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Premier Apple Shows the Way Toward Smart Marketing!

by

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Premier Apple Cooperative held its annual forum on June 28 and 29, 2004 in Syracuse, New York. Eighty-five participants included member growers, packers, and marketers from six states (NY, PA, MI, MN, VA, and MA). Other participants included Cornell University faculty, Cornell Cooperative Extension Educators and NY FarmNet consultants, and various agribusiness personnel. The theme of this year's forum was **"Partnering for Profit."**

Since its formation in 2001, membership in Premier Apple has grown to over 100 members in eight states. Active committees include the Marketing Advisory Committee and the Quality Committee. Organization as an agricultural cooperative allows activities under the Capper Volstead Act that would otherwise be prohibited by anti-trust law. Through the cooperative, growers are able to communicate about the market, to share information about inventory concerns, and to suggest target pricing. Among the objectives for forming the cooperative were the following: to decrease market fragmentation, improve the flow of market information, and improve the level and consistency of fruit quality. The ultimate objective was to improve profitability for growers and the entire marketing chain.

What potential lessons does the experience of Premier Apple have for other commodities? The cooperative was formed in reaction to a string of bad years in the late '90s with depressed apple prices, tough competition for shelf space in the rapidly concentrating retail sector, and increasing competition from imported produce and processed products. These years

left apple growers in New York, and indeed nationally, with depressed earnings and diminished net worth, with many firms who faced the most severe financial problems exiting the industry. Are these conditions unique to the apple industry?

While the timing of the down cycle of the apple industry may not conform to the unprofitable years of other fruit, vegetable, and floriculture commodities produced in the Northeast, the factors driving the difficulties experienced by apple growers are endemic to producers of horticultural commodities. In this article, I will highlight some ideas coming out of the recent Forum that are applicable for other commodity groups.

Building Effective Alliances (and Reducing Fragmentation)

Keynote speaker for the Forum was Welcome Sauer, former president of the Washington Apple Commission until its demise in 2003 due to a negative court decision, and currently a consultant in Washington State. Sauer's compelling talk included a description of the current state of the industry in Washington State, and issues among various segments of the market (retailing, shippers, and growers) as well as global issues. Perhaps the most gripping part of his talk was the topic of building alliances for increasing critical mass and economies of scale. Sauer made the point that 10 sales desks in Washington sell about 60 percent of the Washington fresh apple crop (and Washington accounts for about 70 percent of fresh apple production in the US). In contrast, there were more apple marketers in the meeting room than in the whole state of Washington (more than 25)!

You don't need "bricks and mortar" to have an effective alliance—these Washington marketers maintain their own storages and packing lines. What is needed is an alliance based on confidence that leads to trust, communication, cooperation and collaboration. It was expressed that there is a premium for "working together as neighbors and friends rather than being competitors and enemies." Marketers on various panels at the Forum indicated that cooperation had developed to the point that they were able in some instances even to share accounts.

Marketing vs. Selling—Importance of Planning

Do you market your produce, or do you sell it? And do you know the difference? There are many differences between these two functions, but perhaps the most salient is the advance planning that goes into building success in your markets. Several marketers on a panel indicated

the extent to which planning enters into successful marketing. Bob Rigdon of Apple Acres in Lafayette, NY indicated that by early June (well before the size of the crop is even known with any degree of certainty) he and his partner, Walt Blackler, had prepared a written marketing plan that involved evaluating customers, deciding on the prospects for continuing the relationship with each customer, and assessing export markets. At the end of this process, they have a list of how many apples of what varieties will be needed for the marketing year. Meetings are scheduled with growers to review what is working and not working in the relationship. At these meetings, growers need to ask, what is the situation with my fruit—what are the strengths and weaknesses, and what can be improved? Meetings with retail customers begin in early August. This is a good example of communication along the marketing chain, from marketer to customer, and from marketer back to the supplier, that needs to occur to develop an effective working relationship.

Communication with Retailers

Changes in retailing are among the major forces determining the situation that produce marketers find themselves in. Welcome Sauer noted that retail consolidation continues to be a driving force. As a result, fewer people are making produce buying decisions. Produce managers are time-constrained. They appreciate quality, trouble-free shipments, and critical-mass supplies. Retailers like innovative products. Results of consumer research, commissioned by the New York Apple Association and the Pennsylvania Apple Marketing Program, were presented. One of the findings was that most consumers prefer to buy “large” (100 to 113 count) rather than “extra large” (72-80 count) apples. Yet retail managers tend to emphasize the extra large apples in their displays by giving them more shelf space. This was presented as just one instance of the opportunity to communicate information to retailers that would help them build sales in the apple category. Of course category management, which has been used extensively and successfully by the Washington industry, is a primary tool that involves communication with retailers, but smaller suppliers must also find ways to communicate information that will help both shippers and retailers to maximize net returns

Beyond the Bag: New Product Concepts

One segment of the Forum dealt with the topic, “Beyond the bag—packaging apples for the 21st century.” This was one of several topics that generated discussion about new products. Other topics addressing this included value added and how growers can capture a greater share of the consumer’s dollar. Kris Park of the Food Industry Management Program at Cornell University suggested that key steps in moving from a commodity to a marketing position included experimenting with new products and packaging and fitting products to changing customers and/or consumers. The poly bag has been the staple of the eastern apple industry for decades, even though no one would say that it is the most profitable pack for growers. Park made the case that new products are necessary to respond to changing consumers. Key motivators of consumers today are convenience, wellness, safety, and gratification (i.e. consumers are drawn to products that taste good and offer the feeling, “I am worth it”). A new product adjustment can be something as simple as suggesting a new use for an old product on point of purchase promotional materials. The boom in sales of fresh cut salads in the last decade is a reflection of responding to the motivators of convenience and wellness.

Some new products may respond to new technology (new packaging, shipping, and/or handling concepts such as display-ready packaging that is ready to be placed on the store shelf without further handling by the retailer). Such packaging techniques help to take advantage of new technology and to counter competitive thrusts. This is an example of a new packaging concept that appeals to the retail customer. Other product adjustment may appeal to other marketing intermediaries.

Implications for Marketers

One consistent theme that ran through the entire Forum was the rapid pace of change that has impacted retailers and all the players through the supply chain back to growers. This relentless pressure shows no sign of letting up. A colleague of mine sometimes asks commodity groups facing such competitive pressures the following question: “Are things bad enough now to force you to change?” The change necessary in most instances is the need to cooperate. Whether the best answer is a formal Cooperative, as players in the New York apple industry decided in 2001 when Premier formed, is a moot point, and so is the need for mergers and new facilities. In

many cases, building alliances and stronger partnerships are the key to survival, and hopefully prosperity, in the current extremely competitive environment.

A Final Note

The crop value for New York's 2003 apple crop was released on July 7, 2004. The New York crop was valued at \$148 million, a new record, surpassing the \$141 million attained in 1997. Part of the reason for the high crop value was a relatively small crop nationally. But Premier Apple can also claim some credit for the strong fresh apple prices that New York growers received during the past marketing year!

For more information on the New York Apple Industry strategic planning process see <http://aem.cornell.edu/research/researchpdf/sp0104.pdf>.

"Smart Marketing" is a monthly marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

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