

Agricultural Outlook Forum 2004

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- A Cooperative Evolution - Sunkist Competes in the Global Market

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Faced with mounting competition from lower-cost offshore citrus and increased demands for specialty varieties and year-round supplies from its customers, Sunkist Growers has taken a logical, controversial, but inevitable step in strengthening its leadership position in the global marketplace. We have begun sourcing fruit from foreign producers.

It's logical....The Sunkist name has long been on hundreds of licensed products such as juices, beverages and confections in more than 50 countries on five continents. However, with the exception of some short-lived experiments, until very recently the only fresh citrus we have sold has been that produced in California and Arizona by our members.

It's controversial..... During the past decade, Sunkist and its growers have vigorously debated "going global." We are a grower-owned citrus marketing cooperative. Our mission is to provide the best returns to our growers. Many growers believe that simply means getting the best possible price for the fruit that THEY grow. But accomplishing that mission in today's global marketplace is anything but simple.

It was inevitable.... We operate in a global marketplace. consumers want it that way; retail customers demand it; U.S. politics promote it; competition drives it.

Consumers want what they want when they want it. With more than 600 produce items available every day -- all year long -- nothing is ever "out of season."

Retail customers demand it.... The massive consolidation of retailers worldwide is ongoing. Today, the top 10 retailers control 50% of the retail food business in the U.S; the top 4 control 60% in Canada and the biggest 10 control 80% in Europe. And these large, international retailers require a comprehensive package of services. Driven by the need for increased efficiency, they look to their suppliers such as Sunkist to take on the role of category managers.

This means Sunkist, as their citrus supplier, must have the ability to meet ALL their citrus needs ALL year 'round. And this year 'round role demands that we must be able to provide quality product all the time, without seasonality limits, including citrus varieties not traditionally grown by our grower-owners. This, in turn, demands that we source produce outside our historical growing areas to satisfy both the consumer and the retailer -- and not just in the U.S. but also in key markets where they operate around the world. To do our best for our grower-owners, we must satisfy these huge operators.

U.S. policies promote it -- The U.S. government's policy for trade in agricultural commodities like citrus has changed significantly. Instead of advancing export opportunities for American producers, today's agricultural trade policy is more like an adjunct to foreign policy -- offering 'trade instead of aid' to allied countries. Foreign

countries that ally with the U.S. on strategic matters are rewarded with fast and easy access to the lucrative U.S. market for their higher value agricultural products -- mainly fresh fruit and vegetables.

The Administration has signed a host of Free Trade Agreements and is proposing many more. Free Trade Agreements are tangible demonstrations that it pays to be an ally of the U.S. The rationale appears to be that giving developed and developing nations access to American consumers will help strengthen their economies, reduce dependence upon foreign aid and create new consumers for some American products.

While this may, in part, be true -- it also has many other consequences. Low-cost products, entering virtually duty free, put American producers at a substantial competitive disadvantage. For example, in the U.S. marketplace Sunkist lemons grown in California and Arizona historically command between an average of \$16.50 and \$21.00 per 40-lb carton, depending on the time of year. Lemons transported all the way from Chile earn about \$13.50 -- a substantial savings to the retailer. The major reason for the difference: the average hourly cost for farm and packinghouse labor. In Chile, it's less than \$1. It's \$16 in Sunkist country.

In addition, these new foreign consumers of American products that comprised American farmers are helping to create are much more likely to be purchasing Microsoft operating systems and Lord of the Rings DVDs than U.S. grown citrus or other U.S. produce.

In many instances, and to our frustration, there doesn't seem to be the same level of effort focused on improving access to foreign markets for our products comparable to those offered our foreign competitors in the U.S. market. The absence of reciprocity has put American fruit and vegetable growers at a significant competitive disadvantage.

Competition drives it....For several years now, our export sales to key Asian markets are feeling the effects of high quality, low cost foreign competition. Domestic sales reflect the retailers' growing interest in exotic new items and their use of imports to bring year-round supplies to American consumers. Our customers tell us they are going to buy the best product for the lowest price. They don't care where it comes from.

As most of you well know, the United States has long been a net exporter of agricultural products. Since 1996, however, the agricultural trade surplus has shrunk 60% -- from an all time high of \$27.3 billion to \$10.5 billion.

Yes, the U.S. is still the world's leading exporter of farm products. In fact, U.S. agricultural exports grew by almost \$3 billion in 2003 and higher commodity prices point to export gains this

year. But the U.S. is also the world's largest agricultural **importer**. And over the last 7 years, those imports increased by more than \$13 billion -- at nearly twice the rate of U.S. exports. Many experts predict that, if these trends continue, the current agricultural trade surplus will turn into a deficit towards the end of the decade.

This increased competition requires that Sunkist implement new strategies to maintain and enhance our market share, in both our domestic and export markets.

Almost half the produce sold in the U.S. today is grown outside our borders. With these imports, including counter-seasonal produce imports, have come many competitive challenges.

While Sunkist's 6,000-plus members own more than 175,000 acres of groves across some of the richest agricultural land in the world and while they harvest a variety of citrus products, they are limited by seasonality. With only the citrus our growers produce we cannot always supply what our customers want.

The change, though a long time in coming, was truly inevitable. While the decision to handle foreign fruit was not an easy one, as the market leader Sunkist had to respond to its customers' demand for a single, year-round supplier of citrus.

Last May our Board of Directors approved the formation of a business unit dedicated to importing citrus from offshore sources. This past summer, a limited volume of lemons and grapefruit from South Africa and Chile -- bearing the Sunkist label -- were shipped to Japan and Hong Kong. In this way, the sales of our first non-U.S.-grown fruit were test-marketed. The amount was intentionally small as this was a learning experience for us -- a series of small experiments to see what business arrangements would work best.

The first week of January, we launched our new global sourcing operation, bringing on board a produce industry veteran with many years experience in the importation and marketing of produce from Chile, Argentina, Spain and South Africa as well as exporting to Asia and other countries. His charge: to secure and deliver high quality citrus from around the world to serve our international customer network -- product that will compliment the citrus produced by our grower-owners, add value to the Sunkist brand and enhance the returns to Sunkist's membership with the benefits derived from becoming more customer-focused.

It really is all about the customer. Sunkist is the preeminent supplier of citrus in the U.S., But we have holes in our manifest we need to fill in order to provide what customers need on a year-round basis.

Our ability to truly be the leader in the citrus category, providing consistent supplies, along with our total package of marketing and logistical services, will increase our value to our customers -- and Sunkist will be able to pass that enhanced value through to our grower-owners. Because if we don't provide these services, someone else will - and its our growers that will lose.

What do we see as our first opportunities? Chilean fruit looks very promising. It appears that U.S. market will be open for Chilean clementines and tangerines by early summer and we want to be among the first to sell them. We're also looking at expanded opportunities in the late summer with Southern Hemisphere lemons from Chile and South Africa.

We're currently formulating the operational structure that will be employed and are exploring different options for offshore sourcing. The final organization could involve partnerships, export/import subsidiary companies or licensing agreements. Arrangements may differ from country to country and will be determined in a case-by-case basis. In some instances, we may market the product ourselves, while in others we may develop a licensee relationship with the supplier.

This new marketing strategy also may enable Sunkist to reestablish our prominence in the European market. There, the Sunkist name is still highly regarded but the European Community's discriminatory tariff practices and high transportation costs have kept our citrus out for many years. Soon we may be in a position to overcome those obstacles and outsource fruit into that market under the Sunkist brand.

The changes being made at Sunkist are evolutionary, not revolutionary. Over our 110-year history, we have continually analyzed its processes and implemented ways to compete more effectively in a changing marketplace. We've developed a comprehensive, worldwide marketing strategy, and now, we'll source product where the market demands, where the opportunity exists and in the end, return the profits to our grower-owners.

While the imports will increase our cooperative revenues, at certain times of year, they will no doubt also compete with our members California- and Arizona-grown citrus. Western-grown Valencia oranges already been forced by customers to take a back seat to Australian-grown navels during the mid-to-late summer. And western-grown navel oranges already face heavy competition from imported Spanish clementines during the winter season. The difference our new strategy will make is that the Australian and Spanish fruit might soon be wearing the Sunkist name-- and returning profits to Sunkist growers as well as to Australian and Spanish growers.

Inevitably, some of our traditional growers will be unhappy. The bottom line, however, is that those Australian navels and Spanish clementines are going to be in the markets anyway. It is to our growers' advantage if their marketing cooperative can exert some management control of the situation. IT is by teaming up with quality foreign producers – instead of trying to compete with them – Sunkist can truly benefit our grower-members.

The key to Sunkist's future lies in the broad base of its marketing strength and its ability to be the kind of supplier with the fruit varieties and the kinds of services today's retailers demand. In addition, Sunkist has the strength of a brand, which consumer tests show denotes quality, value, health and safety to consumers worldwide.

As a cooperative, Sunkist's charge has always been to sell the fruit its members grow today. In the long term, however, Sunkist must insure that we has the opportunity to sell our growers' fruit in the future. Would we rather not have had to make the change? Of course. Do we have a choice? No.

The Sunkist logo is displayed in a white rectangular box. The word "Sunkist" is written in a dark blue, stylized serif font. The letters are bold and have a slightly shadowed appearance. A registered trademark symbol (®) is located at the bottom right of the word.

A Cooperative Evolution

Sunkist Competes in the Global Market



Global Sourcing

- It's logical
- It's controversial
- It's inevitable



It's the future

- Consumers want it
- Retailers demand it
- U.S. policies promote it
- Competition drives it



Consumers want it

- 600 produce items
- Its all in season – all the time



Retailers demand it

- It's a small world
- A category manager's world



U.S. policies promote it

- Trade instead of aid
- Free Trade Agreements
- Unintended consequences



Competition drives it

- High quality – low cost
- Balance of trade
- The limits of seasonality



Seasonality

	JAN.	FEE.	MAR.	APRIL	MAY	JUNE	JULY	AUG.	SEPL.	OCT.	NOV.	DEC.
VALENCIA ORANGES		█	█	█	█	█	█	█	█	█	█	
NAVEL ORANGES	█	█	█	█							█	█
LEMONS	█	█	█	█	█	█	█	█	█	█	█	█
GRAPEFRUIT	█	█	█	█	█	█	█	█	█	█	█	█
PUMMELOS	█	█	█	█	█						█	█
SATSUMA MANDARINS										█	█	█
ORLANDO TANGELOS	█	█										█
ROYAL MANDARINS	█	█	█									
MORO ORANGES	█	█	█	█	█							█
FAIRCHILD TANGERINES	█	█	█							█	█	█
MINNEOLA TANGELOS	█	█	█	█								█
HONEY MANDARINS		█	█	█								
OROBLANCOS/MELOGOLDS	█	█	█	█							█	█
CARA CARA NAVELS	█	█										█
CLEMENTINE MANDARINS	█	█									█	█
DANCY TANGERINES	█	█										█



Global Sourcing



Texas Grapefruit



Spanish Clementine's



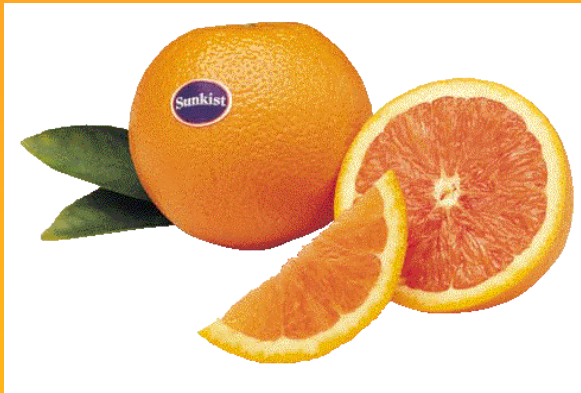
Chilean Lemons



Some Of Sunkist's Major Customers



New & Exciting Varieties



Cara Cara Navels



Pummelo's



Clementine's



Packaging



Sunkist®

