

The Cranberry Industry at the Crossroads

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Assignment Questions

1. What are the key determinants of the price of cranberries over time? How important is each determinant relative to other?
2. A key issue that is discussed in the case is the low prices for cranberries in recent years. How do you suppose Ocean Spray Cranberries sets price for its cranberries? Use concepts from industrial organization as you think about this question.
3. Producers who own Ocean Spray Cranberries want a higher price for their cranberries. What recommendations do you have for Ocean Spray Cranberries to help it achieve this goal?
4. There are a number of issues that affect Ocean Spray Cooperatives governance. These include regional shifts in supply, large producers (based on acreage) and small producers, and a desire to be just suppliers of cranberries versus vertical integration. What effect does Ocean Spray Cranberries status as a cooperative mean for these issues?

Vincent Amanor-Boadu is visiting assistant professor of agricultural economics. Michael Boland is associate professor of agricultural economics and associate director of the Arthur Capper Cooperative Center at Kansas State University. David Barton is professor of agricultural economics and director of the Arthur Capper Cooperative Center at Kansas State University. Please address all correspondence to Michael Boland at mboland@agecon.ksu.edu or 785.532.4449.

We have used Ocean Spray Cranberries as an example to highlight what has happened in the cranberry industry over time. Nothing in the case should be construed to reflect negatively on the organization or its management. On the contrary, many of the industry trends that have affected this industry such as oversupply and low prices have also affected virtually every major agricultural commodity. We appreciate the comments and suggestions of Ed Jesse and Rich Rogers. A useful website with information on the cranberry industry is <http://www.cranberrystressline.com/>. Ocean Spray Cranberries has asked that students not contact them for information since they will be involved in the judging. Teams that contact them will be disqualified.

The Cranberry Industry at the Crossroads

Ocean Spray Cranberries in 2003

In late February, 2003 Northland Cranberries, Inc. (NCI) made an \$800 million offer to acquire Ocean Spray Cranberries (OSC), the market leader in the cranberry industry. Furthermore, a group of OSC grower-members won a lawsuit that enabled them to propose a new slate of directors that would be voted on at the March 8, 2003 annual meeting. The need to communicate a strategy for addressing the industry's profitability problem had become increasingly necessary in the last few years because of declining cranberry prices to levels not seen in the industry's recent history and a mounting disaffection among OSC's grower-members. Despite OSC's desire to enhance its marketing efforts and balance fruit supply and demand, prices were still dismal as the winter of 2003 came to an end and the disaffection among grower-members seemed to be increasing. Ocean Spray Cranberries was in a unique position of "working for its grower-members" in deciding to take steps to address the company's marketing difficulties and simultaneously ease the price pressure confronting its grower-members.

The main issues revolved around the pricing of cranberries and the structure of the industry. As supply increased in the late 1990s, demand tapered off. Cranberry prices were well below the average cost of production which was \$35 per barrel. Historically, Ocean Spray Cranberries had dominated this industry and it operated on a cooperative basis. In recent years, there had been a growing number of producers that had invested in more in land so as to have greater production. In general, many cranberry producers were second or third generation producers with smaller tracts of land. The governance of Ocean Spray Cranberries had also changed in recent years.

The Cranberry Industry

There are two components to assessing the cranberry industry: The Cranberry Marketing Committee (CMC) and the industry stakeholders' component, comprising producers, processors and retailers as well as the products that are marketed by the industry. The Cranberry Marketing Committee (CMC) was established in 1962 under Chapter IX, Title 7, and Code of Federal Regulations, also referred to as the Federal Cranberry Marketing Order, which is part of the Agricultural Marketing Agreement Act of 1937. It is responsible for regulating cranberry production to ensure stability in the industry. The CMC is charged with regulating production in the 10 states in which cranberries are produced. However, its focus has been on the five states with commercial production: Massachusetts, New Jersey, Oregon, Washington, and Wisconsin.¹ Although it has the power to allot production quotas to the approximately 1,200 producers who sell to about 18 handlers and/or processors each year to manage supply and demand, it has exercised this power only twice in its 35 years of existence. The Marketing Order was amended under Section 929.45 of the Act in 1992 to allow the CMC to promote the sale and use of cranberries and cranberry products. The CMC, as a result of this change, is currently undertaking generic promotion of cranberry products in Germany and Japan with the view of enhancing the industry's export market penetration.

The CMC was governed by a board of eight directors appointed by the 18 or so U.S. cranberry handlers. The regulations established by the CMC required that one director (or an alternate) be

¹ The other states under the CMC's jurisdiction are Connecticut, Long Island in the State of New York, Michigan, Minnesota and Rhode Island.

a public representative while the others (and their alternates) are growers or employees, agents, or duly authorized representatives of growers selected to facilitate representation of the four cranberry districts. Ocean Spray Cranberries has four of the seven industry seats on the CMC. So while it does not have a majority, it does hold significant influence that reflects its position in the cranberry industry. For example, even though a vote on a decision to extend the 2001 supply controls in 2002 was deadlocked at 4-4, it was defeated because six votes are needed for such decisions to pass. There is concern that the structure of the CMC will prevent the implementation of some of the necessary policies to control supply to address the current glut and control price pressure difficulties.

The stakeholders can be discussed from the perspective of the demand chain, i.e., from consumer products and consumer market conditions, through retail and distribution structure and conduct to processors and producers. Although the cranberry industry is unique at the production level, its products compete in the marketplace with many other products, from beverages to confectionary ingredients. There are two broad categories of cranberry products: fresh and processed products. Processed products are by far the commanding category, accounting for an average of 95 percent of total production between 1993 and 2000 (Exhibit 1). Juice dominates the processed products category, but is confronted with significant competition in the fruit juice marketplace. In general, while per capita consumption of citrus fruit juice has been increasing, non-citrus fruit juice consumption has been relatively flat between 1990 and 2000 (Exhibit 2).

Exhibit 1. Per Capita Fresh Cranberry and Cranberry Juice Consumption, 1989-2000 (in Pounds of Fresh Weight Equivalent)

Year	Fresh	Juice	Total
1989	0.07	1.33	1.40
1990	0.05	1.27	1.32
1991	0.07	1.54	1.61
1992	0.07	1.50	1.57
1993	0.07	1.35	1.42
1994	0.08	1.70	1.78
1995	0.08	1.49	1.57
1996	0.08	1.59	1.67
1997	0.07	1.82	1.89
1998	0.08	1.88	1.96
1999	0.11	2.12	2.23
2000	0.14	1.78	1.92

Source: Putnam and Allshouse, 2002

However, these challenges are no different from those confronting other processed products such as sauces and jellies. These competitive pressures emerge because of the lack of any uniquely advantageous characteristics over their fruit juices or fruit sauces and jellies except during the holiday season when cranberry sauce becomes a favorite. Thus, after about seven decades of active promotion and advertising, cranberry sauce and jelly are still not “household” daily food items. They are still in the same psychographic space of the consumer as horse radish, spiced apples and mint jelly (e.g., holiday items). As noted in a Harvard Business School fruit positioning study, these products are “tradition-bound, almost synonymous with Thanksgiving and turkey” (Modig and DeBruicker, 1975). In recent years, however, there has been research suggesting some nutraceutical benefits from consuming especially cranberry juice, and the

information is being passed on to consumers with the view of establishing some points of differentiation from other fruit juices.

Exhibit 2. Per Capita Fruit Juice Consumption, 1989/00 to 2000/01 Marketing Years (in Pounds of Fresh Weight Equivalent)

	Grape	Apple	Cranberries	Orange	Grapefruit	Prunes	Pineapple	Total
1989/90	0.31	1.45	0.15	4.20	0.62	0.04	0.44	7.37
1990/91	0.28	1.72	0.14	4.65	0.41	0.04	0.50	7.89
1991/92	0.36	1.52	0.17	4.29	0.40	0.03	0.50	7.40
1992/93	0.38	1.57	0.17	5.19	0.59	0.04	0.48	8.60
1993/94	0.35	1.79	0.15	5.06	0.54	0.04	0.42	8.54
1994/95	0.29	1.79	0.19	5.38	0.64	0.04	0.35	8.82
1995/96	0.46	1.60	0.17	5.27	0.69	0.03	0.39	8.79
1996/97	0.39	1.72	0.18	5.38	0.62	0.03	0.39	8.89
1997/98	0.41	1.57	0.20	5.59	0.57	0.03	0.35	8.85
1998/99	0.28	1.83	0.21	5.26	0.61	0.03	0.29	8.64
1999/00	0.45	1.82	0.24	5.83	0.66	0.02	0.33	9.53
2000/01	0.35	1.85	0.20	5.25	0.68	0.02	0.31	8.89

Source: Putnam and Allshouse, 2002

There are three key components in understanding the cranberry industry: production, processing, and marketing and distribution. Events at each of these levels interact to influence conditions in the whole industry. Each component is discussed separately while looking at the broader industry structure.

Cranberry Production

Cranberry production is highly concentrated, with the three largest producing states — Wisconsin, Massachusetts and New Jersey — accounting for an average of 91 percent of total production between 1999 and 2002 (Exhibit 3). Wisconsin, the largest producing state, accounted for about 51 percent of total production.

Exhibit 3. Cranberry Production by State, 1993 to 2002 (1 barrel = 100 pounds)

	Massachusetts	New Jersey	Oregon	Washington	Wisconsin	Total
1993	1,880,000	386,000	156,000	137,000	1,360,000	3,919,000
1994	1,952,000	558,000	330,000	202,000	1,640,000	4,682,000
1995	1,592,000	454,000	170,000	177,000	1,800,000	4,193,000
1996	1,722,000	467,000	312,000	180,000	1,990,000	4,671,000
1997	2,100,000	580,000	350,000	165,000	2,339,000	5,534,000
1998	1,872,000	521,000	355,000	168,000	2,540,000	5,456,000
1999	1,875,000	700,000	328,000	147,000	3,307,000	6,357,000
2000	1,953,000	489,000	398,000	180,000	2,692,000	5,712,000
2001	1,416,000	566,000	365,000	142,000	2,840,000	5,329,000
2002	1,460,000	430,000	400,000	162,000	3,190,000	5,642,000

Source: USDA National Agricultural Statistics Service, Cranberries Report

Cranberry production has been increasing for more than six decades (Exhibit 4). Production increase emanated from both acreage and yield increases over the period. Thus, like most agricultural industries, improvement in technology such as harvesting and agronomic traits

contributed to yields from 15 barrels per acre in 1944 to almost 170 barrels per acre in 1999, more than a tenfold increase. However, unlike other agricultural commodities, the increase in acreage and yield over the period was accompanied by increases in cranberry prices, reaching a peak of \$63.70 per barrel in 1998. There was a 35 percent drop in price the following year to \$41.60, followed by another 57 percent decline between 1999 and 2000 to \$17.70. Historically, such precipitous decline in prices had not been seen in the industry since the 46 percent decline between 1946 and 1947 when prices shifted from \$31.90 to \$17.10. Production expenses have averaged about \$35 per barrel.

The source of the price pressure has been attributed to the glut in cranberry supply brought about by rapid production expansion by existing producers and new entrants attracted to the industry at a time when other crops were experiencing significant difficulties. Thus, while the market had been successfully capable until 1999 in absorbing the production increases, it seemed the cranberry industry reached a “saturation point” like most other agricultural industries with a supply glut and competition from substitutes. Thus, unlike the mid-1990s when cranberry production was increasing and cranberry products’ sales were increasing even faster, the late 1990s presented a situation where production was growing much faster than demand.

With cranberry prices hovering at all-time low and well below cost of production, the CMC decided to apply its authority to reduce production in an effort to address the industry’s profitability problem. It imposed a marketing order and cut production by about 27 percent, from 6.3 million barrels in 1999 to 4.6 million barrels for 2000. The stabilization and turn-around of prices in 2000 and 2001 was indicative of the market response to the production restriction. While some industry stakeholders demanded a continuation of the marketing order in 2002, the CMC was unable to secure the necessary majority to implement it. The argument among industry watchers is that the CMC was unable to achieve the production controls because OSC was unwilling to support it. Yet, it was unfair to lay the full blame for the inability of the CMC to control production on OSC because while it was not in favor of the policy and the Wisconsin Cranberry Cooperative was in favor of it, others in the industry, such as the Wisconsin Cranberry Growers Association were ambivalent about it (Kliebenstein, 2002). Thus, there was no unanimity on oversupply being the source of the industry’s profitability problem, making a concerted industry effort at solving the problem an interesting conundrum.

Other processors and handlers have been accused of putting undue pressure on producers by reducing prices in the middle of contracted delivery periods. Some of these accusations led to lawsuits, some of which resulted in substantial settlements, confirming growers’ belief that they lack bargaining power in the current industry structure.

Thus, there has been a growing sense of betrayal among a segment of OSC’s grower-members and a sense of helplessness in other grower segments resulting from a lack of bargaining power of negotiating leverage when entering into contracts with handlers and processors. This has led some growers to break away from existing farmer-owned cooperatives, such as OSC, and form new cooperatives. A recent example is the Wisconsin Cranberry Cooperative (WCC), formed in 2001 with 70 growers, with the objective to develop “strategic options to save the family-scale cranberry farms” by (a) raising industry prices and returning a larger share of margin dollars to growers; (b) creating a collective bargaining agency; and (c) potentially developing high-value cranberry products in niches ignored by the large processors. Other producers exited the industry, transforming their “bogs into fish farms” (Lindsay, 2001). Finally, some producers

began to more fully understand the marketing strategies of their cooperative-owned processing companies and how they affected their own financial performance (Swendrowski, 2001).

Exhibit 4. Acreage, Yield, and Production of Cranberries in the United States, 1944 to 2001

Year	Acreage		Yield,		Production, 1000 barrels ^{a,c}			Shrinkage ^b
	Harvested	Acre	Total	Utilized	Fresh	Processed		
1944	25,400	14.8	375.9	375.9	219.5	156.4		
1945	25,680	23.5	603.5	603.5	282.7	320.8		
1946	26,000	32.9	855.4	855.4	267.9	587.5		
1947	26,160	30.3	792.6	792.6	291.4	501.2		
1948	26,560	36.4	966.8	966.8	461.4	505.4		
1949	26,625	31.6	841.4	815.4	550.0	265.4		
1950	26,390	37.2	981.7	919.6	529.5	390.1		
1951	25,840	35.2	909.6	909.6	408.2	501.4		
1952	25,050	32.1	804.1	804.1	363.7	440.4		
1953	23,960	50.2	1,202.8	1,202.8	454.2	748.6		
1954	22,970	44.3	1,017.6	1,017.6	437.8	579.8		
1955	22,270	46.1	1,026.6	1,026.6	509.5	517.1		
1956	21,520	45.9	987.8	969.8	450.2	519.6		
1957	21,240	49.4	1,049.3	1,049.3	430.4	618.9		
1958	20,920	55.7	1,165.2	1,165.2	459.3	705.9		
1959	21,290	58.8	1,251.9	1,233.0	n.a.	357.8		
1960	21,140	63.4	1,340.3	1,336.3	491.2	845.1		
1961	21,440	57.1	1,224.2	1,223.2	627.7	596.5		
1962	20,570	64.4	1,324.7	1,181.7	520.9	660.8		
1963	20,120	62.4	1,255.5	1,211.5	419.4	792.1		
1964	20,620	65.2	1,344.4	1,326.4	442.1	884.3		
1965	20,640	69.6	1,436.5	1,422.5	389.3	1,033.2		
1966	20,760	77.0	1,598.5	1,577.5	327.9	1,249.6		
1967	21,220	66.2	1,404.8	1,404.8	369.9	1,034.9		
1968	21,135	69.4	1,466.8	1,466.8	355.6	1,111.2		
1969	21,185	86.1	1,824.0	1,824.0	406.1	1,417.9		
1970	21,745	93.7	2,036.6	1,844.6	367.0	1,400.0	77.6	
1971	22,410	101.1	2,264.8	1,639.8	401.0	1,158.8	80.0	
1972	22,590	92.0	2,078.0	2,078.0	321.5	1,567.1	189.4	
1973	23,100	90.9	2,100.3	2,100.3	398.5	1,407.2	231.6	
1974	23,400	95.6	2,236.0	2,236.0	317.5	1,486.7	431.8	
1975	23,300	89.1	2,075.1	2,075.1	310.9	1,444.2	320.0	
1976	23,080	104.3	2,407.3	2,407.3	407.0	1,755.5	244.8	
1977	22,540	93.3	2,102.2	2,102.2	405.5	1,454.0	242.7	
1978	23,120	106.3	2,458.5	2,458.5	404.0	1,917.7	136.8	
1979	23,200	106.7	2,475.5	2,475.5	302.0	2,067.0	106.5	

1980	23,190	116.3	2,697.5	2,697.5	326.1	2,259.6	111.8
1981	23,150	112.0	2,593.0	2,593.0	479.6	1,977.1	136.3
1982	23,350	130.1	3,039.0	3,039.0	494.1	2,380.8	164.1
1983	24,050	124.2	2,986.0	2,986.0	321.3	2,588.3	76.4
1984	24,620	134.9	3,322.0	3,322.0	297.8	2,940.5	83.7
1985	25,700	135.6	3,485.0	3,485.0	313.8	3,093.2	78.0
1986	26,300	140.3	3,690.0	3,690.0	342.2	3,201.4	146.4
1987	26,700	127.0	3,391.0	3,391.0	304.3	3,030.0	56.7
1988	26,000	156.9	4,079.0	4,079.0	275.2	3,727.8	76.0
1989	27,500	136.3	3,747.0	3,747.0	254.5	3,407.5	85.0
1990	27,800	123.6	3,436.1	3,436.0	216.2	3,196.8	23.0
1991	28,300	149.1	4,219.0	4,219.0	236.5	3,912.0	70.5
1992	29,100	143.0	4,160.0	4,160.0	223.5	3,881.0	55.5
1993	29,400	133.3	3,919.0	3,919.0	199.0	3,619.0	101.0
1994	31,100	150.5	4,682.0	4,682.0	216.0	4,415.0	51.0
1995	32,800	127.8	4,193.0	4,193.0	242.0	3,858.0	93.0
1996	34,200	136.6	4,671.0	4,671.0	236.0	4,359.0	106.0
1997	35,700	154.0	5,497.0	5,497.0	225.0	5,072.0	200.0
1998	36,600	149.1	5,456.0	5,456.0	240.0	5,156.0	60.0
1999	37,500	169.5	6,357.0	6,357.0	357.0	6,000.0	8.0
2000	36,600	156.1	5,712.0	5,579.0	442.0	5,137.0	n.a.
2001	34,200	155.8	5,329.0	4,783.0	426.0	5,357.0	n.a.

^aDifferences between total and utilized production are cranberries that were put in set-aside under the Cranberry Market Order. Cranberries put in set-aside, but sold for exports are included in utilized production.

^bCranberries paid for by processors and lost because of dehydration and berry breakdown after delivery.

^c barrel = 100 pounds.

Exhibit 5. Price and Per Capita Utilization of Cranberries in the United States, 1944 to 2001

Year	Price ^a	Value		Per Capita		Index	Deflated
	\$barrel	\$1,000	Fresh	Processed	Total	1990-92=100	Price, \$/barrel
1944	24.60	9,237	0.16	0.11	0.27	30	81.24
1945	20.90	13,686	0.20	0.23	0.43	32	64.52
1946	31.90	27,291	0.19	0.42	0.60	37	87.11
1947	17.10	13,521	0.20	0.35	0.55	42	40.47
1948	10.10	9,753	0.31	0.34	0.66	44	22.77
1949	5.76	4,691	0.37	0.18	0.55	39	14.87
1950	6.65	6,123	0.35	0.26	0.60	39	16.86
1951	12.30	11,164	0.26	0.32	0.59	46	26.46
1952	16.50	13,223	0.23	0.28	0.51	44	37.19
1953	12.40	14,934	0.28	0.47	0.75	39	31.44
1954	10.70	10,926	0.27	0.36	0.62	38	28.14

1955	8.24	8,450	0.31	0.31	0.62	36	22.94
1956	8.83	8,561	0.27	0.31	0.57	35	25.08
1957	11.20	11,722	0.25	0.36	0.61	36	31.18
1958	11.60	13,537	0.26	0.40	0.67	39	29.95
1959	9.06	11,167		0.20	0.20	37	24.27
1960	8.83	11,805	0.27	0.47	0.74	37	24.11
1961	8.58	10,604	0.34	0.32	0.67	37	22.99
1962	10.80	12,803	0.28	0.35	0.63	37	28.94
1963	11.90	14,458	0.22	0.42	0.64	37	31.88
1964	14.40	19,137	0.23	0.46	0.69	37	39.32
1965	15.50	22,072	0.20	0.53	0.73	38	40.76
1966	15.60	24,561	0.17	0.64	0.80	41	38.19
1967	15.50	21,832	0.19	0.52	0.71	39	40.02
1968	16.50	24,227	0.18	0.55	0.73	39	41.84
1969	16.40	29,839	0.20	0.70	0.90	42	39.47
1970	10.70	19,675	0.18	0.68	0.86	42	25.32
1971	10.70	17,599	0.19	0.56	0.75	44	24.51
1972	12.50	26,021	0.15	0.75	0.90	49	25.72
1973	13.50	28,384	0.19	0.66	0.85	69	19.56
1974	11.00	24,715	0.15	0.70	0.84	74	14.88
1975	13.10	27,112	0.14	0.67	0.81	71	18.42
1976	13.50	32,454	0.19	0.81	0.99	72	18.79
1977	18.10	38,154	0.18	0.66	0.84	70	25.70
1978	21.50	52,903	0.18	0.86	1.04	81	26.55
1979	26.70	66,039	0.13	0.92	1.05	93	28.72
1980	33.20	89,462	0.14	0.99	1.14	94	35.18
1981	41.50	107,494	0.21	0.86	1.07	98	42.40
1982	40.20	122,297	0.21	1.03	1.24	94	42.92
1983	44.80	133,830	0.14	1.10	1.24	95	47.12
1984	46.70	155,081	0.13	1.24	1.37	100	46.70
1985	46.30	161,439	0.13	1.30	1.43	90	51.36
1986	44.70	165,086	0.14	1.33	1.47	87	51.60
1987	44.50	150,906	0.13	1.25	1.37	89	50.15
1988	45.70	186,340	0.11	1.52	1.63	97	47.02
1989	44.00	164,720	0.10	1.38	1.48	104	42.22
1990	44.50	152,830	0.09	1.28	1.37	105	42.41
1991	49.00	206,783	0.09	1.56	1.65	103	47.66
1992	51.30	213,292	0.09	1.52	1.61	98	52.41
1993	50.20	196,820	0.08	1.40	1.48	101	49.85
1994	49.30	230,795	0.08	1.69	1.77	100	49.30
1995	51.70	216,911	0.09	1.46	1.55	102	50.69
1996	62.50	292,078	0.09	1.63	1.71	112	55.80

1997	63.70	350,147	0.08	1.87	1.95	107	59.53
1998	41.60	226,818	0.09	1.88	1.96	101	41.19
1999	17.80	113,155	0.13	2.16	2.29	37	48.26
2000	19.60	111,955	0.16	1.83	1.99	39	50.17
2001	22.90	122,034	0.12	1.89	2.01	46	50.26

^aEquivalent returns at first delivery point, screened basis of utilized production.

Sill other producers expanded in an attempt to take advantage of scale economies, making up for lower prices with volume. In short, cranberry producers are, for probably the first time in the life of their industry, having to deal with decisions that other agricultural producers have been battling with for decades.

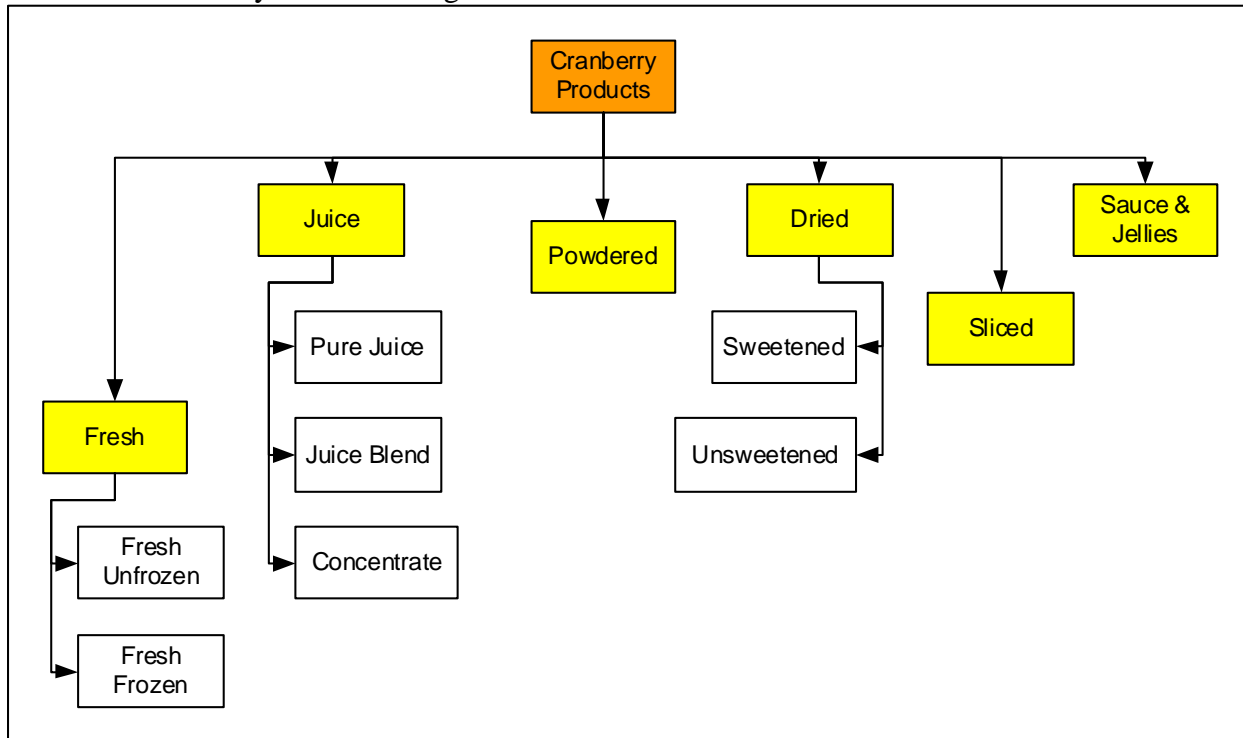
Cranberry Processors

There are two distinct markets for cranberries: fresh and processed. The fresh market comprises cranberries that are sold directly to consumers for consumption without processing. The processed cranberry market can be categorized into six product groups (Exhibit 6). Among the processed products, juice is the dominant product, and it is sold in three principal forms — pure juice, juice blends and as concentrate to other processors for use in other products.

There are only a handful of cranberry processors or handlers who purchase cranberries directly from producers and OSC is the dominant company among them, accounting for about 80 percent of raw cranberry in-take. Others are NCI of Wisconsin Rapids, Wisconsin, Decas Cranberry Sales, Clement Pappas Company Inc. and Cliffstar Corporation. A number of other companies are involved in purchasing either raw or processed cranberries from the primary handlers to further process or use in other products. For example, Welch Foods, a major fruit juice processor, purchases cranberry concentrate for the production of juice and juice blend products.

Ocean Spray Cranberries also dominates cranberry beverage processing, controlling about 80 percent of the U.S. cranberry beverage market, with 65 percent being its own products and the remainder sold to the trade. Sitting in distant second position with about 6 percent of total beverage production is NCI. The balance is distributed among the rest of the processors in the industry.

Exhibit 6. Cranberry Product Categories



Market conditions have contributed to significant competition among the principal processors in the domestic market. Northland Cranberries, Inc., a former member of OSC, rescinded its membership in 1987 and became the largest single supplier of raw cranberries to OSC. After it grew into a processing company, NCI started taking market share away from OSC in both the industrial and the beverage markets. At the height of the cranberry price decline in 1999, NCI introduced “27% cranberry juice content” across all its blends as it sought new and innovative approaches to address the cranberry supply glut as well as take advantage of recent medical research results indicating the health benefits of cranberry juice. The “27%” was based on the research studies showing that maximum nutraceutical results were obtained at that concentration level. However, given its relatively small size in the market, the ability of NCI’s efforts to alter the situation was effectively minimal. Ocean Spray Cranberries saw this effort from a completely different angle: that the surplus situation in the industry engendered a price war that exacerbated the profitability problems confronting the industry.

Despite the decline in the industry’s inventory situation (Exhibit 7) from about 4.3 million barrels in the fourth quarter of 1999 to about 2.4 million barrels in same quarter in 2001 (comparable to pre-1999 year-end inventory levels), prices are not yet where they were prior to the 1999 crash. This may suggest that the price crash was not solely a problem of supply glut and that there were other factors, such as competition from other beverages. If this is the case, then OSC and the rest of the cranberry industry have to find new and innovative approaches to enhance the market position of cranberry products to achieve prices resembling those in the early 1990s. For OSC this means the challenge to improve grower-members’ confidence through price improvement is critical, but it may require some radical innovation to reach a semblance of the prices enjoyed prior to the 1999 crash.

Exhibit 7. Industry Total Inventory Situation by Operating Quarter (1998-2001)

Crop Year	Q1	Q2	Q3	Q4
	Sept-Dec	Jan-Mar	Apr-Jun	Jul-Aug
1998/99	5,941,761*		3,582,156	3,107,366
1999/00	7,372,954	6,111,062	4,834,446	4,273,067
2000/01	8,053,917	5,818,006	4,343,779	3,658,342
2001/02	6,390,224	4,626,388	3,351,757	2,445,083
2002/03	6,624,568	Not available	Not available	Not available

*For 1998 and 1999, Q1 and Q2 represented September 1-January 31 and February 1-April 30 respectively.

Source: Cranberry Marketing Committee (www.uscranberries.com)

The Retail and Distribution Sector

The retail sector maximizes sales revenue per linear foot of shelf space. Products that command high revenues per foot of shelf space are allocated longer shelf space. Therefore, retail management strategy is to minimize product sourcing costs and maximize product turnover. Minimizing procurement costs has led many retailers to develop specific relationships and/or agreements with various suppliers and suppliers with multi-product lines that have consistently maintained a competitive advantage in these relationships. Thus, suppliers that can promise a “one-stop shopping experience” for retailers will continue to enjoy an advantage over single-line or single product suppliers. From that perspective, the ability to develop deep distribution and retail channels is critical for success.

The fruit beverage category comprises two broad segments: fruit juices and fruit drinks. Fruit juice accounts for about 60 percent of the category and fruit drinks account for the difference. The category is the third largest in the beverages market in terms of market share, ahead of beer and behind milk and carbonated soft drinks (Exhibit 8). It is also one of the fastest growing categories in the beverage market. For example, the volume of shelf-stable fruit beverages increased at 4.5 percent per annum between 1996/1997 and 2001/2002, with the exception of 2000/2001 when there was a contraction of about 0.4 percent (Beverage Marketing Corporation, 2002).

Exhibit 8. Distribution of Retail Market Share for Beverages, 2000

Product Category	Market Share
Carbonated Soft Drink	38.9
Milk	23.8
Fruit Juices/Drink	15.9
Non-carbonated Soft Drink	8.2
Bottled Water	6.7
Beer	5.5
Liquid Tea	1

Source: Beverage Digest (www.beverage-digest.com), 2002

Cranberry beverage products — juice and juice blends — compete for shelf space with all other beverages, but especially with non-carbonated drinks. The channel is controlled by the big soft drink distributors: Coca-Cola Company, PepsiCo and Cadbury-Schweppes and its US subsidiary,

Dr. Pepper/Seven Up because they control multi-products suppliers and have the marketing resources to support the products they distribute through retailers. The extent of concentration in this segment is illustrated by the fact that OSC, with its 2.3 percent market share in the non-carbonated soft drink market, is among the top ten companies (Exhibit 9). Although there is no current data on the distribution of the market share, the acquisitions the top three companies have made since 2000 will suggest that while the top section may not be very different, the share attributable to the bottom section may have undergone some significant changes.

For example, Cadbury Schweppes acquired Snapple Beverage Group from Triarc for \$1.45 billion in 2000, offering it increased access to the US market and the non-carbonated beverage market. It also acquired Nantucket Allserve, Inc., a leading fruit-content juice producer, which was 80 percent owned by OSC. These acquisitions increased Cadbury-Schweppes' market share relative to OSC. Likewise, PepsiCo's relative market share with respect to OSC increased with its acquisition of South Beach Beverage Company, manufacturer of the teen-focused SoBe fruit-flavored energy drinks. PepsiCo's relative market share position further increased with its acquisition of Quaker Foods and Beverages, which owned the Gatorade line and brand, giving it increased complementary products in its beverage business, and its acquisition of Tropicana Pure Premium, the third largest brand after Coca-Cola Classic and Pepsi-Cola, from Seagrams. All these initiatives by the big distributors presented strategic repercussions for "single product" companies such as OSC. As competition for shelf space increases, the ramifications of these repercussions amplify, and for a company such as OSC that represents a major segment of the cranberry industry, it means a big segment of the whole industry feels the effects.

Exhibit 9. Market Share Distribution for Top-10 U.S. Non-Carbonated Soft Drink Companies

Company	Market Share
Coca-Cola	25.5
Quaker Oats	20.0
PepsiCo	16.0
Triarc	7.9
Cadbury	5.9
Arizona	2.8
Ocean Spray Cranberries	2.3
SoBe	2.0
Proctor & Gamble	1.9
Veryfine	1.3
Others	14.4

Source: Beverage Digest (www.beverage-digest.com), 2002

The Company

Ocean Spray Cranberries is a Delaware-registered agricultural cooperative with its headquarters in Lakeville-Middleboro, Massachusetts. Its history dates from Marcus L. Urann, a cranberry grower from South Hanson, Massachusetts, who began canning cranberries and selling them under the "Ocean Spray" trademark (Hyson and Sanderson, 1945). His success led to entry by other growers and canners and the need to develop an organization to stabilize the market and protect prices. Three of the leading cranberry producers with processing capacity pooled their

resources together in 1930 and created Cranberry Cannery, Inc., organized as a cooperative, to handle only the cranberries of its members, pooling all cranberries that are delivered by members and making payments based on pro rata of the deliveries. It started off processing shelf-stable cranberry sauce and became the first producer of cranberry juice cocktail in 1930. Cranberry Cannery grew quickly, changing its name to National Cranberry Association from 1944 to 1959 after it entered into membership contracts with other companies such as New England Cranberry Sales Company, the Growers' Cranberry Company of New Jersey and the Wisconsin Cranberry Sales Company which required each of these to deliver at least 10 percent of production of its members. The current name, Ocean Spray Cranberries, was adopted in 1959.

Diversifying away from sauces was a result of adversity. The Secretary for Health, Education and Welfare announced just before the 1959 Thanksgiving that a new pesticide used in cranberry production might be a carcinogen (Stevens, 1996). The potential financial implication of this statement on a company that made 80 percent of all its income from cranberry sauce was clear and present to all those associated with the company. Ocean Spray Cranberries set about reinventing the cranberry by expanding its presence in consumer-ready as well as industrial products. It started blending cranberry juice with other fruit juices, coming out in 1963 with its cranberry-apple blend it called Cran-Apple™. In 2001, it introduced the White Cranberry juice drinks and added two new flavors of Craisins® Sweetened Dried Cranberries, introduced in 1995 and has enjoyed sustained success.

Until 1976, OSC's membership was limited to cranberry growers in the five principal producing states. However, it expanded its membership in that year to include grapefruit growers in the Indian River region of Florida and started bottling and marketing grapefruit juice and blends under its brand. The company currently controls about 80 percent of the cranberry industry in North America, with about 900 cranberry grower-owners (750 cranberry growers and 150 citrus growers) in the U.S., and 100 in Canada. Ocean Spray Cranberries also had made investments in Cranberries Austral, S.A., a small Chilean company, thereby expanding its reach in its bid to maintain leadership in cranberry procurement, processing and marketing. The largest 50 of its grower-members account for about 65 percent of its cranberries supply.

The glowing success of the cranberry industry fueled innovation at OSC but it also fueled the development of competitors. It was during the tenure of Jack Llewellyn as the President and CEO (1986 to 1996) that competition really started mounting for the cooperative. Growers started leaving to develop their own marketing organizations or build processing facilities. These organizations began recruiting growers away from OSC to meet their own increasing demand for cranberries. The number of cranberry bogs outside OSC more than doubled from 1990 to 1996 and companies such as NCI, Decas Cranberry Sales, Hiller Cranberries of Rochester and Cliffstar Corp. of New York emerged and started growing. To his credit, Mr. Llewellyn had noted the changes in the industry and the challenges they presented to OSC a few years before the crash of 1999 when he observed that “. . . back in the early to mid-90s it became very clear to us that the pricing of cranberries as commodities had reached a point where it was going to be difficult to continue to push it up” (Estrella, 1996).

Ocean Spray Cranberries employed 2,000 people worldwide. This was a relatively smaller size than the number of employees it had before it started rationalizing its workforce in 1999. Current sales per employee were estimated at about \$565,000 on a gross basis, which compared with Coca-Cola's \$544,500 and is more than twice PepsiCo's sales per employee of \$200,000

(Wilkins). It has eight plants across the United States, seven of which process cranberries and one grapefruit processing facility in Vero Beach, Fla. The seven cranberry processing facilities' locations and principal activities are as follows: Middleboro, Massachusetts (juice concentrate, flavored drinks, fresh fruit packaging and distribution); Carver, Massachusetts (receiving plant); Bordentown, New Jersey (flavored drinks, bottling and distribution); Henderson, Nevada (flavored drinks, bottling and distribution); Sulphur Springs, Texas (flavored drinks, bottling and distribution); Kenosha, Wisconsin (juice concentrate, fresh fruit receiving); and Markham, Washington (juice concentrate, flavored drinks, fresh fruit packaging).

The Kenosha plant is processing the white cranberry juice that the company introduced in 2001 and has also benefited from a \$7 million expansion to facilitate its processing capacity for white cranberries. Its warehouse has increased its efficiency significantly through investments in information technology to help with inventory management and traceability. With the elimination of manual recording of code dates on the cases and the introduction of wireless technology, cases per labor hour increased from 451 to 550 and volume shipped increased by 1.8 million cases a year with 2,200 fewer labor hours (Chalmers Publishing). The Kenosha warehouse also experienced improved inventory management, leading to the elimination of its dependence on a third-party warehouse that had been used to house an overrun of pallet loads.

Ocean Spray Cranberries Operates as a Cooperative

Ocean Spray Cranberries processed and sold the cranberries and citrus grown by its producer-members who were required to deliver the fruit to OSC for processing and handling. It returned to the shareholders their proportional share of pooled net revenue obtained from the sale of the fruit less administrative and sales expenses. Because cranberry and citrus concentrate could be stored in barrels and frozen, the total value of an individual year's crop usually took between 18 months and two years to determine. Thus, producers paid their production expenses, gave their fruit to OSC, and waited for their revenues after the products had been sold. The agreement was called a "Cooperative Marketing Agreement."

Many of OSC's members were small and operated third or fourth generation cranberry farms. As part of the CMC, OSC was allocated a handle quota (a maximum production it can handle) and it allocated this to its members based on their commitment to supply. This quota agreement is called a "Common Stock Equity Quota." If a producer did not supply their quota, OSC could redeem the producer's equity shares at a price below their actual worth and reallocate the quota. This imposed a certain degree of discipline in the supply relationship between OSC and its grower-members that was nonexistent in most businesses that operated as a cooperative. Ocean Spray Cranberries stock's par value is \$25 per share and one share equaled one barrel of cranberries. The shares of a grower who did not deliver a crop in three years are redeemed at the specified par value plus any accumulated allocated earnings. In recent years, the asset value of OSC's shares had been estimated at about \$250, making it extremely punitive if a grower has to relinquish them at the par value.

Organizational Changes

Tom Bullock was Jack Llewellyn's Vice President and had been with him since the beginning. He was chosen to fill the President and CEO position when Jack retired in 1996. Tom inherited a company in the midst of massive institutional and industrial change — competition, surpluses, low prices and low morale among both growers and employees. Starting in 1999, the company underwent significant reorganization that involved the elimination or changes in about 100

executive positions. These changes culminated in the retirement of Tom Bullock in December 1999.

The President and CEO position was separated and Robert Hawthorne, with 24 years of experience at General Mills and Pillsbury, took over as CEO in January 2000 and Randy Papadellis, known for his marketing and sales performance at Welch Foods, became President and Chief Operating Officer in July 2000. Ocean Spray Cranberries recruited Timothy Chan, formerly with Pillsbury Brands Group and grocery division of the Campbell Soup Company as the Chief Financial Officer. On the governance side, the company brought on a former General Mills and Pillsbury executive, Jerome Jenko to the board. Additionally, Columbia University Professor and former Tropicana and Seagram's executive William Pietersen and Barbara Thomas, an executive from Warner Lambert, and a career experience spanning Procter & Gamble, Nabisco, and Pillsbury, were added to the board. This was in line with a decision by the OSC board to reduce its size from 25 to no more than 15, and bring in three outside directors. The new direction of the company was well-defined given the backgrounds of the three new top executives that were hired and the new board members.

The new executive team focused immediately on new product development and on the company's finances, developing and implementing new strategies to enable OSC to improve its financial performance (Exhibits 10 and 11). The company performed well in 2001 with a 95 percent increase in net earnings, 87 percent decrease in cost, and a \$108 million increase in free cash flow. Some of this increase was due to changes in the way inventories were valued, which has changed since the 2001 annual report. It was also able to reverse the decline in sales of 64 ounce beverages and improve the market share situation. The new management team also introduced 42 new products (Stock Keeping Units or SKUs) in its first year and launched the White Cranberry Juice drinks in both the United States and Canada, committing \$30 million to its marketing and promotion that used all media including TV, which was something OSC had not done for a number of years. The team also invigorated the declining OSC Light juice drinks by reformulating and repositioning them, resulting in a growth rate of 60 percent by the end of the year from its negative growth rate of 40 percent a year earlier. Ocean Spray Cranberries white cranberry juice was also launched in the United States and Canada in 2001 and it experienced sales in excess of \$100 million in the year of introduction.

There was a concerted effort to increase export sales and the company expanded its presence in China and increased international sales to \$211 million or 16 percent of total sales in 2001. There had been developments in growing the European market, particularly U.K., and the new management initiated efforts to expand the successful white cranberry juice into that market. On the technology front, the company improved its SAP enterprise-wide resource planning system, significantly improving on-time delivery and order fill rates while minimizing inventories.

Ocean Spray Cranberries mission was to "Deliver consistent profitable returns to our grower members." Its vision was to be "Best juice company in the world" through a strategy of "Building our brand (through innovation)."

Exhibit 10. Ocean Spray Cranberries' Income Statement (1996-2001)

Income Statement (\$ million)	2001	2000	1999	1998	1997	1996
Revenue	1,103.84	1,381.95	1,338.48	1,445.91	1,402.80	1,400.28
Cost of Goods Sold	712.39	750.82	727.23	711.31	720.93	748.08
Gross Profit	391.45	631.13	611.25	734.60	681.87	652.19
SG&A Expense	174.24	455.78	384.09	374.56	328.18	328.64
Depreciation & Amortization	52.26	50.20	61.48	58.26	52.97	49.81
Operating Income	164.95	125.15	165.68	301.78	300.72	273.74
Total Net Income	142.95	73.49	134.89	280.04	273.25	249.61

Source: Ocean Spray Cranberries, Inc.

Exhibit 11. Ocean Spray Cranberries Balance Sheet (1996-2001)

Balance Sheet (\$ million)	2001	2000	1999	1998	1997	1996
Cash	29.44	11.04	13.56	5.06	8.02	6.29
Net Receivables	147.41	128.72	186.56	194.50	167.58	166.68
Inventories	226.04	254.56	220.82	222.95	185.43	184.92
Prepaid Expenses	5.48	7.37	15.08	7.02	5.44	4.26
Deferred Income Taxes	9.19	6.72	3.71	0.68	1.68	2.32
Total Current Assets	417.56	408.40	439.72	430.21	368.15	364.47
Total Assets	893.23	927.73	959.06	927.91	778.16	743.95
Short-Term Debt						
Total Current Liabilities	210.23	270.51	270.21	327.60	244.82	248.17
Long-Term Debt	349.80	332.23	337.01	378.71	288.99	244.05
Total Liabilities	560.03	602.74	607.22	706.31	533.81	492.22
Total Equity	333.20	324.99	351.84	221.60	244.36	251.72

Source: Ocean Spray Cranberries, Inc.

Marketing and Distribution

The company's marketing has been reorganized into three groups, each focusing on a well-defined customer or market segment: technology, food service, and international. Ocean Spray Ingredient Technology Group is organized as a product development resource for the food industry and other commercial clients. Its mission is to apply technology in the development of fruit ingredients for its clients. In this sense, the OSC Ingredient Technology Group is a product development resource for the company's industrial clients, using the more than 50 years of experience and knowledge generated from testing thousands of ideas on translating fruits into food products. Its clients include such companies as Kellogg's, Campbell Soup, General Mills, and Pepperidge Farms. The Ingredient Technology Group seeks to increase the use of cranberries and cranberry products in food and beverage innovations undertaken by the food industry.

Ocean Spray Foodservice segregates its market into four principal segments: bars and restaurants, hotels and lodgings, hospitals and cafes and food courts. Regardless of the segment,

Ocean Spray Foodservice focuses on providing service and recipe innovation ideas, from dispensing fountains to recipe development and presentation formats for mixes and new drinks. The foodservice market is a growing market for branded OSC products because the company has traditionally supplied this market with bulk products in generic containers.

Ocean Spray Worldwide oversees the distribution of OSC's products throughout the United States, Canada and the rest of the world. The division is organized into five groups, U.S.; Canada; Europe/Middle East/Africa; Asia/Pacific; and Latin America and the Caribbean. Each of these groups has a central point of contact to facilitate effective information and product movement. The division also oversees product promotion and advertising in the different regions, ensuring that advertising messages and promotional relationships are structured to deliver the expected results of improved sales and increased profitability. There are a number of country representatives in each region. For example, there are 13 country representatives in the Europe/Middle East/Africa group and customers have the option of dealing with a representative close to their home country.

With the saturation of the retail market with juice drinks, OSC's strategy is based on a new marketing campaign for its cranberry juices, mixes, and blends. It is also looking at other categories such as snacks, fruit roll-ups, and desserts. The company planned launching 34 new products in 2002 and 38 more in 2003. Additionally, it is seeking to enhance its competitiveness through innovation in containers. For example, it launched its new Ripple Grip™ rectangular bottle for its 64-ounce juice and juice drink lines in August 2002. The new bottles are deemed to be easier to hold and pour from and fit better on grocery store shelves and in refrigerator doors. Ocean Spray Cranberries expected to convert the entire 64-ounce juice line to the new Ripple Grip™ rectangular bottle by the end of 2002.

Ocean Spray Cranberries formed a strategic alliance with Nestlé in early 2002 to reap processing, logistics and raw material and packaging purchasing economies of scale. The Nestlé alliance involves the transitioning of Nestlé's manufacturing of its Libby's Juicy Juice and Libby's Kerns Nectars to OSC facilities. Additionally, the companies will pursue collaborative procurement of common raw inputs, packaging materials, operating supplies and share logistics to increase process efficiency throughout their supply chains. This alliance is important for OSC because of the access it provides to Nestlé's capabilities and the possibility of opening the door to Nestlé's distribution channels in the future. Given the current handicap of a small product slate, the alliance with Nestlé presents an opportunity for OSC to leverage off Nestlé's product slate and minimize its marketing costs.

Challenges in the 1990s

The 1990s at OSC may be seen as the period that the company was challenged for the first time "to justify its existence." Until then, it had held a near monopoly position in the cranberry industry and the market had been big enough to accommodate any of the small competitors that emerged on the fringes. In general, cranberry prices had been strong and production had been growing steadily and grower-owners were comfortable with their financial rewards from cranberries. The challenges confronting OSC in the 1990s may, however, be divided into two categories: internal organizational challenges and external challenges.

The external challenges had started prior to the 1990s and were a result of the cumulative success of the company and its efforts at growing the cranberry market. First, the amount of cranberry

acreage outside OSC doubled between 1985 and 1995. Next, there was a steady growth in the demand for cranberries and cranberry products outside OSC. Llewellyn estimated this demand in 1996 as growing between 2 percent and 2.5 percent (Estrella). These were symptoms of the emerging competition that former grower-owners were presenting to OSC.

Northland Cranberries, Inc.

Consider NCI, for example. Northland Cranberries, Inc. was formed in 1987 when five individual grower limited partnerships were consolidated into NCI, which secured a three-year contact with OSC to purchase its cranberries. It went public on NASDAQ in 1987 and used the proceeds from the initial public offering to expand its cranberry growing facilities, becoming the largest cranberry grower in Wisconsin. By 1993, NCI had acquired several other growers to become the single-largest grower-member of OSC. It then elected to leave OSC and assume the responsibility of selling its own cranberries and became a processor. Northland Cranberries, Inc. constructed a \$5 million receiving, processing, storage and packaging facility in Wisconsin Rapids, Wisconsin, and introduced its own branded line of products, the Northland[®] brand of fresh cranberries to supermarkets across the country and started building brand equity.

Northland Cranberries, Inc. experienced rapid growth in the early to mid-1990s and introduced its Northland[®] 100% juice cranberry blends in Wisconsin in 1995. These included cranberry raspberry, cranberry apple, cranberry grape, cranberry cherry and cranberry strawberry. In 1998, it acquired Minot Food Packers and the juice division of Seneca Foods Corp. The Seneca deal offered NCI significant access to regional brands and distribution channels. By the price crash of 1999, its national supermarket market share was estimated at double digits. As a result of medical research results showing that cranberry juice at 27 percent concentration contributed to the control of urinary tract infections, NCI reformulated its 100% juice cranberry blends to achieve 27% juice content across the entire line. Another more urgent rationale may have been the need to address the supply glut problems that were confronting the industry at the time. It sold its private-label juice business to Cliffstar Corp, another cranberry processor, and consolidated manufacturing operations.

Thus, by the mid- to late-1990s, it was becoming clear that OSC was losing its monopolist's ability to hold the "umbrella over the industry" , i.e., controlling supply in ways that ensured stability and growth in the cranberry industry. At the same time, it was beginning to lose market share to some of these new companies on both sides, cranberries and store shelves. To defend itself from these external challenges, OSC encouraged new producers to join the company and for existing growers to expand production in anticipation of growth in demand. Since then prices had plummeted as acreage expanded and new cranberry processors entered the industry in addition to the emergence of competing fruit juices. Yet, it is possible that these external developments and OSC's response to them defined the internal challenges that emerged in the 1990s.

PepsiCo Relationship

Another external challenge that confronted the company during the 1990s was its relationship with PepsiCo. Since 1992, PepsiCo had been the exclusive distributor for OSC's single-serve (less than 20 ounce) products, a line that generated about \$225 million or about 25 percent of OSC's total revenues by 1997. The arrangement allowed PepsiCo company-owned bottlers to cease handling juices of competing companies such as Welch's and Mott's. Ocean Spray Cranberries products also enjoyed the spillover benefits of PepsiCo's promotion, shelf space

purchasing and other services PepsiCo developed to support its own products. The value of the channel access that PepsiCo provided OSC has not been estimated but from all perspectives, it was significant.

In 2000, PepsiCo bought Tropicana and its line of juices. The distribution agreement with OSC included a no compete clause and it sued PepsiCo to prevent the acquisition. In the suit, OSC argued that the acquisition of Tropicana altered PepsiCo's incentives in pricing and promoting its products covered in the 1992 distribution contract. Ocean Spray Cranberries described it as a "conflicting incentive," i.e., successful promotion of OSC takes sales away from Tropicana, in which PepsiCo has an economic interest. But it was argued that the "conflicting incentive" argument was at best weak because PepsiCo's bottlers were compensated on the basis of percentage of sales and that PepsiCo had an incentive to ensure its customers were content by providing them with the breadth of products it has access to. The presiding judge denied OSC's request for an injunction and an appeals court affirmed the lower court's decision.

For OSC, the loss of the distribution relationship with PepsiCo technically presented a major loss of cheap access to the distribution channels and placed it in direct competition with PepsiCo in the fruit juice and juice blend markets. With its control of South Beach Beverage Company and Tropicana (the No. 1 producer of chilled orange juice), PepsiCo now had products that it could push directly against OSC in the distribution channels.

Sell the Company?

Ocean Spray Cranberries internal challenges emanated as a result of the company's attempts to address the external challenge presented in the "defections" of members to competing companies and maintain its market share. Management in the mid-1990s started considering some innovative approaches to increasing growers' return for their cranberries. For example, there was talk about spinning off parts of the company and taking it public, thus allowing grower-owners to cash in their stock. As a result of these conversations and the crash in cranberry prices in 1999, grower-owners began lobbying management to consider: (1) selling assets (specifically spinning off the branded juice operations); (2) merging with another firm; or (3) liquidating the company. Either of these alternatives would allow existing shareholders to benefit equally. Three consultants were hired, Dr. Ray Goldberg, a professor at Harvard Business School, Bain & Co., a financial consulting firm, and Merrill Lynch, an investment banking firm — to analyze the options and present recommendations. The professor advised management "run, don't walk" to talk to a strong buyer or merger partner.

Bain & Co. advised that a sale was advisable and appropriate because the juice operations had synergistic potential with prospective buyers. Merrill Lynch recommended that a sale or merger be pursued and recommended potential buyers for the fruit juice operations. It also indicated that OSC could expect \$350 per share (\$270 after debt payment), implying more than five times the value of the \$25 par value stock. However, Merrill Lynch also pointed out that its valuation of the company was based on cranberry prices at \$35 per barrel, and every \$5 movement in the price was expected to have a \$200 million or \$37 per share effect. It has been suggested that in its report, Merrill Lynch identified 13 potential buyers and indicated that they had a high degree of interest in a potential deal and that after the report was submitted, several firms interested in OSC's juice business contacted the company directly seeking to open lines of communication for a possible deal. Ocean Spray Cranberries value during this time was estimated to be between \$1.6 and \$1.8 billion. For a cranberry grower with 100 OSC shares and a market that was paying

about \$11 per barrel at the time, the opportunity to be relieved a little as a result of the liquidation event, even if it had depreciated from its original \$35 benchmark, was attractive.

The OSC Board voted 13 to 11 in November 1999 in favor of a resolution to not sell the branded fruit juice business and designated the consultant's reports as confidential. A grower-owner conducted a survey of other grower-owners and found 64 percent of the respondents favored some form of strategic merger for the branded juice business. The company commissioned a follow-up survey in early 2000, conducted by a Cornell university economist, Dr. Bruce Anderson, which found that many growers were critical of management and some favored a merger. However, the results were criticized because it was argued that producers were not given the information on the value of the company as estimated by the consultants.

Governance Issues

The board of directors proposed and passed a resolution that reduced the number of directors to no more than 15 and another resolution that would enable the board to remove a director without cause. This led to the resignation of several directors. The effect of these internal challenges was that at the 2000 annual meeting, members found themselves voting on two sets of directors along with these two resolutions. One set of directors was nominated by the traditional nominating committee while another set of directors included some of the former board members that had resigned. Both resolutions passed and the nominating committee directors were elected. The new directors comprised 11 of the largest OSC members and three outsiders.

Soon after the 2000 annual meeting, the new CEO, Robert Hawthorne announced that the 1998 pool was expected to be between \$18 and \$22 per barrel and the 1999 pool would close below \$20 a barrel. However, the 1999 pool closed at \$10.75, the lowest price received by OSC growers in recent memory. Management indicated that it would take another five years before prices were \$35 a barrel again. For many of OSC's small grower-owners, this forecast was unacceptable since they were small producers who could possibly not sustain several years of prices below production costs. The principal constraint on them was the fact that not producing their quota allotment for three years would cause them to forfeit their investment in OSC for \$25 stock par value. Furthermore, they were obligated to continue producing their quota even though the prices they would receive for their crop were far below their production costs. This is why many saw the developments within the company as anti-small grower-owners and pro larger grower-owners. Thus, the company that had represented all cranberry growers for more than six decades was now fractionalized.

The 2001 annual meeting was a particular watershed in the internal challenges confronting the company because of the rancor that it generated. A group of grower-owners, including J. Garfield DeMarco (the third largest grower-owner of OSC, holding about three percent of OSC, and the first director to be unseated under the new rules established in 2000) brought a legal action, which was dubbed the "Massachusetts Action," against the company and its board of directors in November 2000 to force the company to place on the 2001 Annual Meeting agenda a resolution that directs board members to determine the structure of a merger and the likely value to be derived from such an action. The action was later withdrawn without prejudice because the action was placed on the agenda prior to the case being heard. The consultants' reports became a sticking point because several grower-owners demanded to see them but the board argued that they were confidential. In the final analysis, management made presentations on the reports at the 2001 Annual Meeting and a vote was taken on the resolution the plaintiffs have sought.

In a 2:1 vote at the 70th annual meeting in San Diego, California in January 2001, the grower-owners rejected resolutions calling for the company's board to explore a sale opportunity. The vote did not end the sale/merger issue because there were accusations that the board and management were not forthright in their presentations about the consultants' reports, information that grower-owners needed to make informed decisions about their financial futures. Those in favor of a consideration of a sale option, led by the plaintiffs in the "Massachusetts Action," accused the board of creating "a privileged class of shareholder," able to weather the current industry crisis and benefit from future higher prices resulting from decreased supply, as well as lower bog land prices resulting from grower bankruptcies emanating from the current economic realities in the industry. Thus, the pro-merger/con-merger line has progressed into a "class" war and that is one that is not easily won, especially when one considers that some of the small growers are second and third generations in the business.

In September 2001, A.R. DeMarco Enterprises, Inc., (J. Garfield DeMarco's company) filed a lawsuit; the crux of which was the future of OSC: Should the company seriously entertain a merger or sale as suggested by the company's own consultants or pursue a turnaround strategy proposed by management and supported by the board? The court let stand Count I, breach of the duty of disclosure, which alleges that OSC management presented false information to shareholders with respect to the January 2001 annual meeting vote on the sale/merger of the company. The other six counts were either dismissed or considered "not yet ripe."

Ocean Spray Cranberries in 2002

With the company's internal challenges and external challenges, which were exacerbated by a fierce battle for consumer mind space and retail shelf space, the question of how effectively OSC board and management can restructure and satisfy the economic needs of its 900 member-owners remains. The expectation is that if actual production in 2002 increased and prices did not rebound fast enough, those clamoring for change at OSC would gain increased support as grower-owners' confidence in management's ability to turn the company and the growers' fortunes around become increasingly suspect. The projected price for 2002 is between \$21 and \$24 per barrel.

The big issue was whether the other cranberry competitors had the financial strength to withstand the low prices and oversupply. It was clear that exits would occur. The big issue was who would undertake the capacity rationalization needed besides OSC, and would it be enough to address the imbalance in capacity. Furthermore, the number of cranberry producers followed the 80:20 rule so common in agriculture in that a relatively small number of growers (e.g., 100 or so) provided the majority of production. There may be a government policy initiative to intervene as has been done in other industries. The federal government purchased \$30 million of products to ease the inventory problem and provided \$20 million in direct payments to growers to tie them over. Whether this will be enough to hold the industry over the next few years when it rationalizes its production, markets and other challenges remains to be seen.

It was unclear what the major soft drink companies were going to do with their fruit juice acquisitions. PepsiCo, for example, through its control of Tropicana, and Coca-Cola, through its ownership and control of Minute Maid, could be fierce competitors in the juice and juice blend space. If either of them were to acquire a processor such as NCI, it could enter the cranberry juice market directly. These major soft drink companies have superior marketing resources than

OSC and can present some more external challenges to the company. With the internal squabbles and the several years of low profitability that had depleted OSC's equity, it is doubtful if producers would be willing to put up more capital to finance any principal initiatives that might become necessary in the face of the uncertainties surrounding the marketplace. Grower-owners willingness and ability to support the company with any capital drive is limited by the rate of increase in cranberry prices.

No one had a crystal ball that could tell what the future would be for the cranberry industry. But it was clear that either the glass was half full or half empty for Ocean Spray Cranberries.

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