by the fact that Sunkist could export fresh citrus to Hong Kong, Japan, South Korea and other Asian countries at a strong price later in the spring when other global competitors could not supply Navel oranges due to their reduced growing season. Sunkist's ability to have the world's longest growing season was a competitive asset but it required clear communication with its membership regarding the varieties of oranges that should be planted and help better align Sunkist's marketing windows with grower harvests. Everyone talked about China and its potential (Wootton). Thus far, Tim believed that Sunkist could continue to supply

high-quality fresh citrus but it was important to monitor trends worldwide in fresh orange supply. There was little doubt that imports would continue to increase and Sunkist would continue to export citrus.

#### *Decrease in the Number of Retail Buyers*

Consolidation in the retail grocery and foodservice industries meant fewer, but larger, volume buyers for Sunkist. Sunkist's historically decentralized sales force was a real strength in terms of selling and promoting citrus. As a cooperative, Sunkist is charged with finding a home for all of Sunkist's members citrus either in the fresh or processed market. But buyers want fresh citrus year-round and the volumes necessary to supply these larger customers had grown. So far, Sunkist had been able to meet the demands of its customers and its reputation for high quality was well known. But it was harder to pass along price increases due to increases in energy costs, labor costs and other costs associated with running a large organization.

#### *Competitiveness for its Members*

Sunkist's members could sell their citrus to other organizations if they chose. In addition, the costs of producing citrus had increased in recent years. As seen in Figure 1, returns to citrus growers had varied widely in recent years. Sunkist had recently lost one member exchange (Paramount Farms) that represented a large amount of volume. In addition, a strategic venture into berries had proved more costly than anticipated and Sunkist exited the berry business. Sunkist had always had loyal members, but there was some perception that Sunkist's marketing costs were not as competitive as alternative packers in California, such as California Citrus Orange Growers Cooperative (about 25 percent market share), Sun Pacific, BeeSweet and other smaller independent operators. Some of this was due to the higher costs that Sunkist incurred because, unlike its competition, it had a global brand that required resources to support and retain its relevance among citrus buyers and consumers. The formation of the California Citrus Growers Association, a grower-owned and grower-operated marketing agency in common, had helped bring some price stability and information sharing to the citrus industry. Nonetheless, one of the successes of Sunkist was its ability to provide quality and innovative products for its customers. But Sunkist required consistent citrus supply from its members.

#### *Success of New Ventures*

Sunkist had entered new venues to generate non-member revenues such as a joint venture in fresh-cut produce (e.g., Sunkist / Taylor Farms LLC) and a global sourcing citrus business (e.g., Sunkist Global LLC) in countries such as South Africa to market counterseason citrus under the Sunkist name, mainly in Southeast Asia (Smith).

Tim had also asked each member of his senior management team to look at ways to streamline and reduce costs to help improve the competitiveness of Sunkist. Tim indicated that all possibilities should be on the table, including greater centralization of its sales force, better utilization of its plants and equipment, better communication between growers and Sunkist regarding ways to optimize the citrus varieties and harvesting through market identification and processing, and capital utilization. In addition, most consumers were aware that inflation, especially in food, was beginning to creep into the economy and under these expectations, it might be more advantageous to negotiate price increases wherever possible.

## Summary

Tim was proud of his association with Sunkist. He wanted to work with his board and management team to ensure that Sunkist remained as relevant in the eyes of buyers and consumers as it has throughout the 115 years since its formation. To do so, he was going to need to provide answers to several questions:

1. What could be done to better match buyer needs with what Sunkist's growers produced? Orchards could not be replanted over night and it was important that Sunkist provide clear communication regarding varieties so that its members knew what Sunkist's buyers wanted.
2. If the citrus industry was truly becoming a global industry, what did Sunkist need to do to become more successful? Exports were very successful but imports were increasingly displacing some of Sunkist's domestic and traditional export markets. If buyers found lower cost imports to be similar in quality to Sunkist, could that erode Sunkist's markets over time?
3. What could be done to better communicate with Sunkist's membership about the needs of retail grocery citrus buyers? There had been many changes in the last five years and more were to come. The success of Sunkist had been to find a home for all of its members citrus. But obviously, some varieties had greater value but Sunkist could not tell its members what varieties to plant.

He heard a horn honking outside his window and looked up. The office building was beginning to buzz with activity as the Sunkist headquarters filled with people. His day was full of meetings. It was time to get started.

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