Sun-Maid Growers
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What Forces Are Driving Cooperatives to Restructure?

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At Sun-Maid Growers, we try to embody these principles. Our core cooperative principles are:
- Member-growers gain through cooperation;
- Members share in the cooperative's marketing efforts;
- Economies of scale produce higher grower returns;
- Education and technical support assist growers in their own operations as a building block for success; and
- Members participate in governance through democratic process.

According to the Legal Phases of Farmer Cooperatives, the definition of an agricultural cooperative, "is a business organization, usually incorporated, owned and controlled by member agricultural producers, which operates for the mutual benefit of its members or stockholders, as producers or patrons, on a cost basis after allowing for the expenses of operation and maintenance and any other authorized deductions for expansion and necessary reserves."

Farm cooperatives have experienced declines in marketing, farm supply as well as membership base. Some of today's most recognizable food companies are member cooperatives that were established many years ago. Sun-Maid Growers was established in 1912. Others include: Welch's – 1849; Sunkist – 1893; Land O'Lakes – 1921; and Ocean Spray – 1930.

Today's cooperatives need to think of themselves as a food-marketing co-op.

<u>Marketplace definition</u>
A food-marketing cooperative is a business enterprise, usually incorporated, owned and controlled by its raw ingredient suppliers, which operates for the mutual benefit of its member suppliers in the long term, on a competitive cost sharing basis, after allowing for adequate expenditures for sales and sales promotion, marketing, continuous innovation, superior customer service and prudent equity reserves.

<u>Forces causing restructuring</u>
What forces are driving cooperatives to restructure? What forces are facing every business to restructure?

Food continues to cost Americans a smaller percentage of their household spending. American families spent just 10 percent of their disposable personal income in 2001 on food. Meals eaten away from home continue to increase. Away-from-home meals accounted for about 47 percent of total food spending. ((USDA figures))

Today's major food product customers are:
- Consolidating to become more powerful;
- Sophisticated;
- Consumer-oriented;
- Operate in large geographic areas; and
- Demand streamlined sales representation and seamless order to shelf transactions.

<u>Business in the 21st Century</u>
The food industry is evolving into a just-in-time-supply chain. The food system requires rapidly evolving information technology that must go at a faster speed and pace to do business. Technology tools like the Internet, EDI and cell phones are being implemented. These systems require faster decision making.

<u>Supermarket consolidation equals clout</u>
The top 10 supermarket chains account for 65 percent of total grocery sales and this appears to be growing. The top 10 chains are:
1) Wal-Mart Supercenters
2) Kroger
3) Albertson's
4) Safeway
5) Ahold
6) Winn-Dixie
7) Publix
8) A&P
9) Food Lion
10) H.E. Butt

<u>Globalization of agriculture</u>
The USDA released "Food and Agricultural Policy: Taking Stock for the New Century" in 2001, which took a long-term view of the U.S. agriculture and food system. The report said a new challenge is before us: the ongoing transformation of U.S. agriculture into the still-emerging, global, consumer-driven food system. Globalization makes it imperative for companies to buy from the farmer, wholesaler, or food processor that provides the best product for the lowest prices at any given time.

According to USDA, more than 96 percent of all consumers live outside of the United States. Failing to reach the newly emerging middle-class consumers (where demand growth will be most rapid) will stifle expansion of market share. The United States has far more capacity than needed to meet domestic food market requirements.
Trade is critically important to the long-term economic health and prosperity of the U.S. food and agricultural sector.

Low-cost farms can be any size, yet most rural residence and intermediate farms do not cover production costs with farm income alone. Commercial farms are small in number, own less than one-third of the land, and yet produce most of the U.S. output.

Advances and adaptation of technology has enabled corn and wheat growers, for example, to increase the amount of grain grown per acre.

<u>Conflicting differences in consumers' opinions</u>
There appears to be debate within segments of U.S. consumers over issues such as organic foods, genetically modified versus non-genetically modified products, animal rights and welfare, and food safety. Plus, food companies are faced with increased competition and changing consumers' preferences.

<u>What forces are driving buyers and sellers?</u>
For buyers, the major driving forces include more choices, more leverage, greater customer demands, clout to obtain the lowest cost and the highest value. For sellers, the major factors include more flexibility, more reliabily, a higher level of customer service and the ability the meet the lowest cost possible with the highest value.

Are these forces any different if you are a family owned business, or partnership or privately held corporation or publicly held corporation or cooperative? The answer is no. Are there structural conflicts between agricultural suppliers and the marketplace? Yes.

Marketplace conflicts vary depending on whether you are the grower or the seller. From the grower-member standpoint, marketplace conflicts include improved farm gate prices, selling the entire crop, marketing the quality produced, having a preference to tradition, and receiving a premium return for their goods.

From the marketplace, possible conflicts include reducing prices, precise inventory management, consumer-driven quality, innovation, and meeting or outpacing the competition by reinvestment.

Can cooperatives meet the challenges of the 21st century?
Cooperatives have experienced an increase in net business volume over the last 25 years. Farm supply and marketings have steadily increased.

<u>Can cooperatives meet the challenges of the 21st Century?</u>
Some questions need answered.
Should the cooperative consolidate?
Consolidate with whom?
Lose control?
Lose focus on members' crops?
Do they have the "heart" or energy to compete?
Do they have the financial resources to reinvest?
Are they prepared to lose money?
In a changing global environment, are cooperative members tied too much to their ground, their crops or to their patterns of farming and business?

The per acre values for raisin grapes has varied from year to year.
You can't change the business until you change the attitude.

Attitudes

● Develop integrated view from the farm to the end user.
● Align interests of members and management.
● Accept the concept of competitive pricing and low-cost producer, at both the farm and cooperative levels.
● Manage supply – become a reliable and consistent supplier, eliminate burdens of excess production. The only quality that mattes is market based quality.
● Match the competition in terms of quality, price, service and flexibility.
● Be willing to invest and reinvest in the business.

Sun-Maid has adapted with the changing times. The cooperative changed the name of the organization and dropped "raisin.' The co-op dropped its tax exemption status. It formed a subsidiary and it changed the bylaws.

Sun-Maid expanded into the byproduct grape alcohol business. The product line was expanded to include dried apricots and other dried fruits. The co-op created the Sun-Maid bread licensing business. It also sought a strategic partner: Sun-Diamond from 1980 through 1998.

Sun-Maid retained earnings for reinvestment. It helped develop innovative dried on the vine efforts to increase yields and reduce costs. The co-op also focused its attention on the competition and the customer.

To help our producers, Sun-Maid developed the Successful Raisin Production for the 21st century guidelines. All of these systems share the same ultimate goals.

● Yield more raisins per acre at a lower producing cost to the grower.
● Reduce the risk of rain damage during the drying process.
● Reduce harvest labor requirements and uncertainty of available labor.
● Improve product quality.

Production systems used by growers include mechanically harvested continuous tray dried raisins, vertical canopy separation system, south-side trellis system, open gable trellis system and overhead horizontal trellis.

About the author

Barry F. Kriebel has served as president of Sun-Maid Growers of California since February 1986. Sun-Maid Growers of California, an agricultural marketing cooperative, is the world's largest processor and marketer of raisins and other dried fruits. Sun-Maid's sales exceed $200 million and are divided between the internationally recognized "Sun-Maid" branded consumer products and high quality ingredient products for cereals, breads and other food products. Founded in 1912, Sun-Maid's facilities are

centrally located in California where 45 percent of the world's raisins are produced. Sun-Maid products are distributed in more than 50 countries.