CherrCo, Inc.

James R. Jensen

March 17, 2006

The Tart Cherry Industry
**CherrCo, Inc.**

**TART Cherries**

- SPECIALTY CROP
- 20 YEAR AVG. ANNUAL PRODUCTION = 247 Mil. Lbs.
- 20 YEAR AVG. FARM GATE VALUE = $47 MILLION

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**CherrCo, Inc.**

**TART Cherries**

- NO FRESH MARKET
- HEAVILY MECHANIZED
- SIGNIFICANT CONSOLIDATION AT BOTH GROWER & PROCESSOR LEVELS
CherrCo, Inc.

TART Cherries

- LIMITED MARKETING EFFORTS
- CONFRONTATIONAL RELATIONSHIPS BETWEEN GROWER AND PROCESSOR
CherrCo, Inc.

**Time Line**

- 1995: HISTORICALLY LOW RETURNS
- 1996: 2ND FEDERAL MARKETING ORDER APPROVED
- 1997: CHERRCO MEMBER CONTRACTS SIGNED
- JULY 1, 1997: FORMATION MEETING

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CherrCo, Inc.

**Obstacles to Formation**

- LACK OF TRUST
- CULTURE OF COMPETITION
- MAJOR STRUCTURAL CHANGE REQUIRED
- REFUSAL TO COMPROMISE
Cooperative Structure

CherrCo, Inc.

Structure

- FEDERATED COOPERATIVE
- INDEPENDENT MANAGEMENT
- MULTI-YEAR CONTRACTS
- MEMBERS “OPERATE” AUTONOMOUSLY
CherrCo, Inc.

Policy Decisions

- Pool Costs & Risks vs. Member Costs & Risks
- Extent of Information Sharing
- Size & Make-up of Board

What states/provinces are part of CherrCo?

- WA
- UT
- WI
- MI
- NY
- ON
Relationship to Federal Marketing Order

Cherry Industry Administrative Board

SUPPLY
What states are part of the FMO?

NY  WI  MI  PA  UT  WA  OR

How does the FMO regulate supply?

**Available Supply**
(Carry In + New Crop)

is limited to **110%**

of previous

3-year sales average.
What happens to the Excess Supply?

- Reserve (Delayed Sale)
- New Products/Markets
- Export Sales
- At-plant Destruction
- In-orchard Destruction

U. S. Tart Cherry Supplies (Million lbs.)

Crop Available
Carry In
CherrCo, Inc.

Functions

• INVENTORY IS CONSIGNED TO CHERRCO
• CHERRCO HANDLES ALL $
• RETURNS ARE POOLED
• QUALITY INCENTIVES PROVIDED
CherrCo, Inc.

Price Establishment

- MARKETING COMMITTEE FOR EACH PRODUCT
- EACH MEMBER PRODUCER HAS ONE VOTE
- ADVICE OF SALES AGENTS

Results
### Accomplishments

- PRICE STABILIZATION
- INCREASED PRICES
- IMPROVED INDUSTRY COMMUNICATION

### Frozen Tart Cherries, Monthly Price Quotations

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(A) Primarily Grade A, Mainly Michigan

(B) Start of CherrCo

Source: American Institute of Food Distribution, Inc. Food Institute Report & CherrCo, Inc.
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(A) Primarily Grade A, Mainly Michigan
(B) Start of CherrCo
Source: American Institute of Food Distribution, Inc. Food Institute Report & CherrCo, Inc.
### Frozen Tart Cherries

#### January (Cents per lb. - US$)

**Before CherrCo**

- 1975: 54
- 1976: 42
- 1977: 30
- 1978: 50
- 1979: 20
- 1980: 50
- 1981: 20
- 1982: 50
- 1983: 40
- 1984: 30
- 1985: 40
- 1986: 30
- 1987: 20
- 1988: 10
- 1989: 30
- 1990: 20
- 1991: 10
- 1992: 0

**After CherrCo**

- 1975: 30
- 1976: 20
- 1977: 10
- 1978: 0
- 1979: 10
- 1980: 0
- 1981: 10
- 1982: 0
- 1983: 10
- 1984: 0
- 1985: 10
- 1986: 0
- 1987: 10
- 1988: 0
- 1989: 10
- 1990: 0
- 1991: 10
- 1992: 0

\[ \text{(A)} \text{ Primarily Grade A, Mainly Michigan} \]

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**Source:** American Institute of Food Distribution, Inc. Food Institute Report & CherrCo, Inc.
Application of Model to Other Commodities

CherrCo, Inc.

Major Considerations

- FACILITATOR(S) NEEDED
- MAY TAKE SEVERAL SEASONS TO IMPLEMENT
- CRITICAL MASS REQUIRED
CherrCo, Inc.

Major Considerations

- COMMITMENT OF KEY PLAYERS IS CRUCIAL TO SUCCESS
- MUST LISTEN TO MEMBERS
- NEED “BLOOD ON THE FLOOR”

CURRENT CHALLENGES
**Internal Challenges**

- Maintaining market share
- Declining sales volume
- “Human nature”
- New product development
- Market segment pricing

**External Challenges**

- Imports of European products
- Pricing of competing domestic products
- Consolidation of customers
- Chinese production potential