

THE RISE AND FALL OF OCEAN SPRAY

**Monash Produce Executive
Melbourne, Australia
September 2002**



Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics. Recent reports have included an analysis of Retail Globalization: Who's Winning" and answering the question: "Will selling groceries over the internet ever work?"



The lead researcher on this report was Tim Morris, one of the founding partners of Coriolis Research. Tim graduated from Cornell University in New York with a degree in Agricultural Economics, with a specialisation in Food Industry Management. Tim has worked for a number of international retailers and manufacturers, including Nestlé, Dreyer's Ice Cream, Kraft/General Foods, Safeway and Woolworths New Zealand. Before helping to found Coriolis Research, Tim was a consultant for Swander Pace and Company in San Francisco, where he worked on management consulting and acquisition projects for clients including Danone, Heinz, Bestfoods and ConAgra.



The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*



PO BOX 10 202, Mt. Eden, Auckland 1030, New Zealand
Tel: +64 9 623 1848; Fax: +64 9 353 1515; email: info@coriolisresearch.com
www.coriolisresearch.com

Ocean Spray is both a model and a warning for those looking to create a brand in the produce industry

OVERVIEW

- I. Ocean Spray and the cranberry industry was a unique success story in the produce industry**

- II. Eventually, cranberry supply exceeded demand**

- III. Ocean Spray became a victim of its own success**

I. Ocean Spray and the cranberry industry was a unique success story in the produce industry

While cranberries have a long history, the industry only took off after value-added products were developed and Ocean Spray formed

CRANBERRY TIMELINE
(1620-1993)

- 1620** Pilgrims learn to use cranberries from Native Americans
- 1816** First cultivation of cranberries
- 1854** First census of cranberry acreage - 197 acres
- 1863** Abraham Lincoln proclaims first Thanksgiving
- 1871** American Cranberry Growers Association formed
- 1907** New England Cranberry Sales Company formed
- 1910** Cranberry Experimental Station established
- 1912** First cranberry sauce marketed by Marcus Urann
- 1930** Ocean Spray cooperative formed by Marcus Urann and next two largest growers to control prices, expand the market and develop new uses
- 1939** Ocean Spray Cranberry Cocktail introduced
- 1959** Cranberry health scare causes market crash
- 1976** Indian River grapefruit growers join Ocean Spray
- 1980's** Begin to develop export markets (now in 50+ countries)
- 1993** Number one grower Northland Cranberries leaves cooperative

Ocean Spray has a long history of new value-added product development

- **Canned cranberry sauces (1930)**
- **Cranberry juice cocktail (1939)**
- **Cran-line of shelf-stable juice drink blends (1963)**
- **Ruby-red grapefruit juice (1976; organized a cooperative of Indian River Growers)**
- **Mauna La'i range of guava juices (1985)**
- **Crasins sweetened dried cranberries (1995)**
- **Wellfleet line of pure juice blends (1998; in response to Northland)**

Ocean Spray attempted to grow the market for cranberries in any way possible

- **Attempted to use cranberries to provide the color for red M&M's**
- **"Look around. You'll find everything from cranberry salsa to cranberry smoothies, cranberry beer to cranberry barbecue sauce, cranberry vinaigrette to the Woo-Woo, a combination of vodka, peach schnapps and cranberry juice... cranberry muffins and bagels and bread and tarts, cranberry teas, dried cranberry snacks, concentrated cranberry tablets."**

Chicago Tribune 11/24/98

Ocean Spray also pursued co-branding and acquisitions

- **Innovative Ocean Spray co-branding**

Post Cranberry Almond Crunch Cereal

Nabisco Cranberry Newtons (cookies)

- **Acquired a majority interest in Nantucket Nectar line of juices**

After the health scare of the 1950's, Ocean Spray began a long term project to finance research into the health properties of cranberries, yielding excellent results

- **“Research in the 1980's has shown that cranberries interfered with the presence of bacteria in the urinary tract.”**

VP Technology, Ocean Spray

- **Cranberries contain compounds with the potential to reduce the risk of gum disease according to a study published in the December 1998 issue of the Journal of the American Medical Association**
- **Cranberries active ingredients include Alpha D-Mannopyranoside, Proanthocyanadins, Flavinols, and Benzoic Acid**

Ocean Spray encompassed many of the best elements of a grower-owned cooperative

- **“Ocean Spray requires its members to buy stock shares amounting to \$25 per barrel [100 lbs.] of cranberries they sell to the co-operative.”**

Associated Press, Mar 1999

- **“When they join Ocean Spray, growers buy shares, valued at \$25 each. Unlike a publicly held company, the value of the shares remains the same for however long the grower remains with the company. When a grower leaves the business, he or she can redeem the shares for a retirement egg.”**

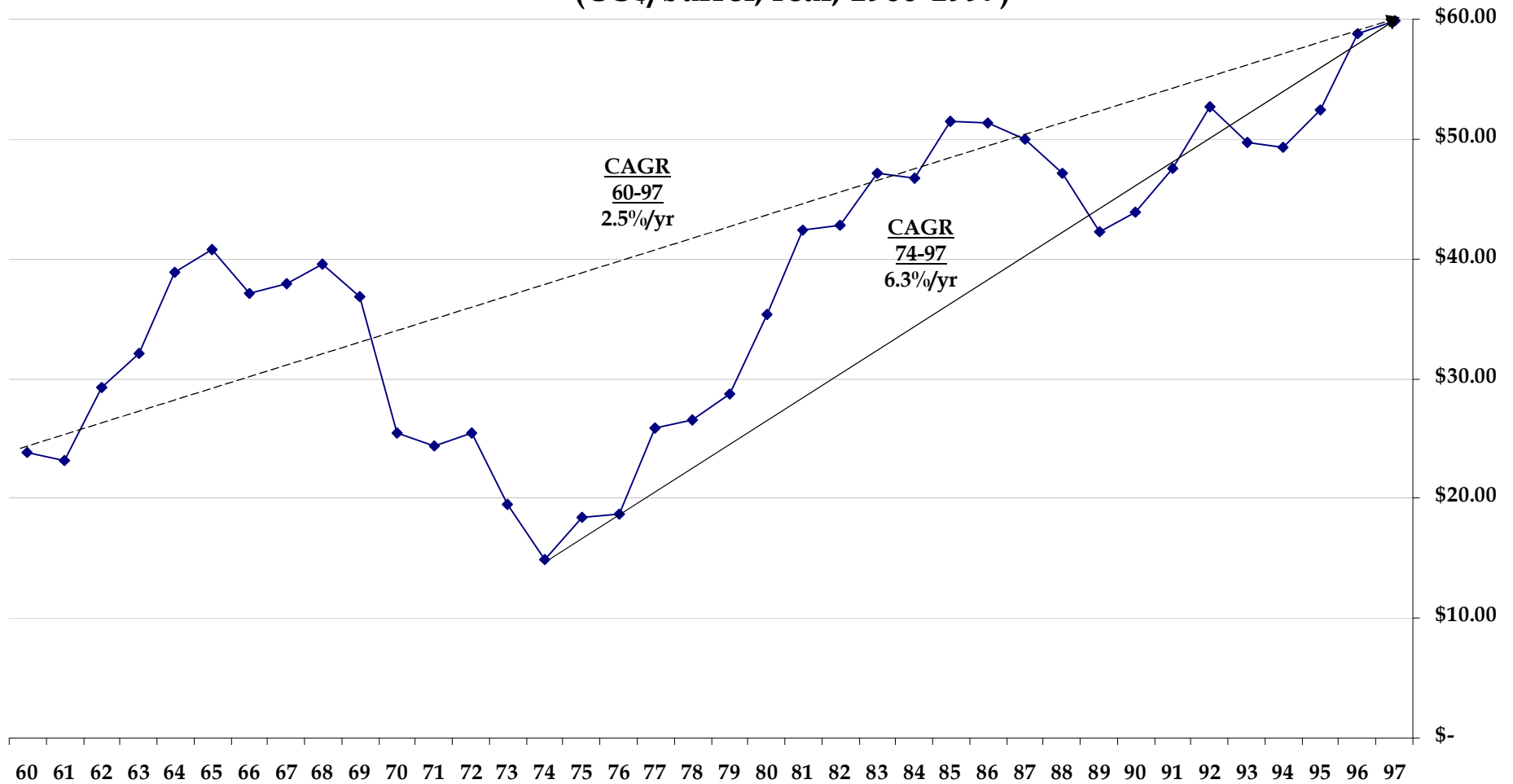
Cape Cod Times, Oct 2001

- **“The cooperative provides growers a wide range of services, encompassing production planning, pesticide and environmental management expertise, processing, marketing, distribution, new product development, and advertising.”**

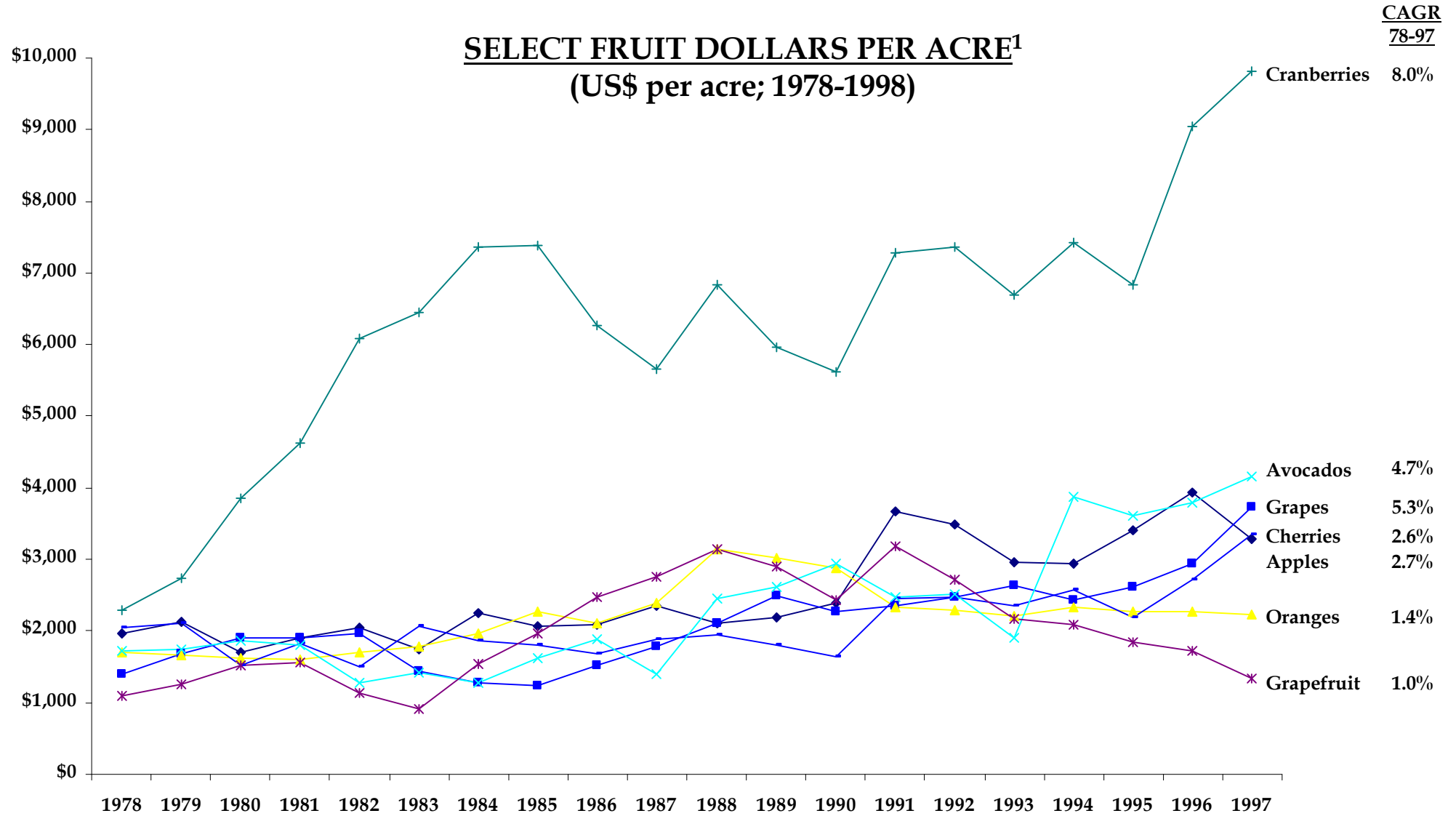
Agricultural Outlook, November 1997

Inflation-adjusted cranberry prices grew at a compound rate of 6.3% per year for almost twenty five years

INFLATION ADJUSTED DOLLARS PER BARREL
 (US\$/barrel; real; 1960-1997)



Cranberries achieved much higher returns per acre other fruit



Growers were attracted to growing cranberries by the high returns

- **“When times are good in the cranberry business even a small 15-acre, single-family farm can produce net income of \$70,000 per year... The companies farmers have come to expect consistent returns of \$60 for every 100 pounds of berries.”**

Interactive Week Jan 1999

- **“Ocean Spray broadened the category in the early and mid-1990’s, creating and marketing new products that lured more growers into the industry.”**

Chris Phillips, Spokesman, Ocean Spray

However, cranberry farming has large barriers to entry...

- **Building cranberry bogs is highly capital intensive**

\$35,000 - \$45,000 per acre in construction and planting costs

Every acre of bog requires 5 acres of upland wetlands as a reservoir

- **Equipment and technical skills were not readily available**

Bog management is difficult and requires specialized skills

Harvesting equipment is specialized and custom built, often by the farmer

- **Commercial yields are not achieved for seven years after planting**

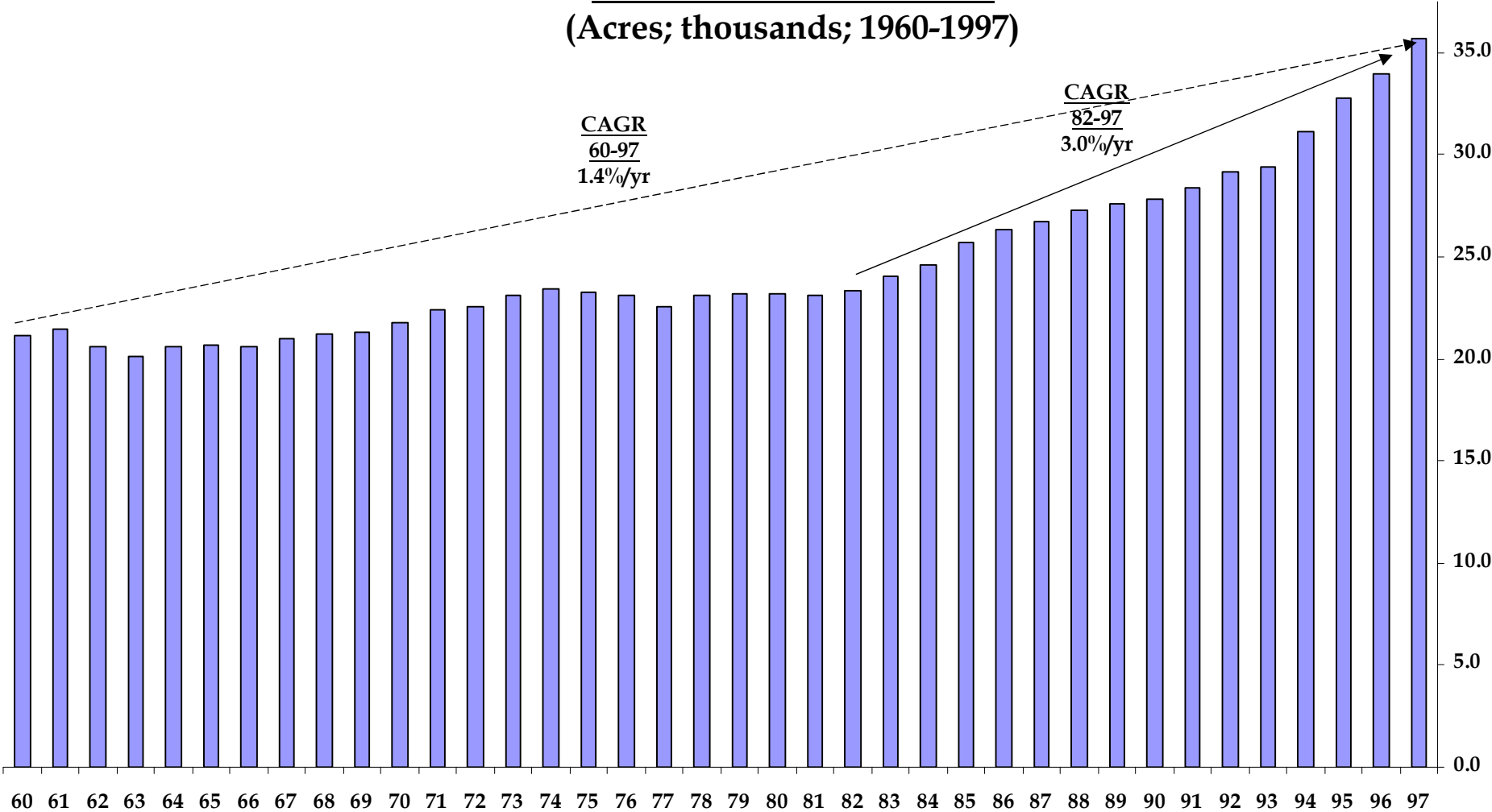
... including strong environmental regulations

- **“Building a new cranberry bed in a wetland today would violate the 1972 Clean Water Act’s wetland usage rules... As a result, cranberry producers began developing manmade wetlands about ten years ago. Virtually all expansion of cranberry acreage... has been on these artificial wetlands.”**

Agricultural Outlook, November 1997

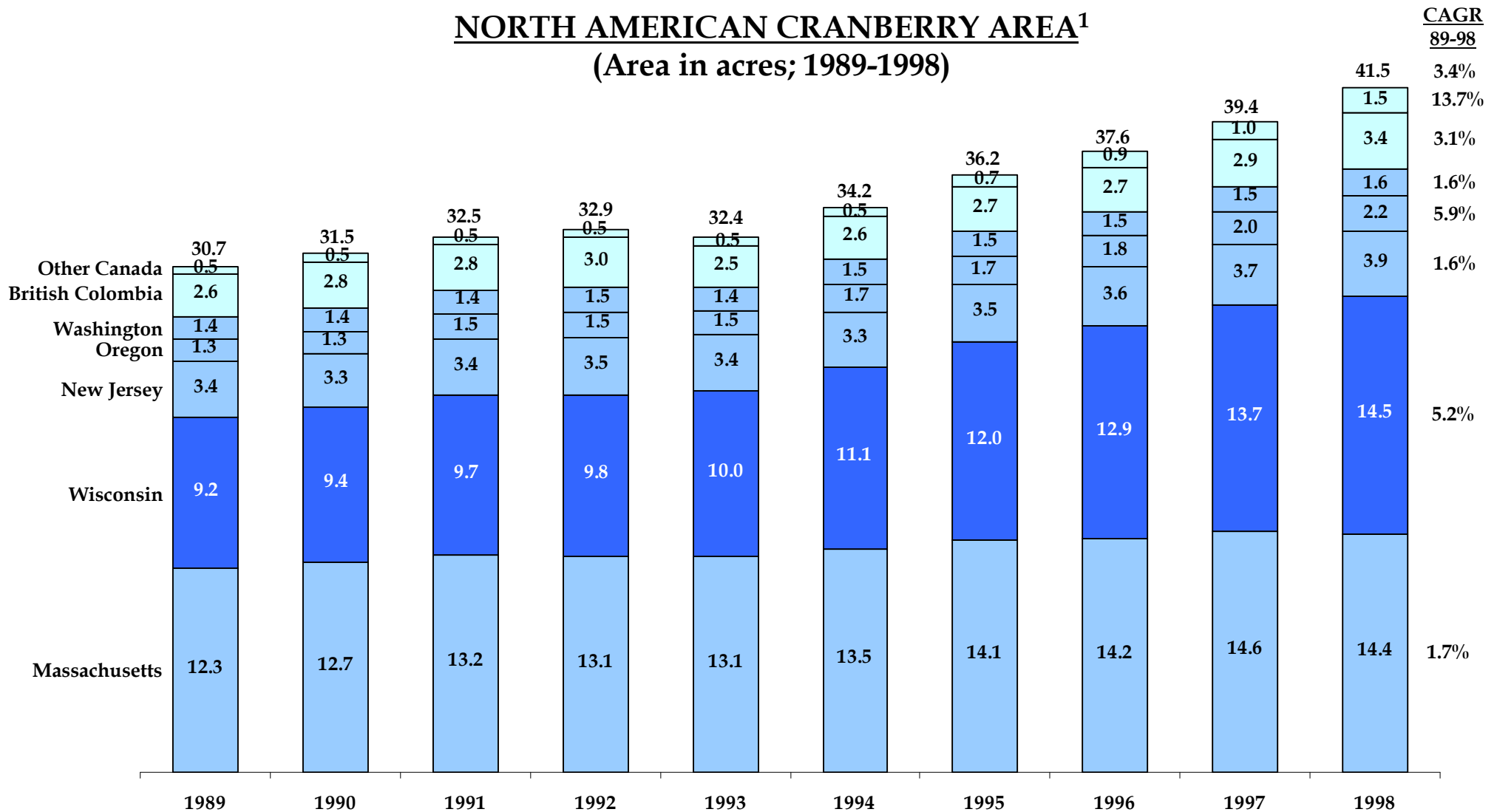
Cranberry acreage began growing rapidly in the early 1980's

U.S. CRANBERRY AREA
(Acres; thousands; 1960-1997)



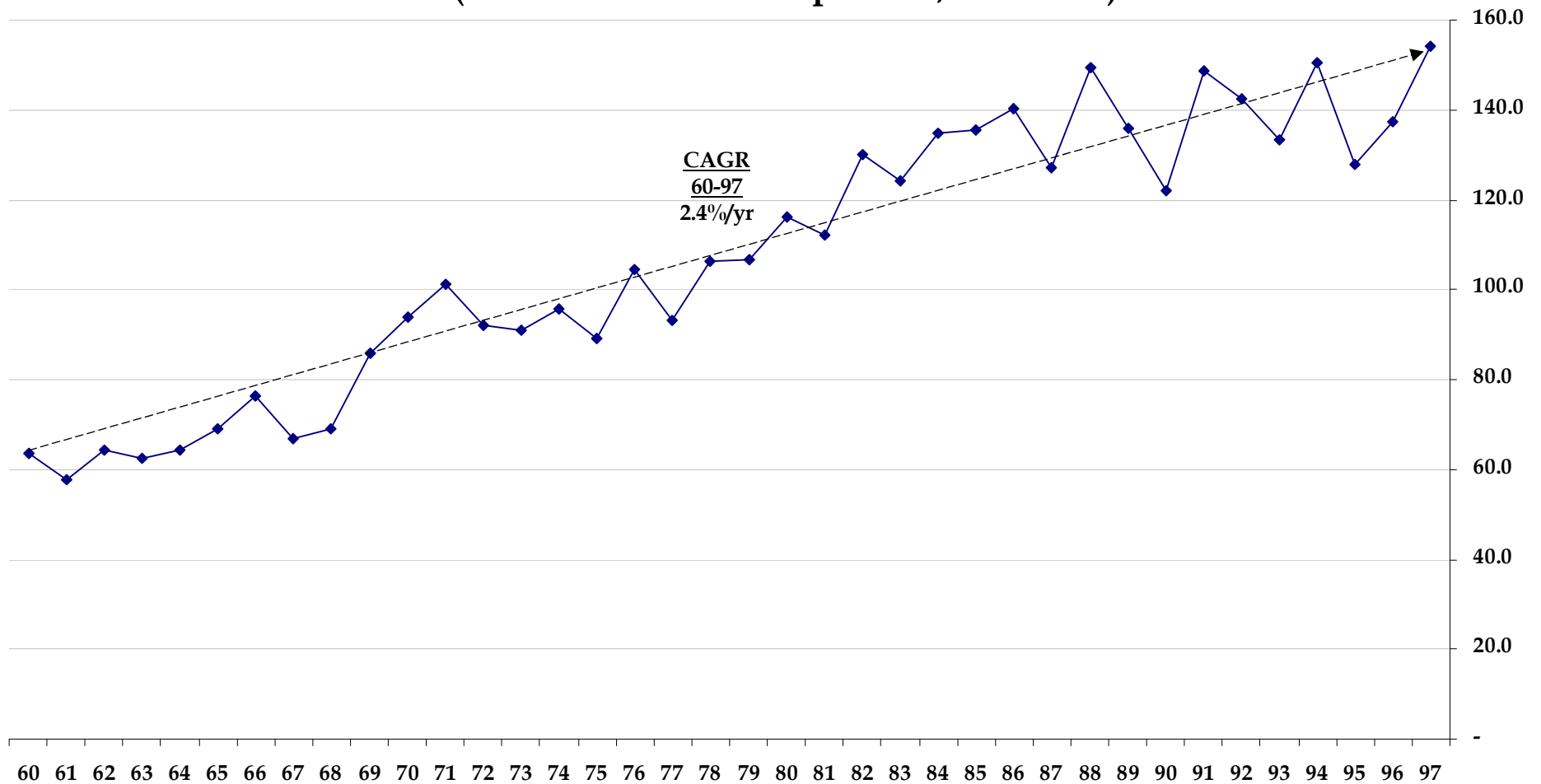
Much of the recent acreage growth has occurred in Wisconsin and other regions outside Massachusetts, the home of the cranberry

NORTH AMERICAN CRANBERRY AREA¹
(Area in acres; 1989-1998)



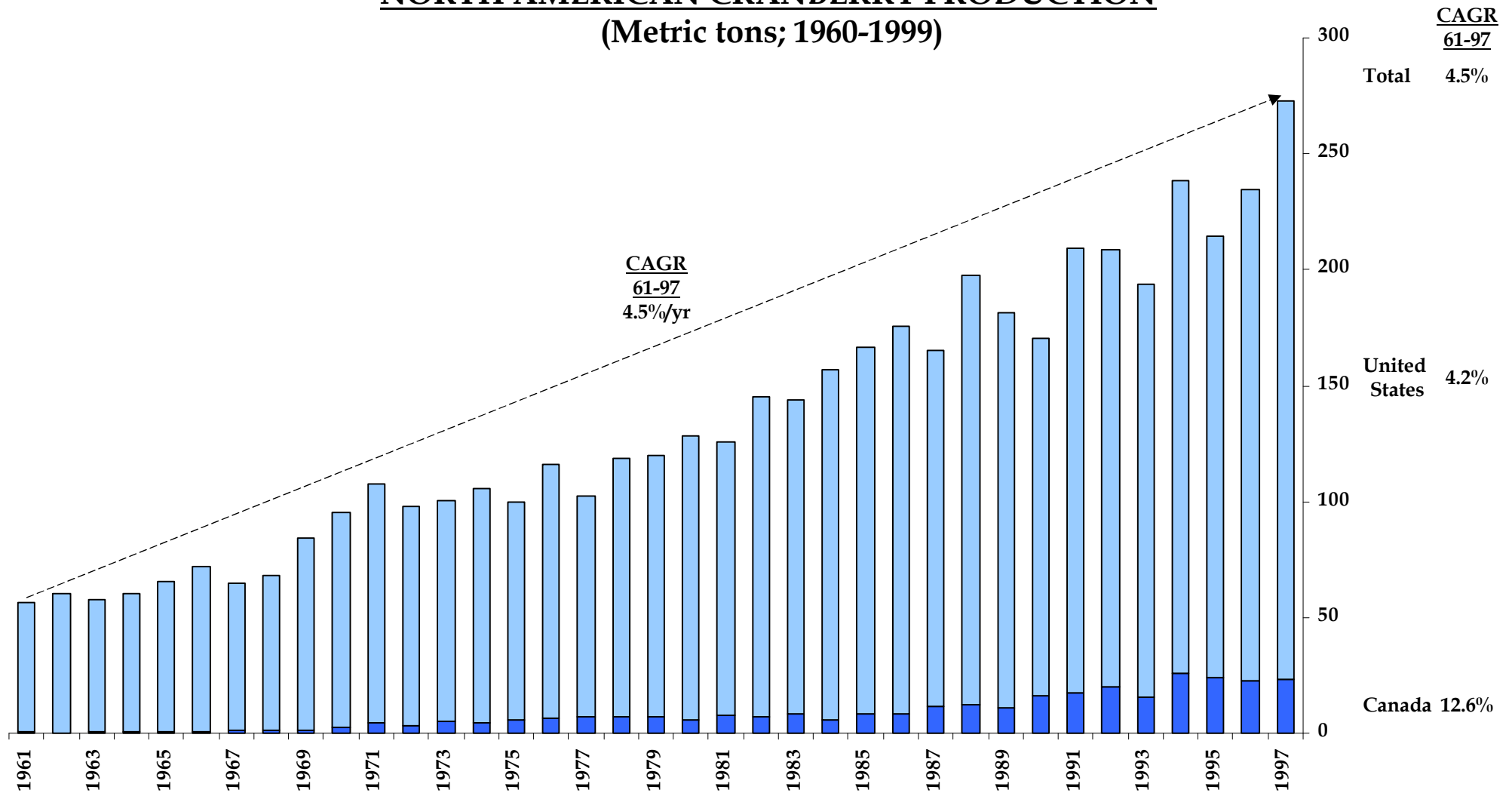
Through improved genetics and management, growers increased their yields at a compound rate of 2.4% per year

U.S. CRANBERRY YIELD
(Thousands of barrels per acre; 1960-1997)



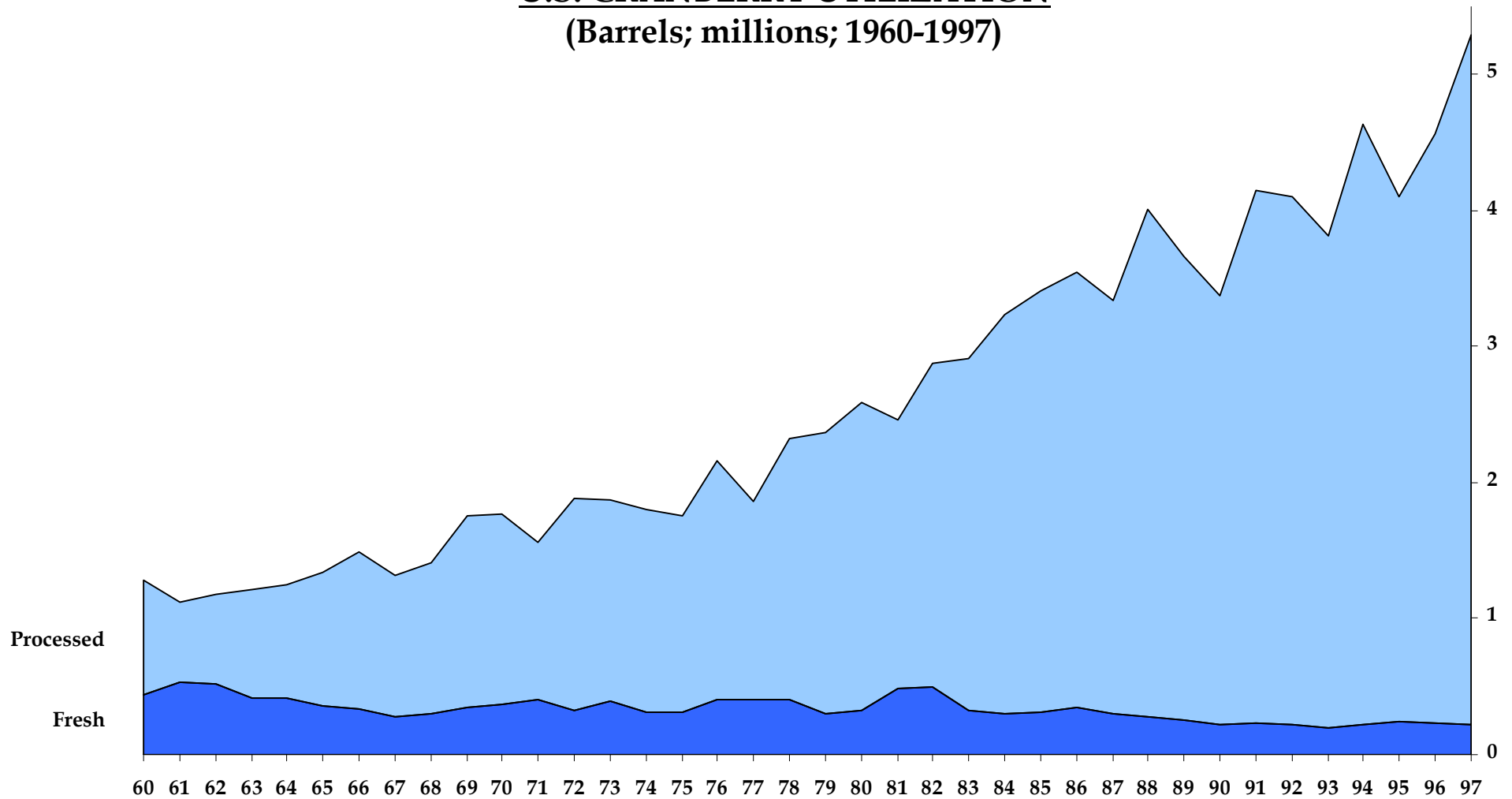
North American cranberry production grew at 4.5% per year for forty years

NORTH AMERICAN CRANBERRY PRODUCTION
(Metric tons; 1960-1999)



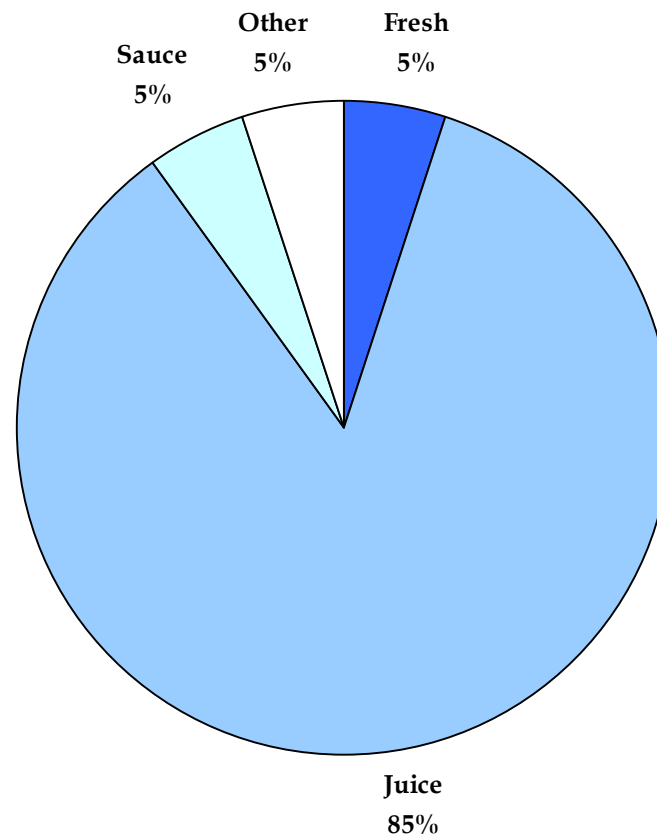
Production growth was absorbed by value-added processed products...

U.S. CRANBERRY UTILIZATION
(Barrels; millions; 1960-1997)



... primarily cranberry juice blends, which accounted for 85% of Ocean Spray's sales

OCEAN SPRAY SALES BY PRODUCT
(% of sales; 1997)



Ocean Spray believed it could control the market

- **“When it comes to keeping supply aligned with demand, Ocean Spray has had an exceptional record compared to other fruits. We have managed to keep the volume of barrel sales growing steadily... Ocean Spray has a unique advantage: our brand equity and stable market, as well as our cooperative structure.”**

Jack Llewellyn, CEO, Ocean Spray, Aug 1994

- **“For our members, a strong Ocean Spray will best serve their interests in two important respects. We can provide stable returns whenever industry surplus conditions occur... as at some point they surely will... and no one but Ocean Spray will invest the resources to create profitable new consumer demand for cranberries.”**

Jack Llewellyn, CEO, Ocean Spray, Nov 1995

- **“We intend to double the size of this business within the next ten years.”**

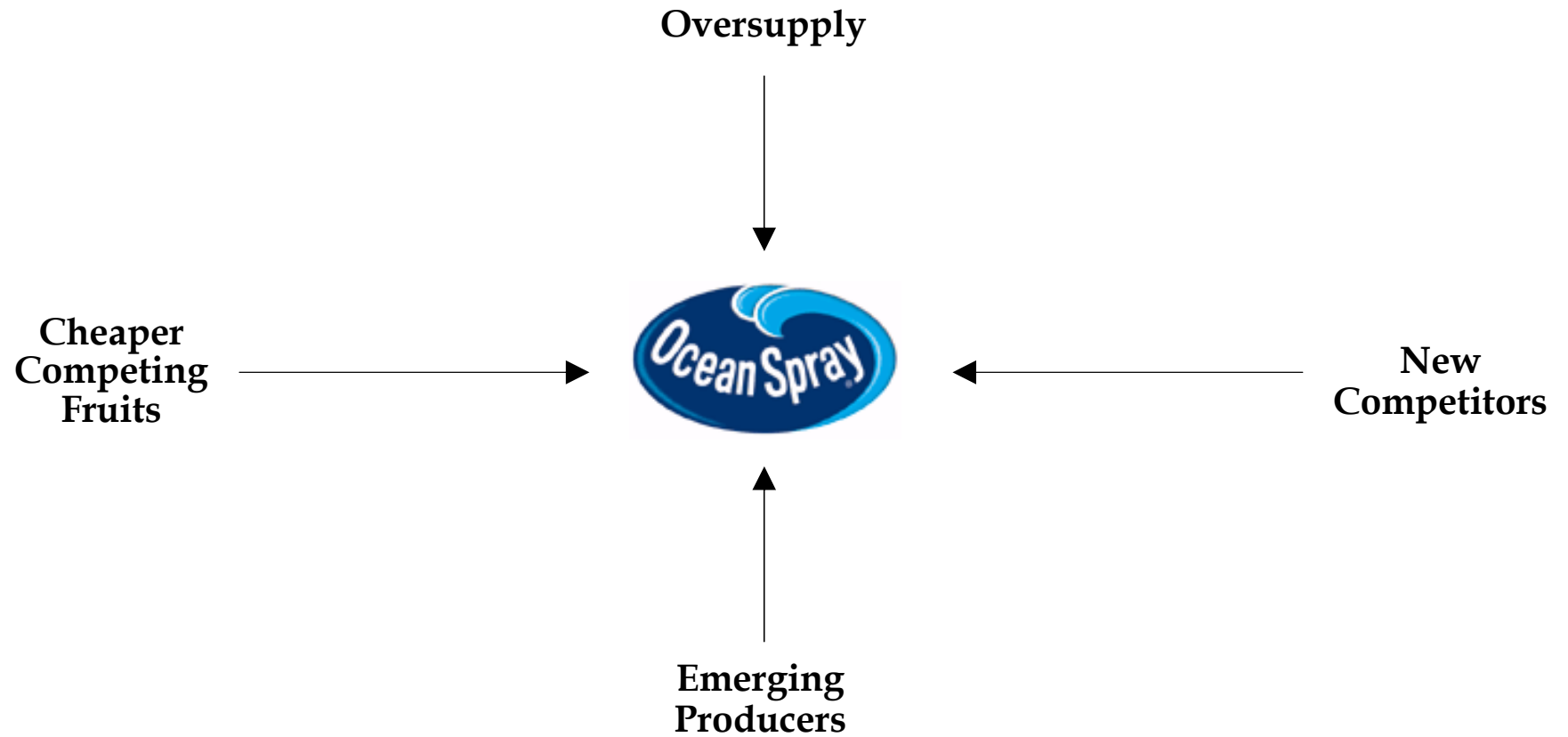
Tom Bullock, CEO, Ocean Spray, Dec 1996

- **“Ocean Spray Grower-Owners brought in a record 4.2 million barrels... All in all, the stage is set for a terrific 1998. Join me in making it happen.”**

Tom Bullock, CEO, Ocean Spray, Dec 1997

II. Eventually, cranberry supply exceeded demand

MAJOR STRATEGIC THREATS TO OCEAN SPRAY



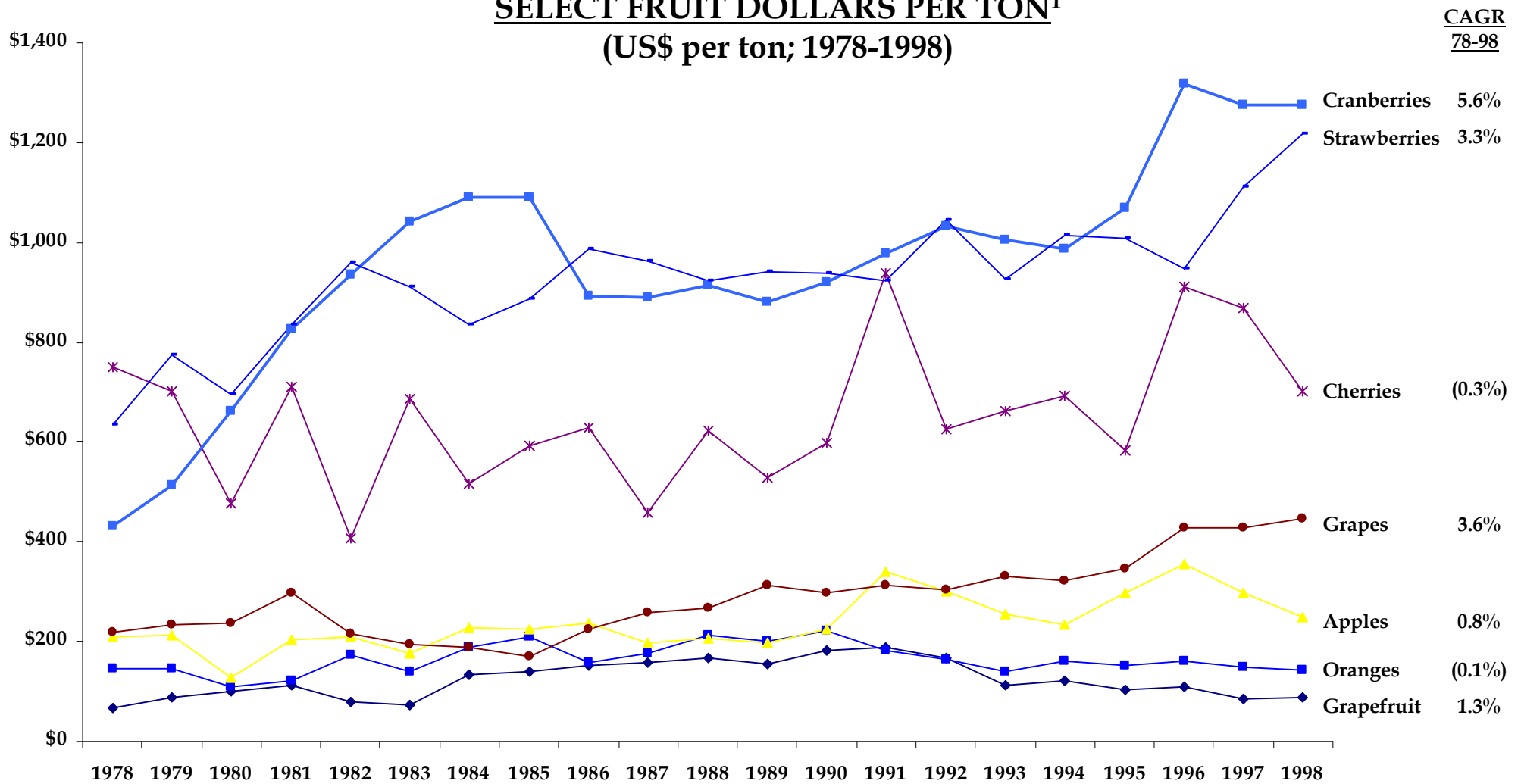
MAJOR STRATEGIC THREATS TO OCEAN SPRAY

**Cheaper
Competing
Fruits**



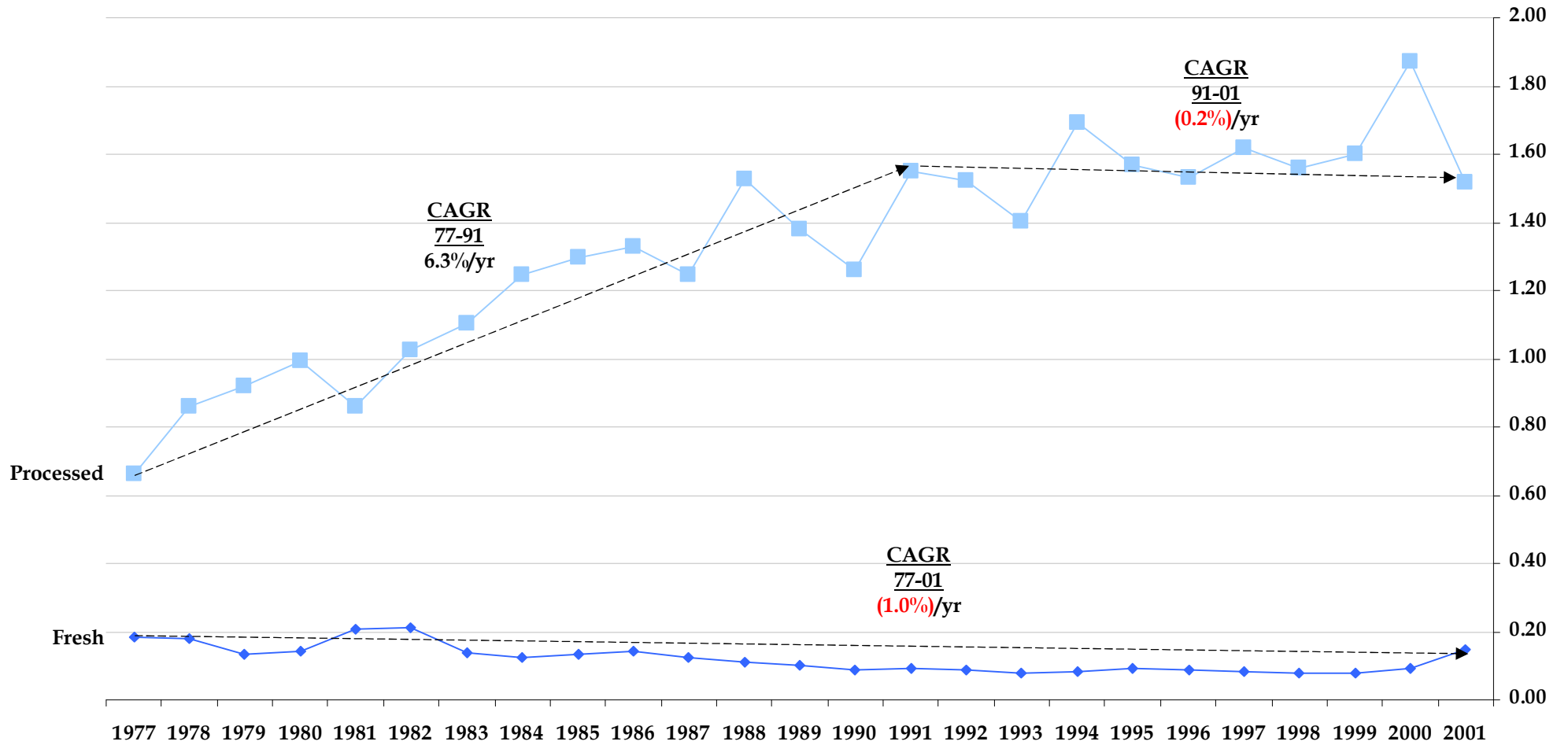
Cranberries had a very high price per ton, preventing cranberries from becoming a major component of processed foods and beverages

SELECT FRUIT DOLLARS PER TON¹
(US\$ per ton; 1978-1998)



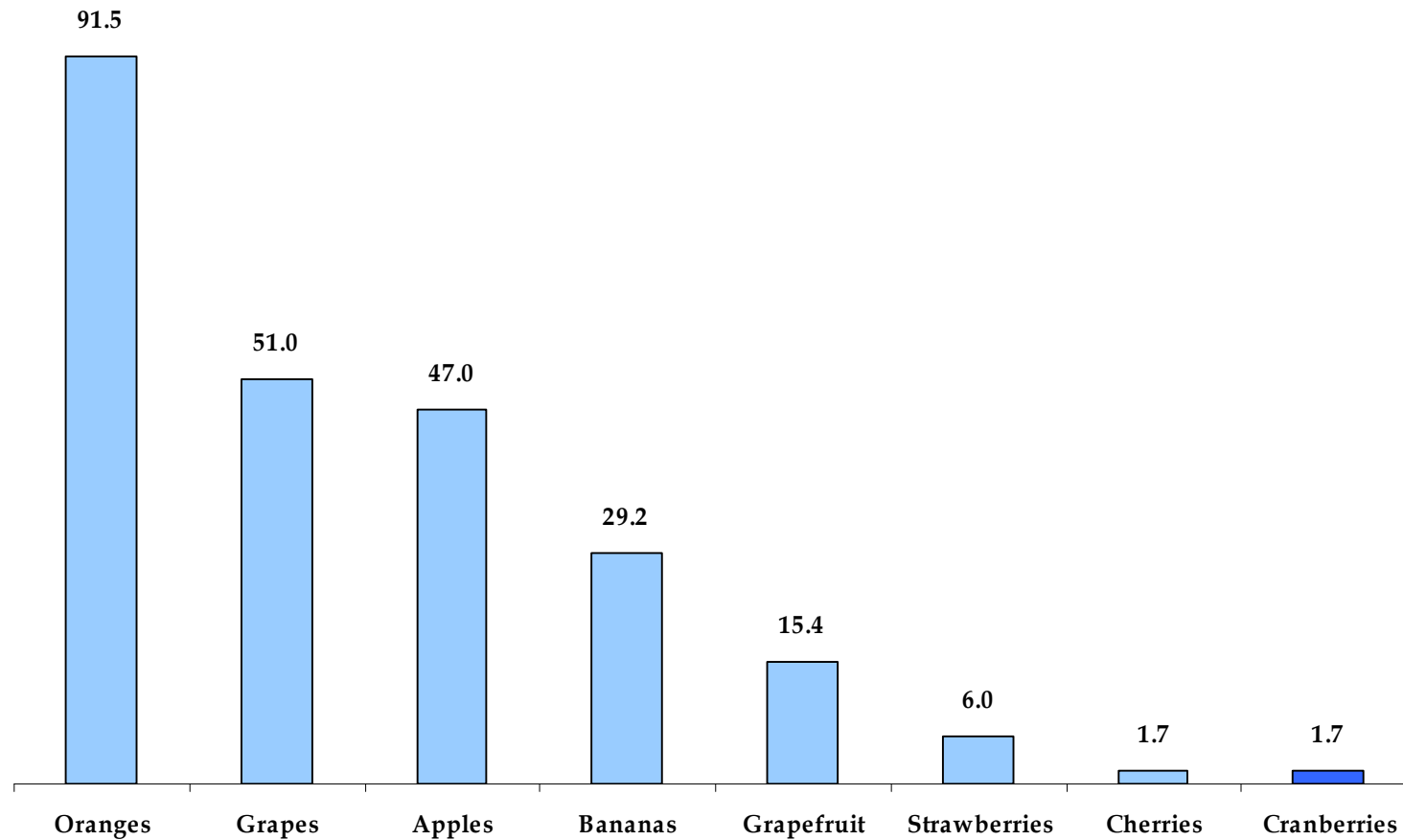
Per capita cranberry consumption plateaued in the early 1990's

U.S. PER CAPITA CRANBERRY CONSUMPTION
(Pounds; fresh weight; 1977-2001)



Cranberries were unable to make dramatic inroads, in either a fresh or processed form, against cheaper, more popular fruit

U.S. PER CAPITA SELECT FRUIT CONSUMPTION
(Pounds; all forms, fresh & processed; fresh weight; 2001)



MAJOR STRATEGIC THREATS TO OCEAN SPRAY



The supply of cranberries eventually exceeded demand...

- **“Huge new plantings have flooded the market... new plantings yield double or triple the amount per acre that old bogs produce.”**

Associated Press 3/21/99

- **“This is a wake-up call to the industry. Five years ago you could not meet demand, everybody wanted cranberries. At some point, you will meet demand and exceed it. And that’s what happened. North American growers have been harvesting about 7 million barrels of cranberries per year for the last two years, but consumers are eating or drinking only about 5 million barrels worth of cranberry products.””**

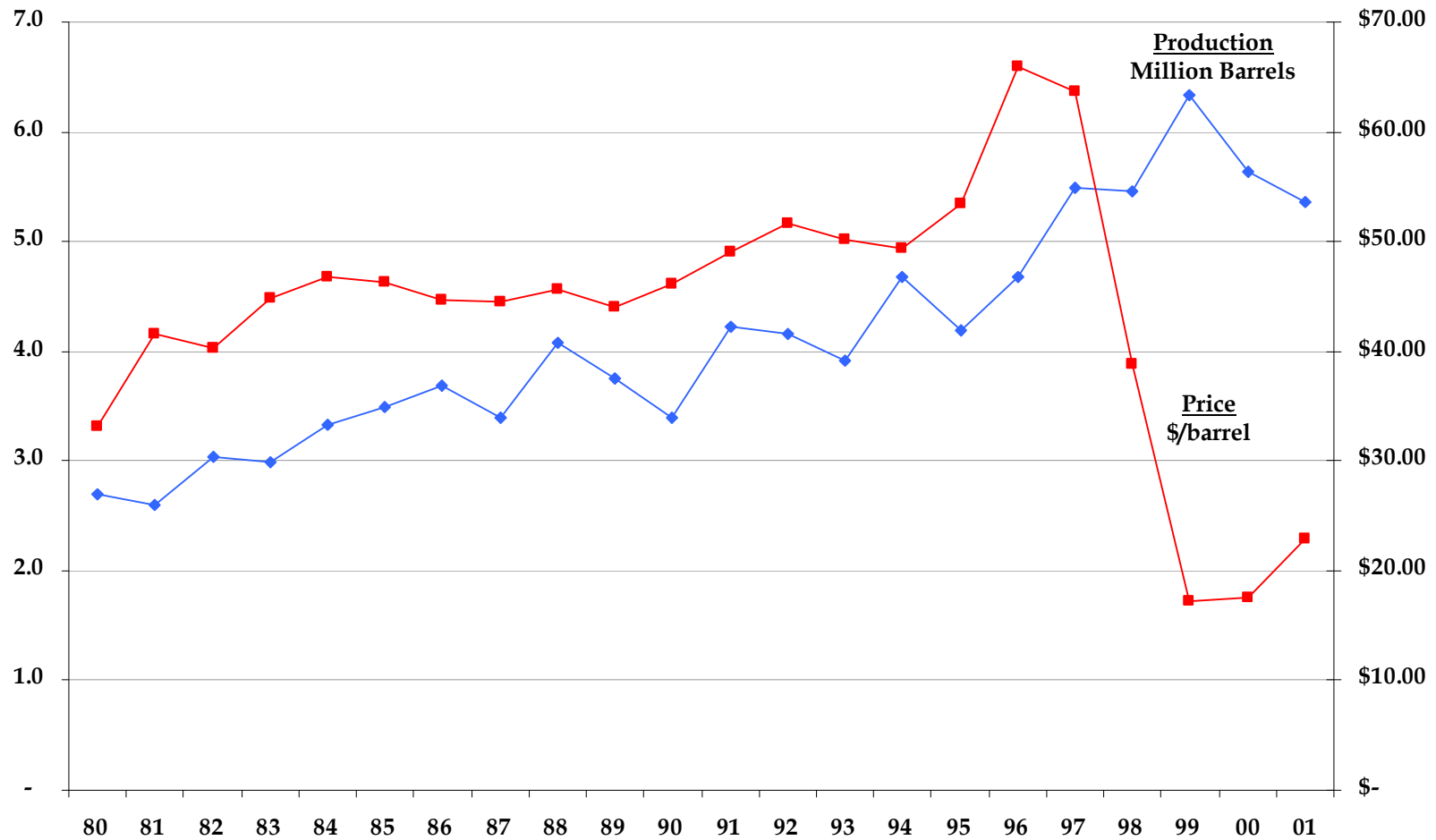
David Farrimond, Cranberry Marketing Committee

- **“I’m concerned about a lot of fruit being available without a certain market and that creates instability. And that’s not good.”**

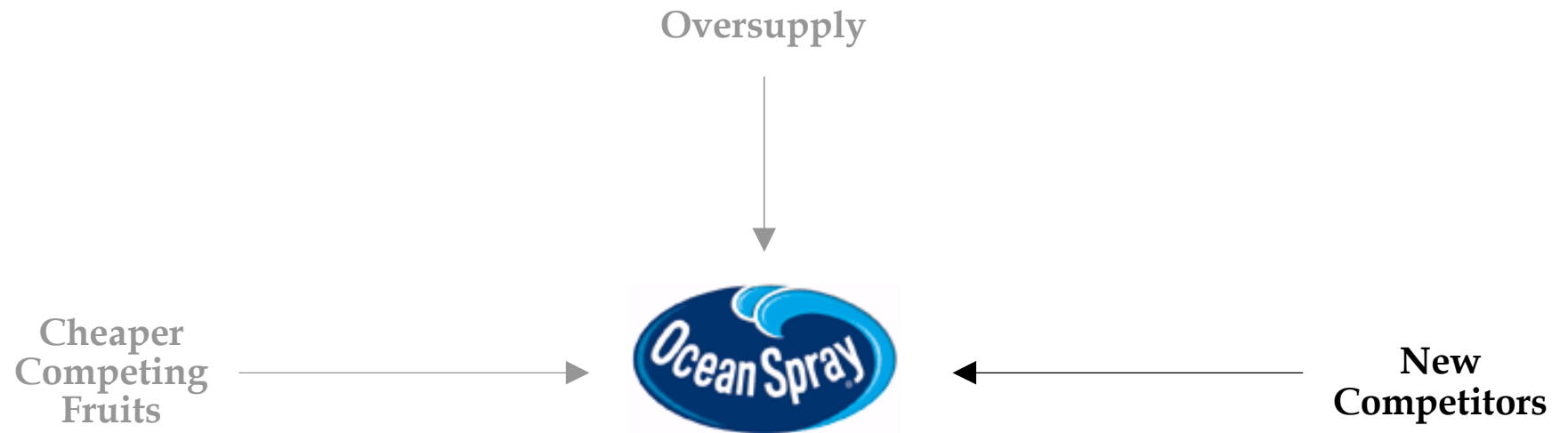
Steven Lee, Ocean Spray Grower and Director

... leading to a fall in prices

CRANBERRY PRODUCTION V. PRICE
(Barrels; millions; US\$ per barrel; 1980-2001)



MAJOR STRATEGIC THREATS TO OCEAN SPRAY



Innovation at Ocean Spray declined

- **“We have been a company that had stopped innovating. We’re changing that. There’s a new focus on new product development, and we’re getting back into the business of working with the trade.”**

“A senior Ocean Spray Executive,” Delaney Report, December 1998

- **“At one time an 18-month or 20-month cycle was a fast efficient product development cycle. Now it has to happen in eight or nine months. Everybody is able to compete faster and they can copy faster, so you have to have the next thing.”**

Thomas Bullock, President and CEO, Ocean Spray

- **“This is one of our more dramatically aggressive years in terms of product introduction because of the desire to bring more consumers to our brand.”**

Chris Phillips, Spokesman, Ocean Spray Nov 1998

Northland Cranberries, the largest cranberry grower in the world, emerged as a major competitor to Ocean Spray

- **“Our 1993 crop delivery to Ocean Spray marks the end of our company’s relationship with the grower cooperative... enabling us to gain measurable higher per-barrel returns.”**

Northland Cranberries Annual Report, 1993

- **“Northland has transformed itself from a bog operator and concentrate supplier to a leading cranberry juice supplier with the fastest growing brand in the supermarket and a new private label supply base.”**

BT Alex Brown Oct 1999

- **“Long term, we are on track towards establishing Northland as a major player in the juice aisle with the Northland, Seneca and TreeSweet brands, along with private-label shelf-stable and frozen items.”**

John Swendrowski, Chairman, Northland Cranberries April 1999

Ocean Spray was caught off guard by the success of the premium 100% juice segment, pioneered by Northland

- **“For whatever reason, there is a group of consumers that feels 100 percent has more nutritional value than our other juices.”**

Skip Colcord, VP Communications, Ocean Spray

- **“We haven’t built our brand on price... Consumers want 100 percent juice products, and Ocean Spray is realizing that fact.”**

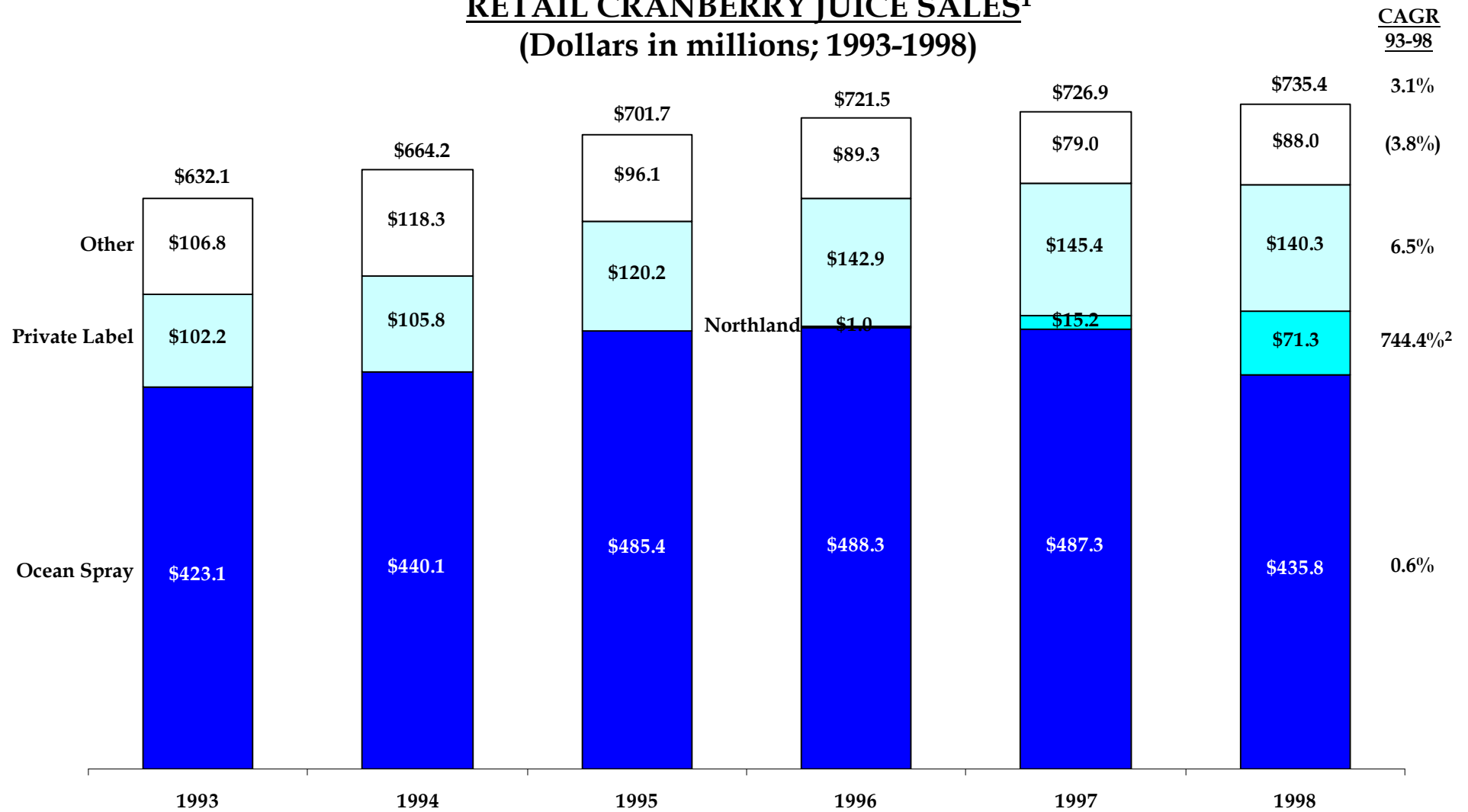
John Swendrowski, Chairman, Northland Cranberries

- **“Many consumers are not aware that Ocean Spray isn’t 100% juice. There’s a shift in the category with consumers... We make our 100% juice positioning our competitive point of difference.”**

Lee Hessenthaler, VP Marketing, Northland Cranberries

Ocean Spray lost sales to Northland and private label...

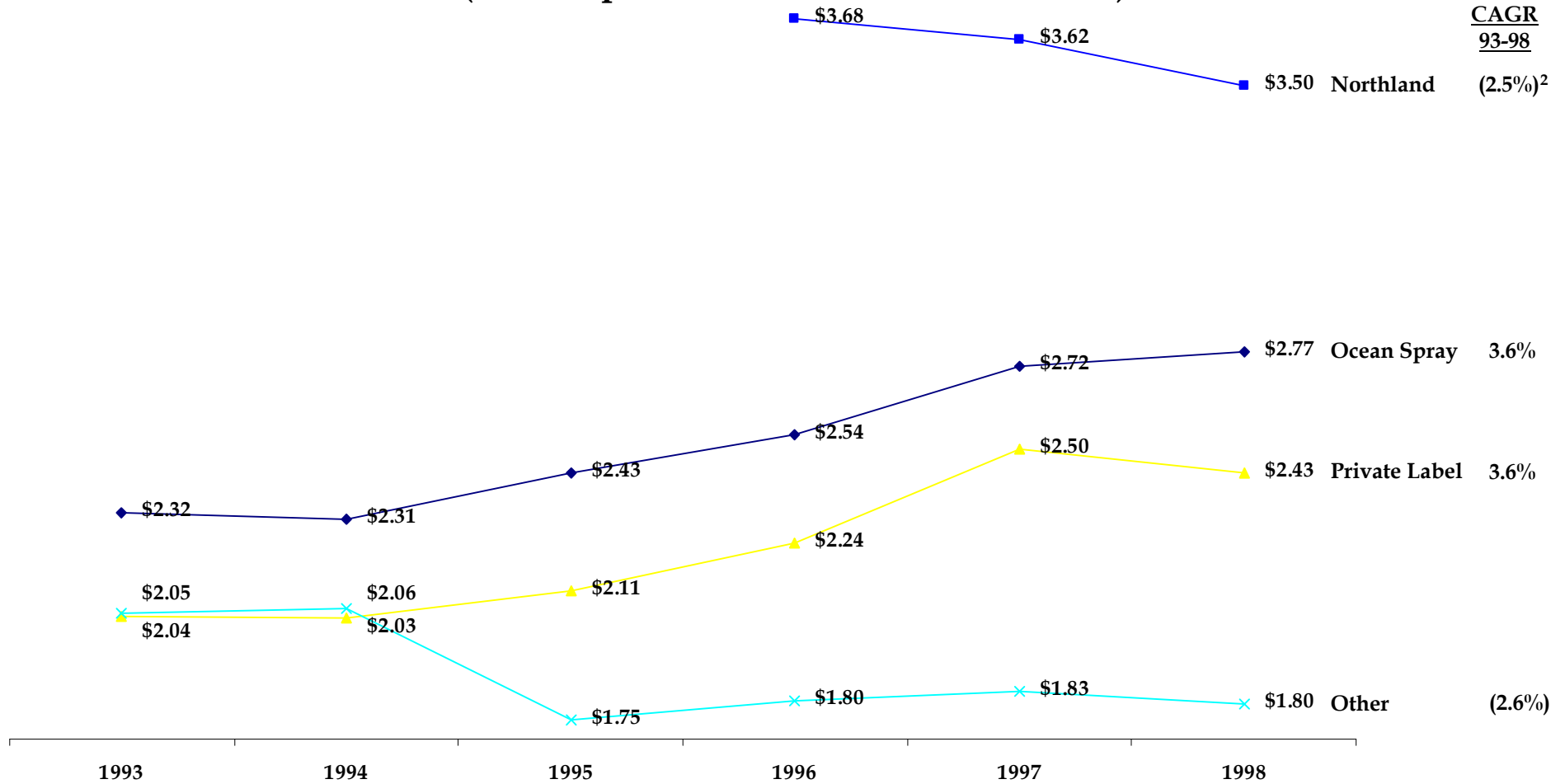
RETAIL CRANBERRY JUICE SALES¹
 (Dollars in millions; 1993-1998)



... selling a premium product

AVERAGE CRANBERRY RETAIL PRICE¹
 (Dollars per standardized unit; 1993-1998)

CAGR
93-98
 (2.5%)²



The success of the category attracted the beverage giants, including Coke...

- **“Coca-Cola has set its sights on yet another supermarket aisle. The \$18.9 Billion beverage giant is developing a new line of shelf stable blended juices to go up against category leader Ocean Spray Cranberries. The goal is to compete with Ocean Spray, like Coke vs. Pepsi.”**

Advertising Age Sept 1998

- **“There are unconfirmed reports that Coca-Cola is eyeing this attractive category and considering entering the market with a cranberry juice product from its Minute Maid division... Other brands such as Snapple continue to make waves in the category.”**

Food & Beverage Marketing Jan 1999

... and Pepsi

- **“Ocean Spray has another problem. For much of the 1990’s, Pepsi distributed its single-serve beverage lines. But since that deal ended, Ocean Spray’s single serve sales have fallen sharply.”**

John Sicher, Editor, Beverage Digest, Jan 2002

- **In July 1998 Ocean Spray filed suit against Pepsi, its distributor, after Pepsi began testing FruitWorks juice drinks in the Atlantic Region and Hawaii**

- **“The Tropicana deal could eventually edge Ocean Spray off Pepsi trucks.”**

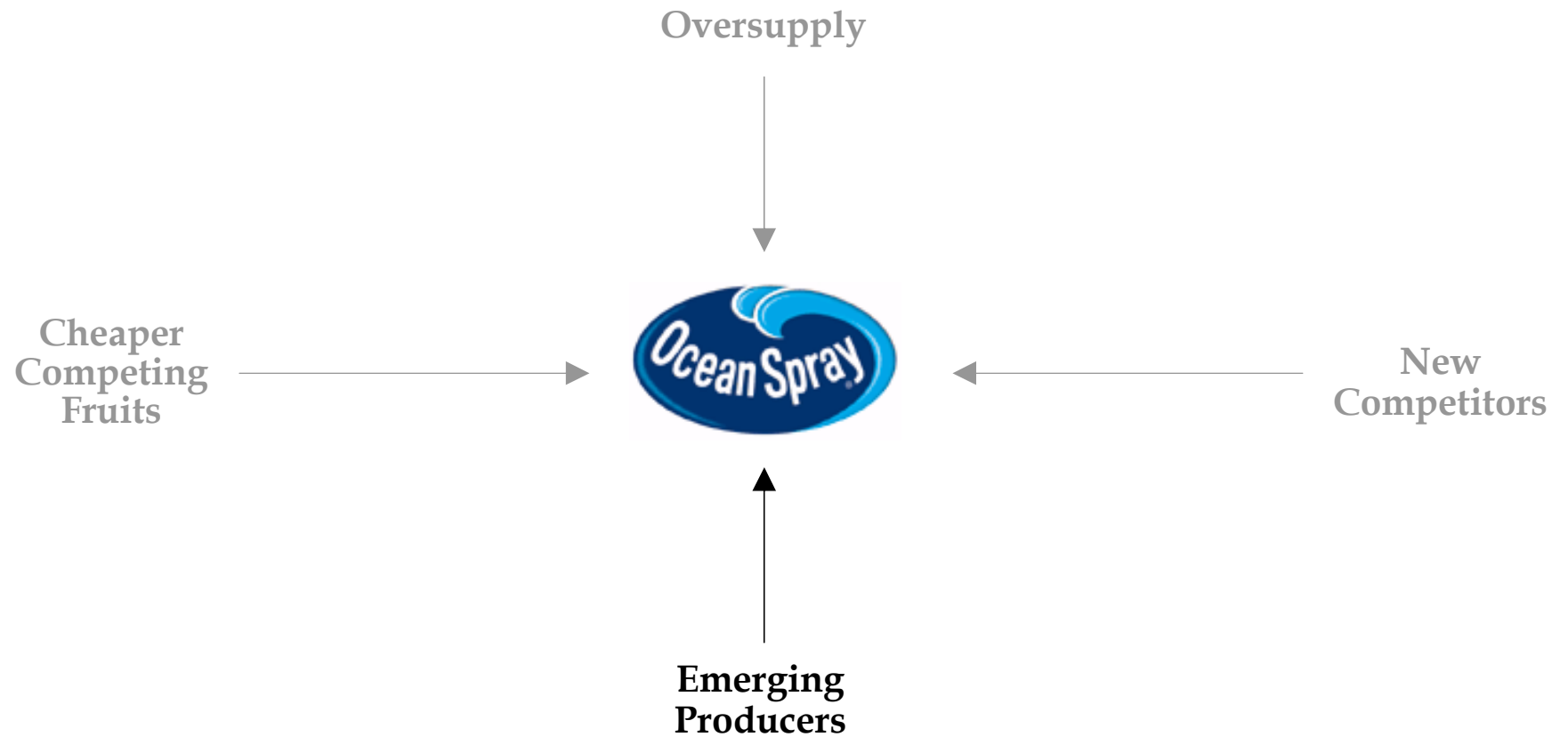
Promo Magazine Oct 1998

- **“Ocean Spray didn’t give Pepsi as much control over the brand as Pepsi wanted. The two sort of stared each other down and Pepsi decided to go buy its own juice company so it could be in control without having to please a farmers coop.”**

“A source close to the deal,” Promo Magazine

- **Pepsi launches the Dole range of single serve juices, including cranberry juice and cranberry-grape in Jan 2001 [Dole brand licensed from Dole]**

MAJOR STRATEGIC THREATS TO OCEAN SPRAY



Other countries are investing in cranberry production and global cranberry production is rising

- **“There’s no question that the industry is moving more and more offshore - there’s a lot of planting in Canada, Chile and interest in Europe.”**

Bill Cutts, Ocean Spray Grower

Canada, Chile and other producers have less stringent environmental regulations

- **“Canada’s wetland use regulations for agriculture are less restrictive than in the U.S., allowing the industry there to grow in response to high demand across the border... Producers and investors have also looked to Chile as a source of commercial production. Chile intends to focus on the cranberry juice concentrate market... Cranchile, owned by U.S. businessmen, has built a plant with a capacity for over 30,000 metric tons.”**

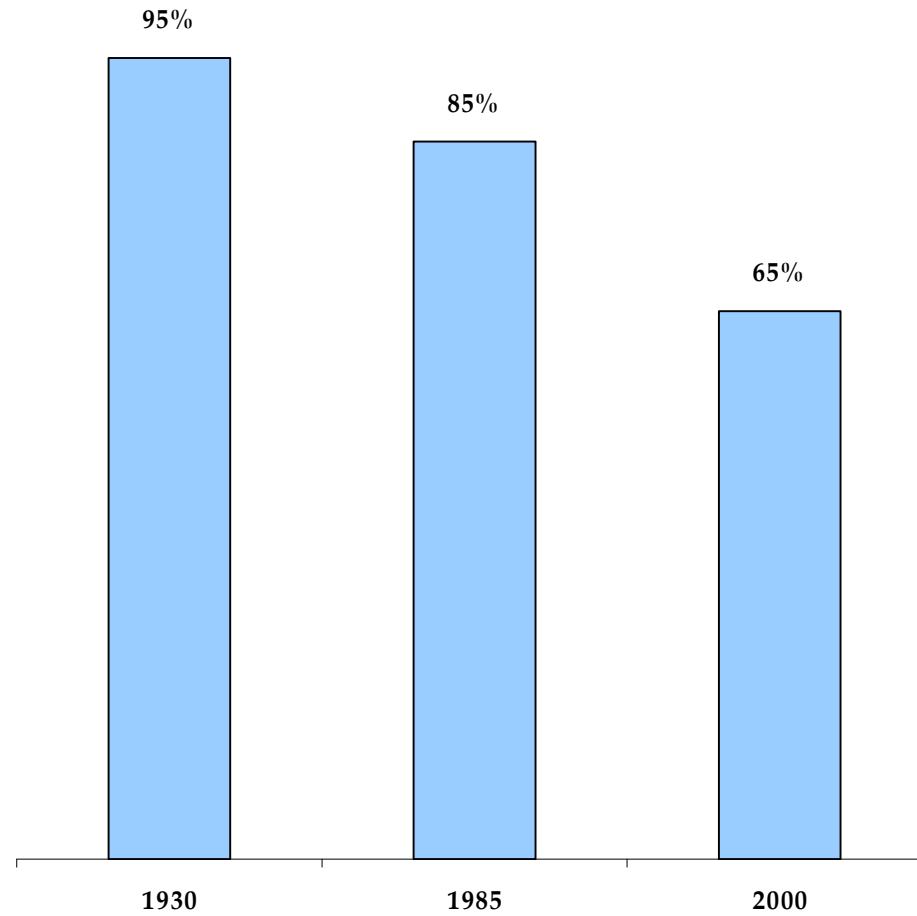
Agriculture Outlook, Nov 1997

- **Northland Cranberries is developing trial bogs in Ireland with the Irish Peat Board**
- **The European Cranberry (*Vaccinium oxycoccus*) grows wild through much of Europe**
 - **Growing production in Latvia and Russia**
 - **Production in Denmark**

III. Ocean Spray became a victim of its own success

As the industry grew, Ocean Spray lost control of production

OCEAN SPRAY SHARE OF CRANBERRY PRODUCTION
(Percent of pounds; fresh weight; 1930v1985v2000)



There was a lack of strategic direction at the top

- **“What will happen next year, I don’t know. The price of cranberries has dropped like a rock. A lot of people are upset. It’s a tough time for the cranberry industry.”**

Thomas Bullock, President and CEO, Ocean Spray, 1999

- **“The Credit Watch listing for the long-term rating reflects ongoing challenges for Ocean Spray stemming from a continuance of the industry oversupply situation in cranberries, which is exacerbating and already extremely competitive operating environment.”**

Standard & Poor’s April 1999

Ocean Spray was forced to make cutbacks

- **“Ocean Spray’s workforce will drop from 2,600 two years ago to 1,900 by the end of the month.”**

Portland Oregonian, March 1999

- **“We made some very difficult but necessary decisions... We closed three bottling lines and consolidated sauce operations.”**

Ocean Spray Annual Report 1998

- **Robert Hawthorn was appointed as new CEO of Ocean Spray January 2001 after a lengthy search**
- **Nantucket Nectars juice business was sold to Cadbury Schweppes in March 2002**

Growers continue to suffer because of the low prices

- **“It’s going to be a tough year. There will be some people who go bankrupt.”**

Malcolm McPhail, Ocean Spray Grower, 1999

- **“Not a lot of growers have left the industry yet, but they’re right on the cusp. We had about 20 good years. It takes a little while to drain your assets.”**

Jim Jenkins, Fourth Generation Grower, Cape Cod Times, Jan 2002

- **“I’ll never go back to cranberries as a sole source of income. I’ll never trust it again... I don’t see much future in just being a farmer. I’m lucky to go back to my professional life. I have a college degree.”**

Reg Pullen, Cranberry Farmer, Oct 2001

The co-operative structure may not be the needed vehicle for the future

- **“The shareholders have been misled by groundless management predictions... The co-op is in danger... Can Ocean Spray continue to compete as a co-op? Can Ocean Spray remain a co-op?”**

Ed Gelsthorpe, retired CEO, Ocean Spray, June 1999

- **“Ocean Spray needs to do some soul-searching about its future.”**

John Sicher, Editor, Beverage Digest, Jan 2002

- **“For the first time in memory, Ocean Spray has suspended 1999 redemption payments to some growers looking to cash out Ocean Spray stock. This decision has hurt some older growers who were counting on the payments to help finance retirement.”**

The Boston Globe, April 1999

- **“The arrogance of the company is just unreal. We’re not taking this lying down. We realize we are fighting Goliath, but we feel we have been wronged.”**

Roy Peters, retired Ocean Spray grower, 1999

- **“I don’t know if it’s illegal, but I think it’s immoral [to suspend share buybacks.]”**

Dave McCarthy, retired Ocean Spray grower

Ocean Spray called in outside advisors Bain Consulting and Merrill Lynch who recommended, among other things, selling the company

- **“The consultant’s report concluded that a merger would be in the best financial interests of the company... Merrill Lynch reported that shareholders could expect to receive \$270 per share if the company were sold. The report listed 13 potential buyers with “high level” of interest. But in November 1999, the Ocean Spray board voted to reject a sale or merger proposition.”**

Cape Cod Times, Oct 2001

- **“The issue of sale has been voted on only once, by the 25 member board in November 1999. That vote, exploring the possibility of sale or merger, was defeated by the barest of margins, 13 to 11. At that time, the board voted to hire new management, downsize the board from 25 to 15 and change the board nomination procedures... The inclusion of outside members on the board was intended to include opinions from people with business experiences lacking in the former, all-farmer board.”**

“A Wisconsin Ocean Spray Grower”, May 2002

Much of the blame for the crash was laid on Ocean Spray management

- **“Bain’s evaluation... is that better returns were possible, regardless of surplus fruit. Bain says that the halving of returns has been caused by mistakes in planning and operating the juice business. Not a surplus. Not a lack of marketing funds. It is tempting to blame Management, but it is the Board of Directors who failed the grower... Most Directors went along with Management recommendations and mistakes in performance, which is what led to the crash in returns.”**

Paul Jonjak, Director, Ocean Spray, Oct 1999

- **“The cause of the crisis can be laid at the doorstep of Ocean Spray. They encouraged cooperative members to plant far more acreage than could be sold. Several years ago Ocean Spray denied any possibility that their might be a surplus in the future... A number of Ocean Spray Directors even put in significant acreage in Canada”**

John Decas, CEO, Decas Cranberry Company, Feb 2000

In best 'free-market' form, Ocean Spray convinced the U.S. Government to restrict production...

- **"Ocean Spray's Board of Directors voted unanimously in favor of asking the US Secretary of Agriculture to set a restriction on the volume of fruit brought to market this fall."**

Ocean Spray Press Release, Feb 2000

- **"The cranberry industry has a marketing order under which growers can only sell 85% of their sales history to the processors for the 2000 crop year."**

Cranberry Report, USDA NASS, Aug 2000

- **"The cranberry industry has a marketing order under which growers can only sell 65% of their history to the processors for the 2001 crop year."**

Cranberry Report, USDA NASS, Aug 2001

... a move ultimately doomed to failure

- “Canada exports about 80% of their fruit to the United States. They cannot be covered under a marketing order.”**

John Decas, CEO, Decas Cranberry Company, Feb 2000