

Sunsweet Cooperative

2012 AAEA Conference

Graduate Student Study Competition

Kansas State University

Brady Brewer, Melissa Lynes, Rebecca Manes





Company Overview

- Grower-owned cooperative
- Largest dried fruit processor in world
 - High quality prunes
 - Diverse product line
 - Brand recognition
- Monopolistically competitive firm





SWOT Analysis

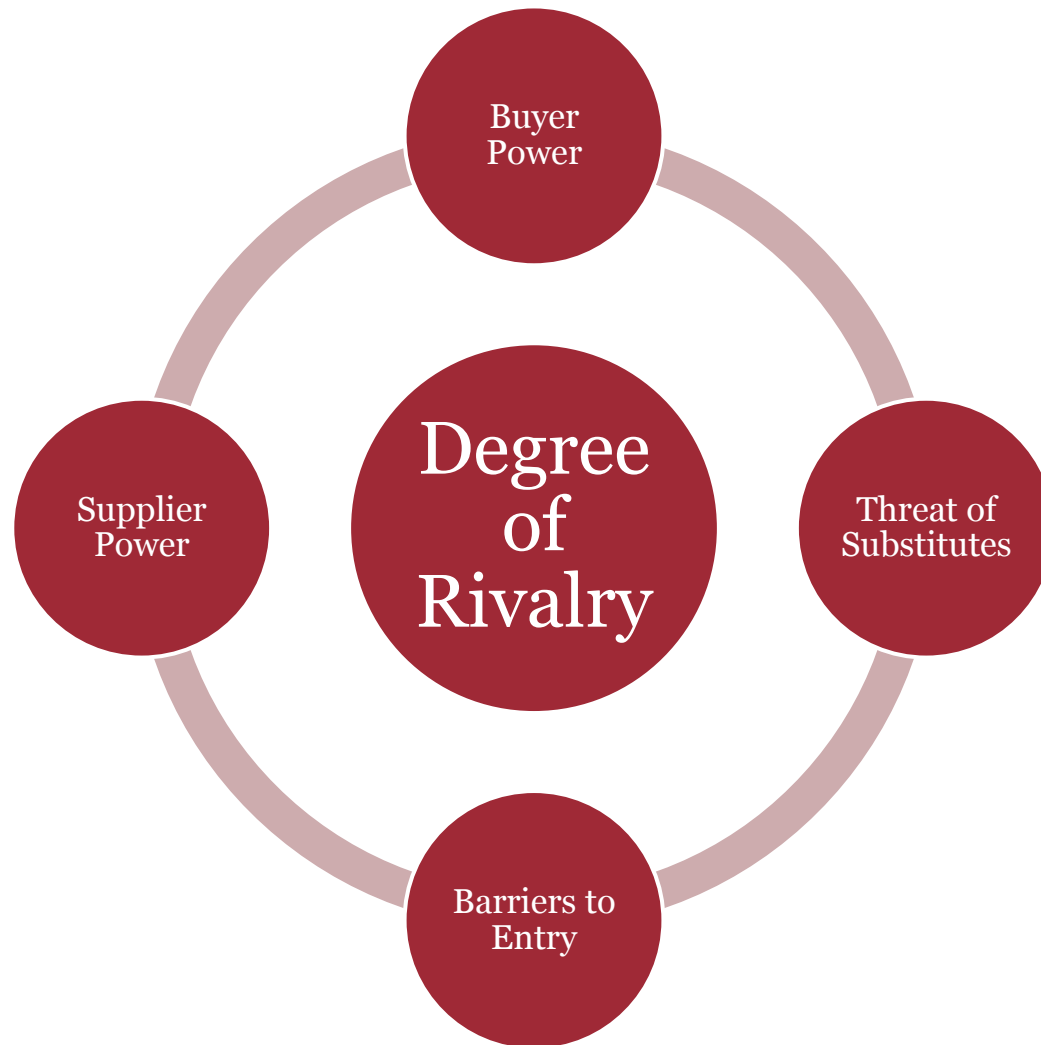
Strengths	Weaknesses
<ul style="list-style-type: none">•Current market share•Quality of product•Brand recognition•Pricing power•Superior technology	<ul style="list-style-type: none">•High production costs•Low quality of Chile independent contractors
Opportunities	Threats
<p>Supply</p> <ul style="list-style-type: none">•Production alliance with Chile•Sourcing prunes from non-cooperative members <p>Demand</p> <ul style="list-style-type: none">•Advertising•Marketing promotion	<p>Supply</p> <ul style="list-style-type: none">•Overproduction and increasing acreage from Chile and Argentina•Weather's impact on supply•Cheap foreign competitors <p>Demand</p> <ul style="list-style-type: none">•No free trade agreement with EU•Decreasing demand•High substitutability

A close-up photograph of several red grapes, likely a variety like Red Globe, covered in small water droplets. The grapes are arranged in a cluster, with some in sharp focus and others blurred in the background. The lighting is soft, highlighting the texture of the grape skin and the glistening droplets.

Industry Analysis



Porter's 5 Macro Forces





World Prune Orchard (In Hectares)

	2007	2012	Change
Argentina	13,500	15,250	+13%
Australia	3,300	3,060	-7%
California (USA)	29,540	24,038	-19%
Chile	12,500	16,000	+28%
France	13,200	13,816	+5%
Italy	500	545	+9%
South Africa	485	458	-6%
WORLD	72,700	73,200	+0.7%



Objectives





Blue Ocean Strategy Canvas





Objectives

- Sourcing (Supply)
 - Should supply issues be solved by production alliance or sourcing from non-cooperative members?
- Advertising (Demand)
 - Has advertising been effective?
 - What is optimal level of advertising?





Sourcing





Cooperative Goals

- Member owner control
- Focus on member owner needs
- Profits shared with member-owners



Sourcing Issues

- Crop failure in California
- Low quality
- Capital constraints





Sourcing Options

Non-Cooperative Members

- Pros
 - No contracts or obligations
 - Reduce costs since they pay premium that they pay to members
- Cons
 - Quality issues
 - No way to control for over supply from Chile

Production Alliance

- Pros
 - More control over supply
 - Control over quality of plums
 - Taxed as a Chilean product
 - Opportunity to reestablish EU contracts
 - Mutually beneficial
- Cons
 - Higher investment



Production Alliance with Chilean Plum Producers



- Strategic Production Alliance
 - Start a cooperative with a select few Chilean farmers
 - Grower benefits
 - Learn how to produce better quality prunes
 - Gain access to Sunsweet® proprietary technology
 - Sunsweet® benefits
 - Ensure product is available to safeguard against crop failure in California
 - Regain EU market share
 - Help regulate Chilean production quantities



Advertising





Advertising Effect and Elasticities

Benefit/Cost Ratio:
1.26-4.35

Own Price

- Linear
(-1.74)
- Constant
(-1.81)

Advertising (Long Run)

- Linear
(0.211)
- Constant
(0.056)



Optimal Advertising

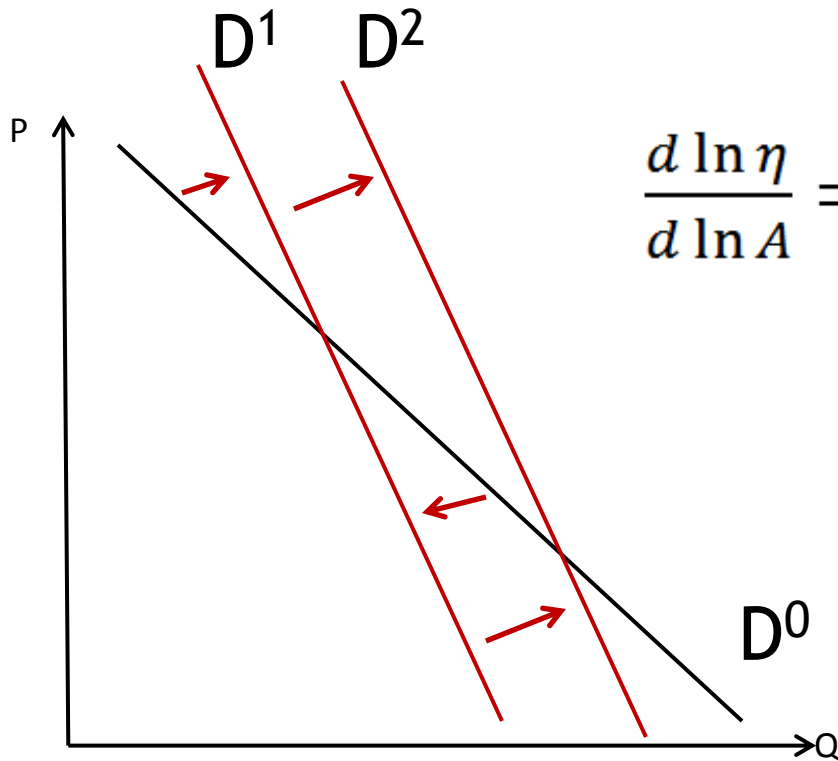
- Dorfman-Steiner Condition:

$$\left| \frac{\text{Advertising Elasticity}}{\text{Own Price Elasticity}} \right| = \frac{\text{Advertising Expenditures}}{\text{Sales Revenue}}$$

Sunsweet Advertising Ratio:
12% of Sales



Effect of Brand Specific Advertising on Demand



$$\frac{d \ln \eta}{d \ln A} = \underbrace{\frac{d \ln \left(\frac{\partial q}{\partial p} \right)}{d \ln A}}_{\text{rotation effect}} + \underbrace{\frac{d \ln p^*}{d \ln A}}_{\text{price effect}} - \underbrace{\frac{d \ln q^*}{d \ln A}}_{\text{quantity effect}}$$

Less elastic demand elasticity
Higher revenues
Increased market share



Marketing and Promotions



Demand Pull	<ul style="list-style-type: none">• T.V.• Magazine• Celebrity
Patronage Alliances	<ul style="list-style-type: none">• Industrial ingredients• Shared cost
Demand Push	<ul style="list-style-type: none">• Shelf placement• Checkout aisle• Store ads



Summary





Summary

A close-up photograph of a single, ripe red prune hanging from a branch. The prune is dark red with a slight sheen, and its green stem is visible at the top. The background is blurred, showing other prunes and green leaves.

Production Alliance

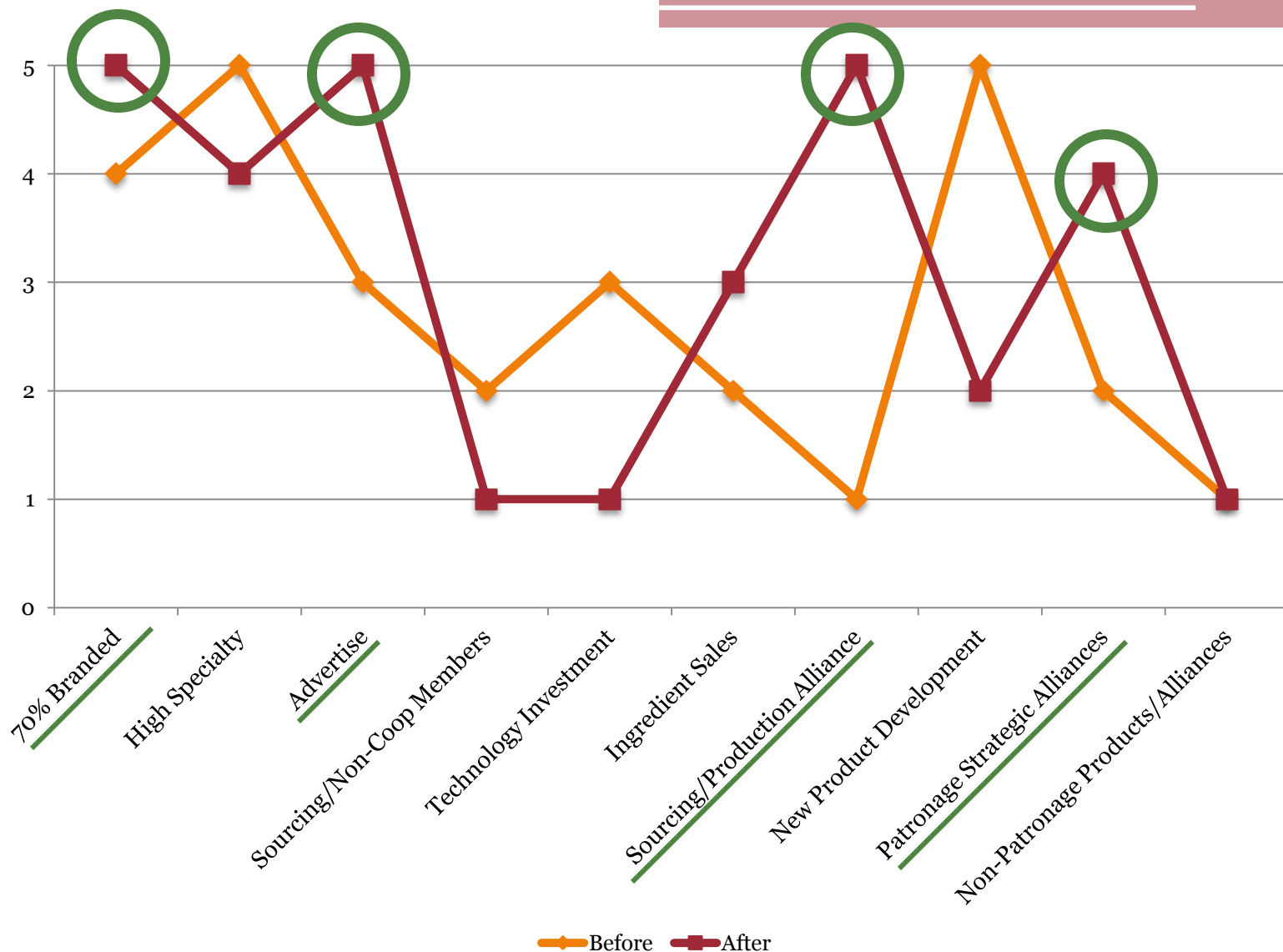
- Quality of prunes
- Control production
- Mutually beneficial

Advertising

- Positive returns to advertising
- Increase advertising
- New marketing outlets

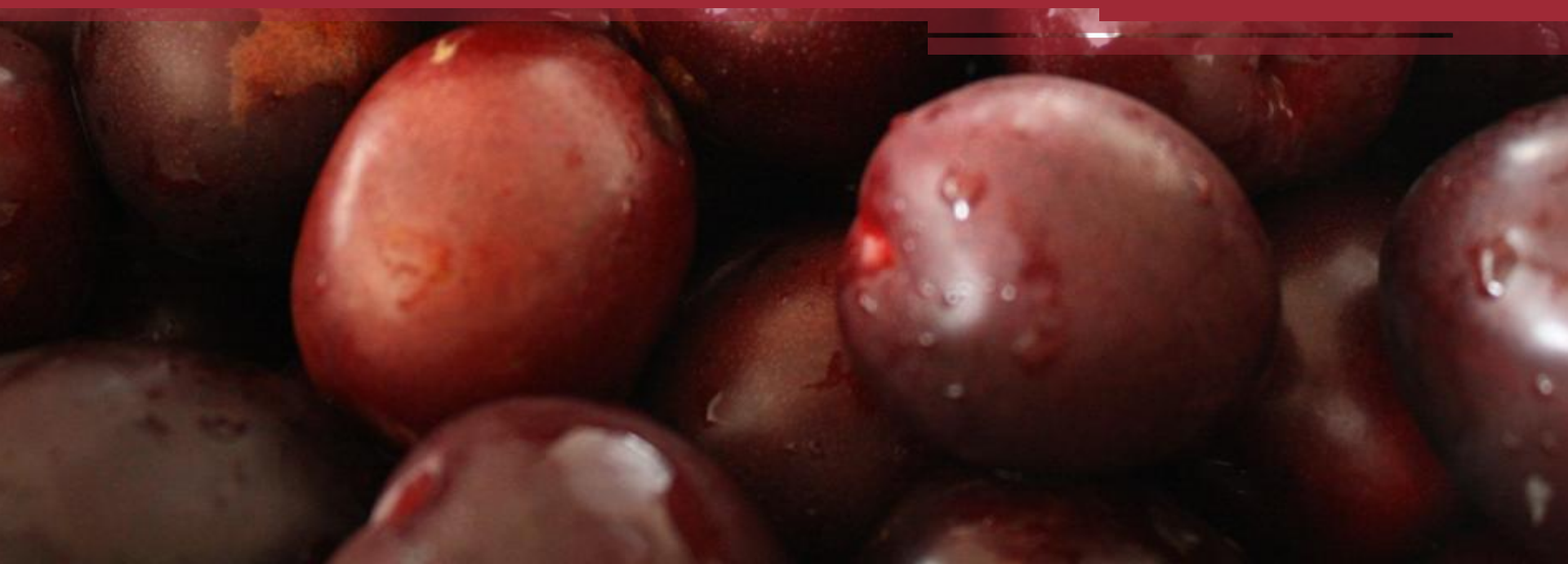


Blue Ocean Strategy Canvas



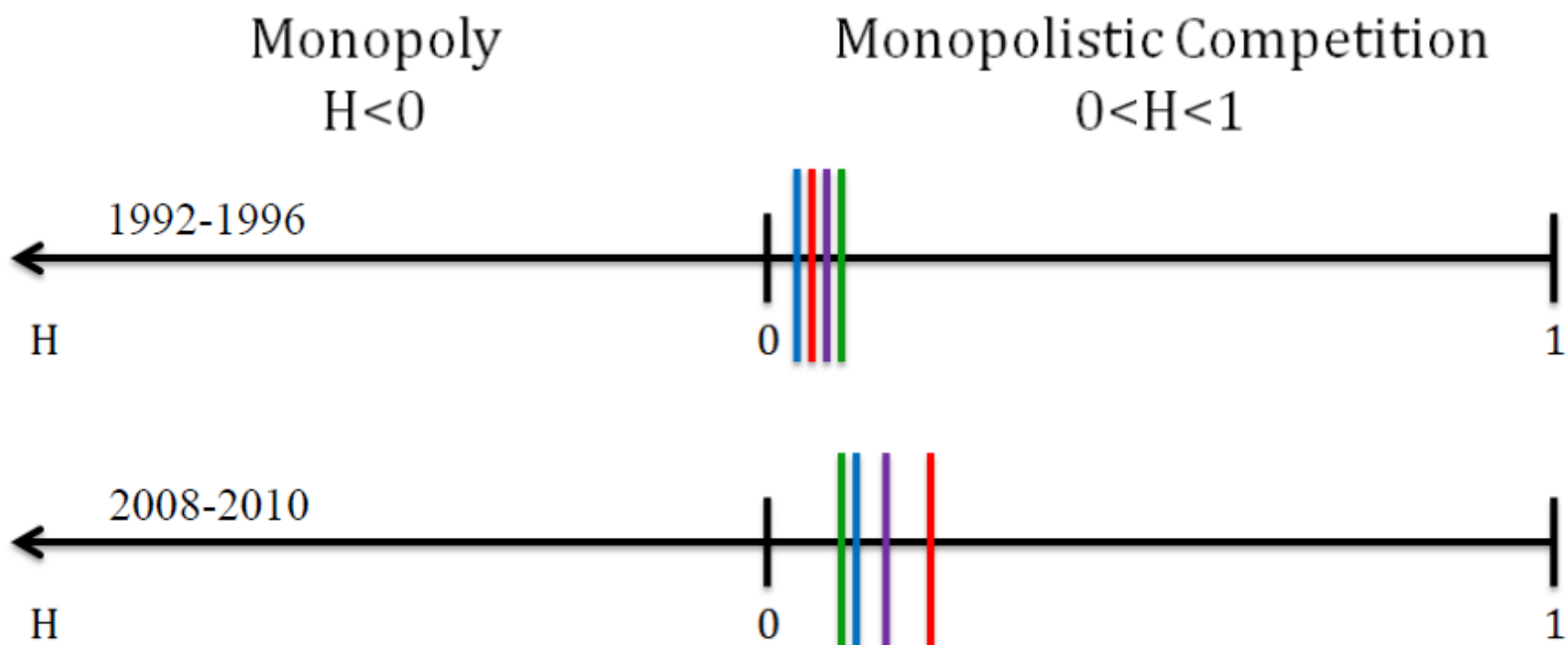


Questions?





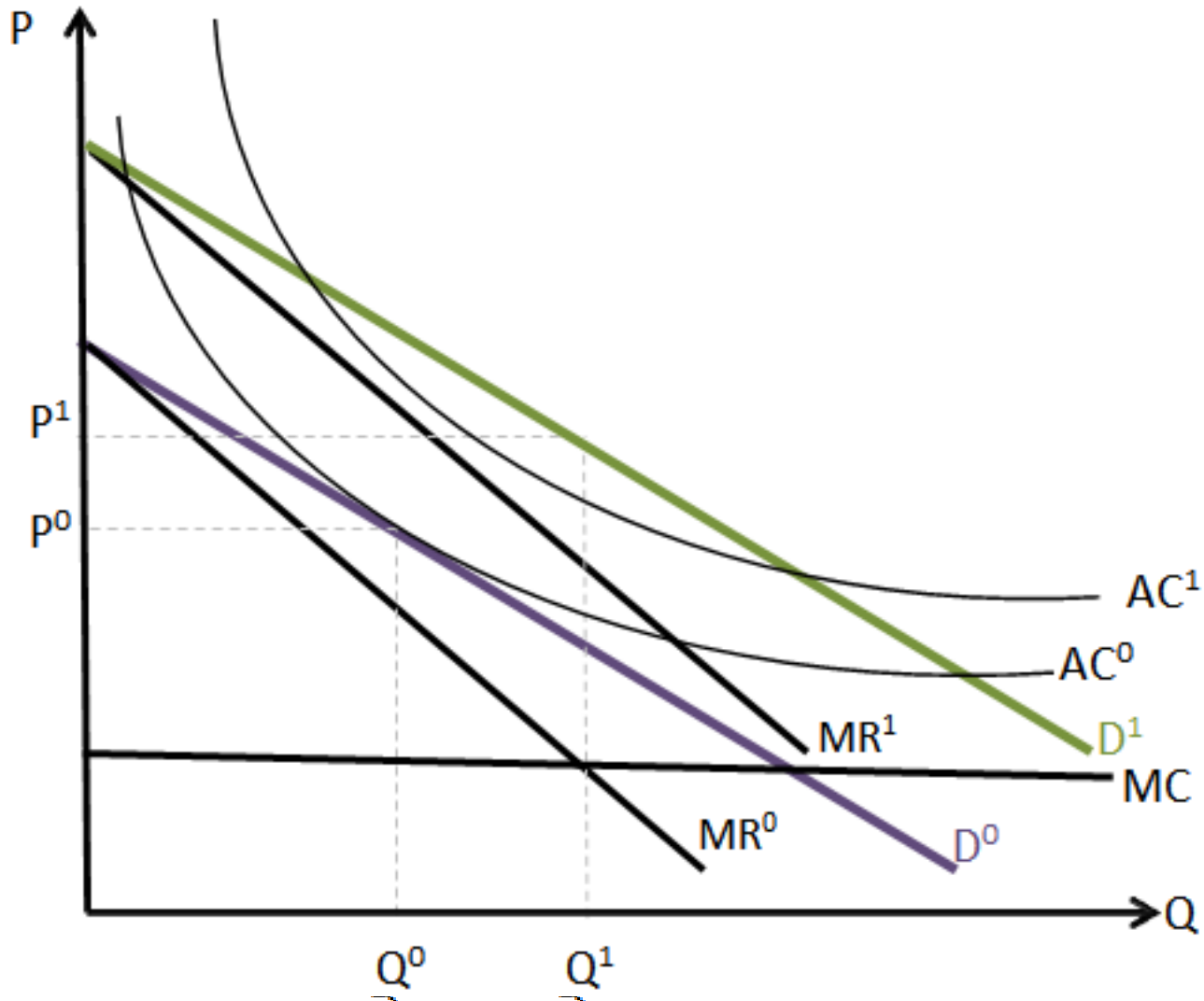
Type of Market



Model 1, Model 2, Model 3, Model 4



Effect of Generic Advertising on Demand





Financial Comparison

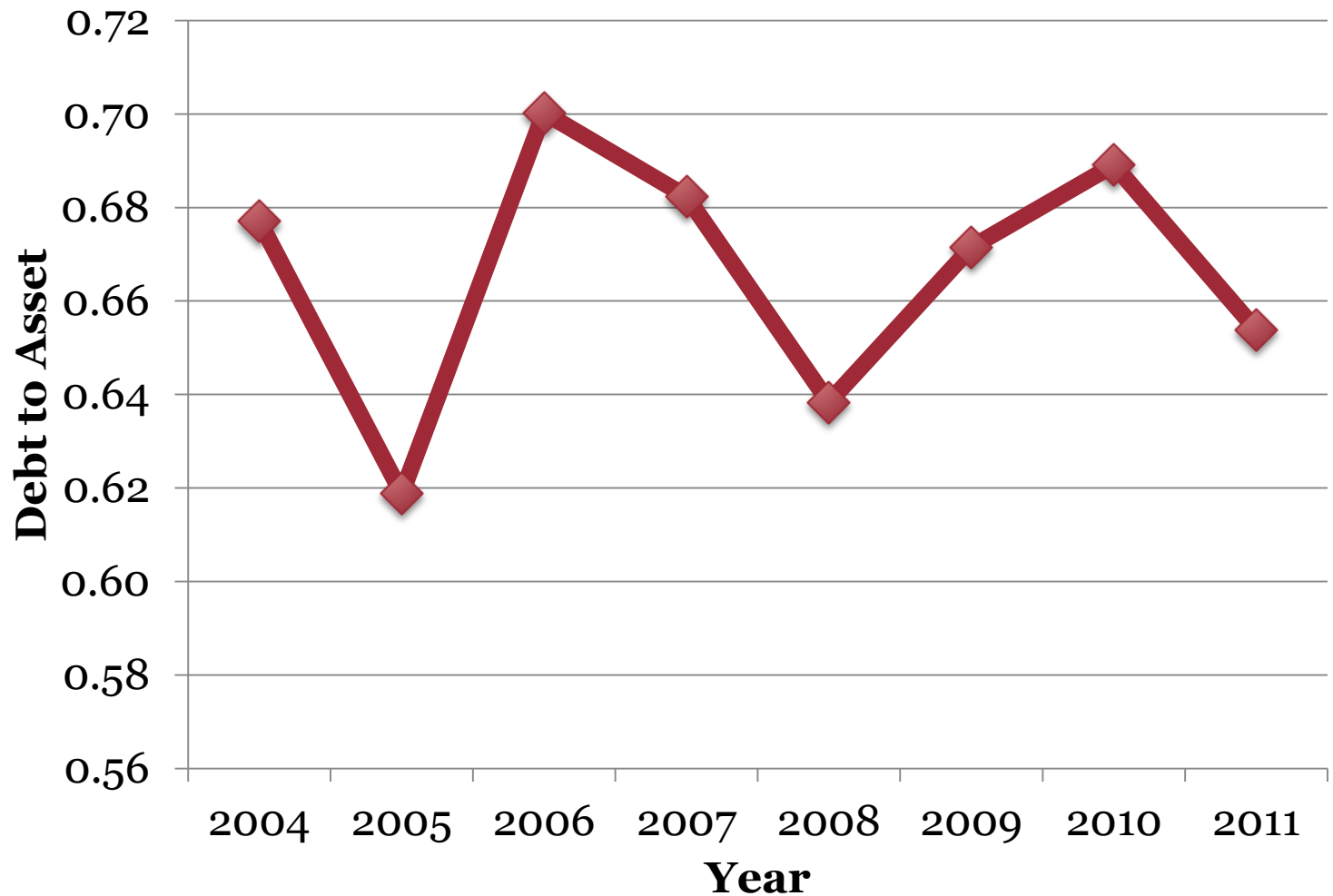
Debt to Asset



Company	2011	2010
Sunsweet	0.65	0.69
Sunkist	0.57	0.66
Dole	0.81	0.81
Land O' Lakes	0.79	0.77
Blue Diamond	0.67	0.73

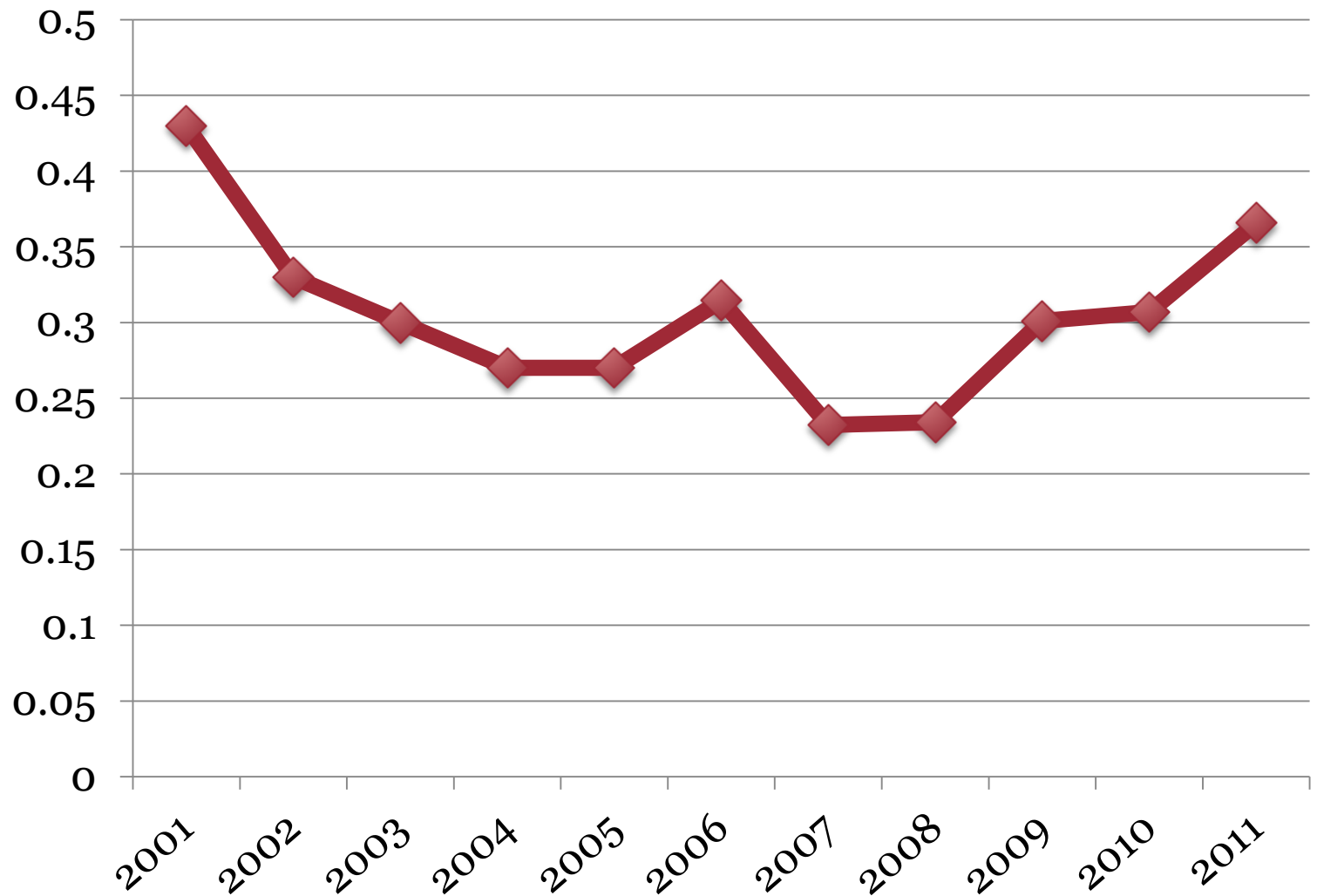


Debt to Asset Ratio



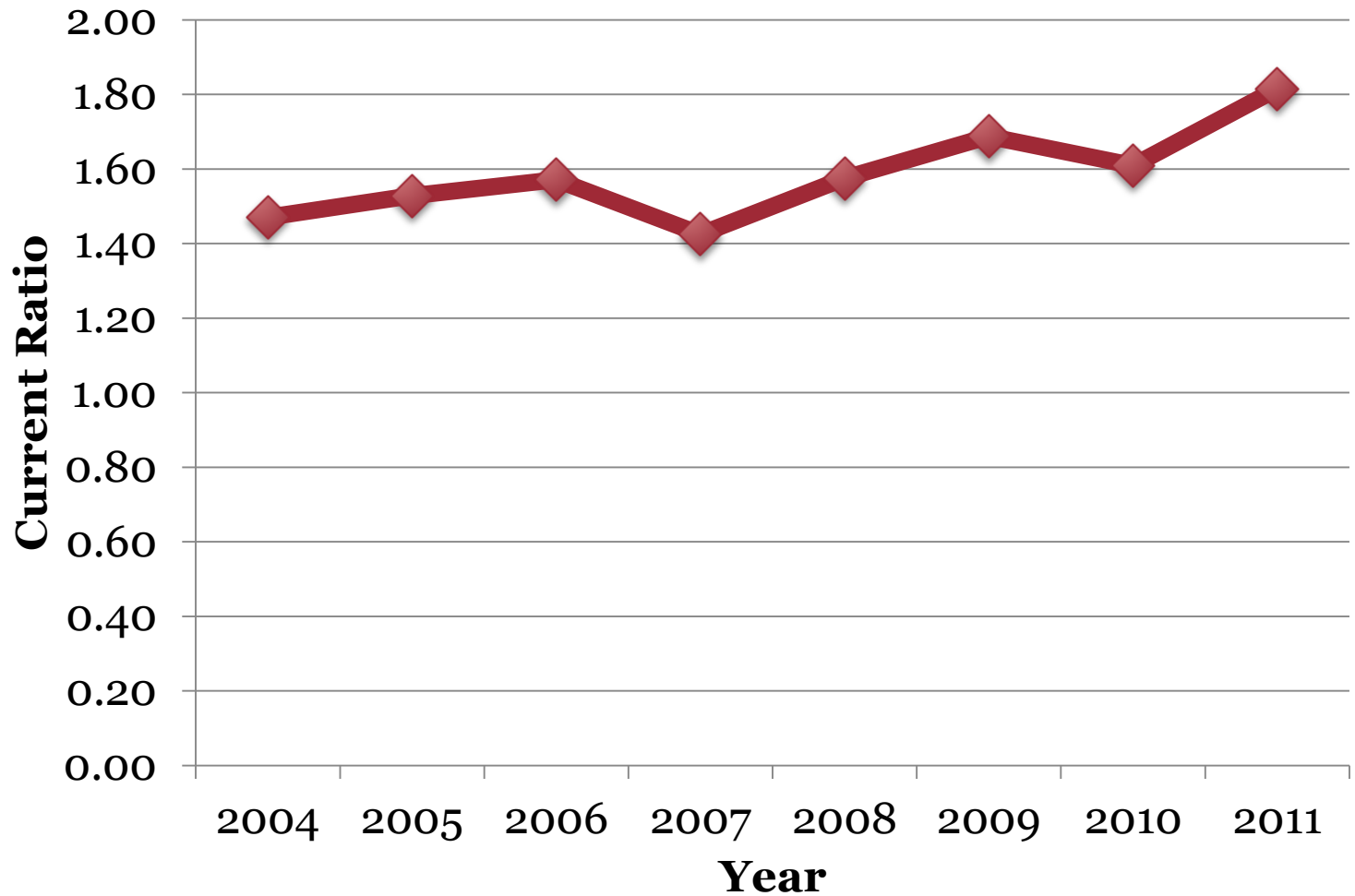


Debt to Capitalization



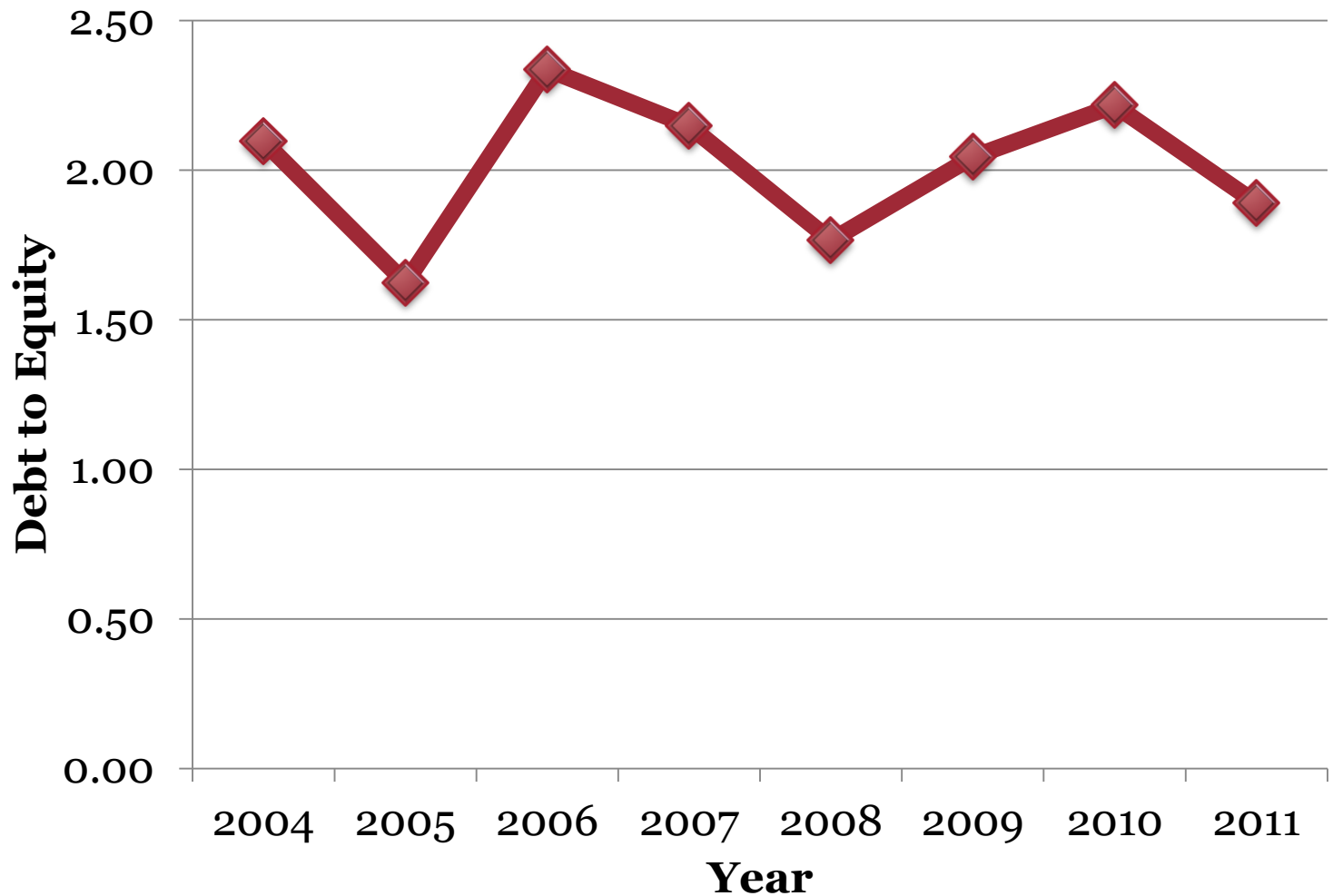


Current Ratio



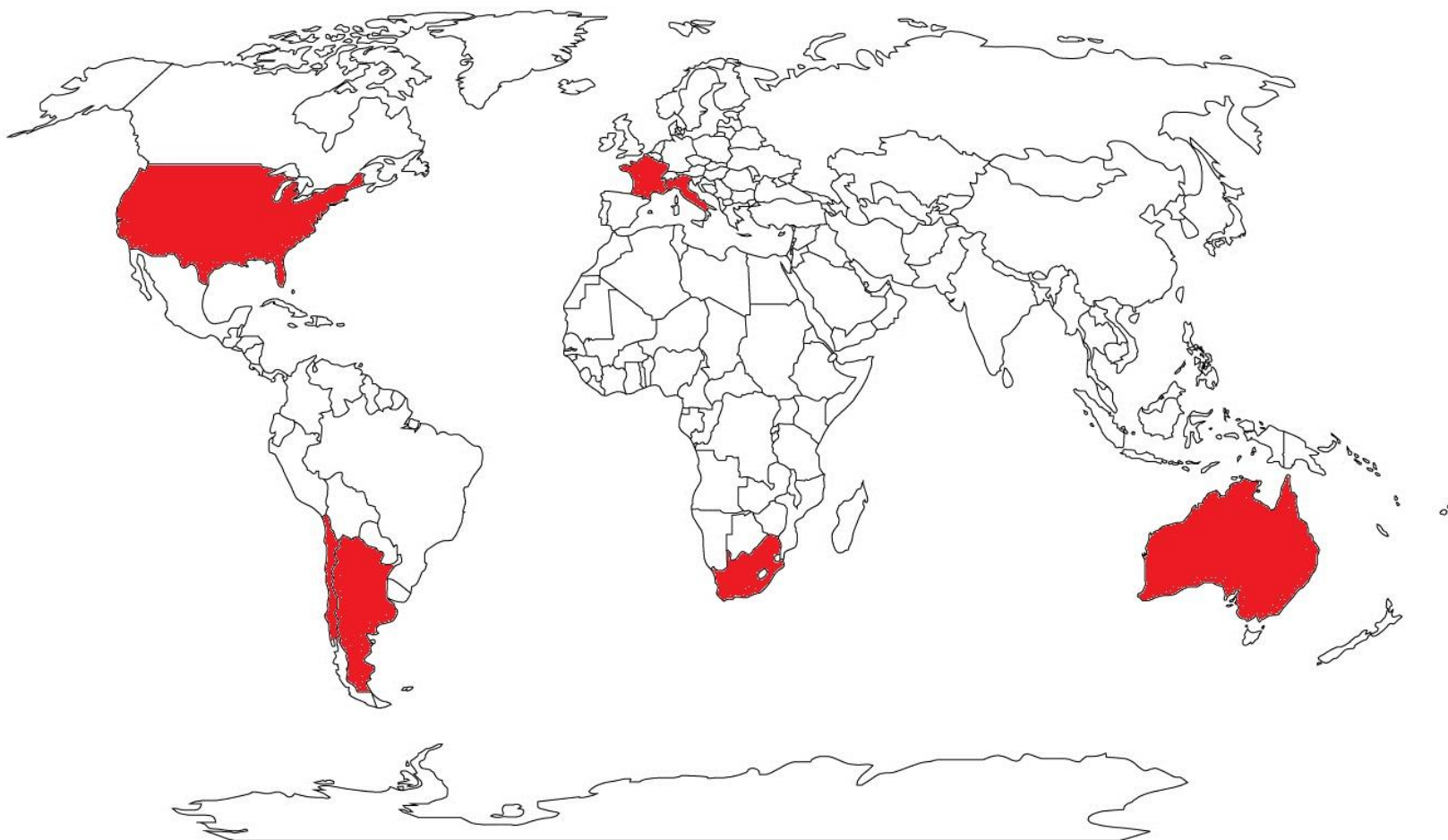


Debt to Equity Ratio





Prune Exporting Nations





Prune Importing Nations

