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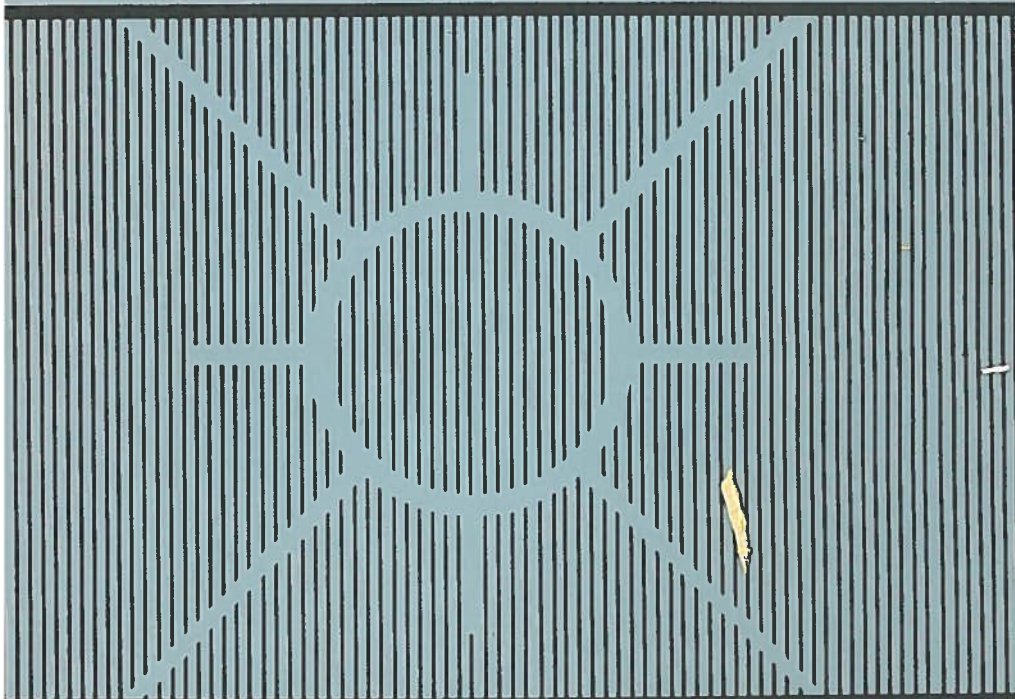
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THE TART CHERRY SUBSECTOR OF U.S. AGRICULTURE: A REVIEW OF ORGANIZATION AND PERFORMANCE



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Chapter 9

THE TART CHERRY SUBSECTOR IN PERSPECTIVE

In addition to providing a comprehensive view of the tart cherry marketing subsector, this paper attempts to highlight some fundamental forces at work in most commodity subsectors. One force is that large supply variations create great uncertainty. Another fundamental commodity situation which is illustrated by the tart cherry subsector is that cherries have representatives of nearly every type of marketing channel, market segment, and marketing organization. Thus, study of this subsector provides insight into how different types of marketing firms and organizations react under commodity-based uncertainty. Inasmuch as other commodity subsectors experience similar economic conditions, these insights may provide valuable information for developing an approach for subsector analysis.

Reviewing how the various segments of the tart cherry subsector deal with price and quantity risk helps put this analysis in perspective. Retailers of tart cherry products will normally assume little responsibility for price uncertainty. Grocery firms expect tart cherry products to exhibit stable pricing patterns similar to most other products they carry. Thus, reconciling supply-price issues is left to the food manufacturer suppliers. In sales to the hotel, restaurant and institutional (HRI) trade, a similar process takes place. If cherries are unavailable or too high priced, they are not exposed to the consumer because they are dropped from the menu offerings. Variable cherry supplies also directly affect the export market. When supplies are short, export sales diminish to quite low levels.

Most food manufacturer suppliers of tart cherry products buy frozen cherries for reprocessing. They usually sell branded product lines with a tart cherry item in the line(s). Manufacturers prefer that prices of their cherry products blend with their other products. Retailers will also discontinue items which due to high prices (or other reasons) have slow movements. Thus in short-crop, high-price years, manufacturers may have to cross-subsidize tart cherry products and/or make other subsector participants responsible for market risks.

Various manufacturing segments have had varying success in maintaining cherry market access. Frozen pie, frozen dessert, and specialty products have grown. Pie filling has remained fairly constant while canned market sales (both retail and institutional) have declined. Much of these trends reflects changes in consumer preference.

Manufacturing products from raw tart cherries is more risky than manufacturing items from frozen cherries since raw cherry processing requires that manufacturers take a forward inventory position. Retailers generally refuse to accept this type of price change risk. Thus market price changes will affect manufacturing inventory values and profit potentials, especially for a crop which is harvested during only one month of the year. Manufacturing from frozen cherries allows the brand

manufacturer to avoid much of this risk by permitting the firm to manufacture only products on order or needed in the near future. Because of higher risk, most food manufacturers who use cherries buy cherries only for reprocessing.

By purchasing frozen cherries, food manufacturers shift much of the inventory risk to initial freezer-processors. These freezer-processors quite rationally try to transfer some of this risk back to grower. Many of the issues fostering grower bargaining revolve around practices used to transfer price and quantity risks to growers. Grower bargaining, to the extent that it actually did or was perceived to have shifted risk back to freezer-processors, is partially responsible for the trend to the integration of growing and processing in this tart cherry subsector.

Fluctuating tart cherry supplies challenge the vitality of the subsector. Retailers and manufacturers are prejudiced against commodity items which cause them problems. The unavailability of supplies in short-crop years causes these firms problems and hence tend to select away from tart cherry products. Each protected period of short supplies results in more lost markets. Simultaneously, higher grower prices induce more long-term orchard investment. Inconsistent behavior in this dynamic context can exacerbate supply variation problems in the future.

Attempts to negate the long-term consequences of supply variation have been initiated via demand-expansion programs, a federal marketing order storage program, and innovative bargaining legislation. Demand-expansion programs have attempted to help food manufacturers develop new products and maintain existing markets in short-supply years. The storage reserve policies of the marketing order attempt to carry over supplies to reduce the amplitudes of quantity and price fluctuations. Some elements of the Michigan Bargaining Act (P.A. 344), if implemented, could help longer-run planning and coordination. Because of litigation and certain industry attitudes, many possible coordination activities have yet to be initiated under this law.

One common thread in all of the risk-reducing institutions attempted in this subsector is that they have been wholly or largely initiated and financed by growers. The growers appear to be the only segment of the subsector with enough incentives to attempt to alter some of the potentially fatal long-term trends for this commodity. Unfortunately, growers are often the least able, both financially and informationally, to effectively alter the system.

In summary, market uncertainty pervades the tart cherry subsector. The level of this uncertainty is so high that the U.S. food system appears to have a difficult time assimilating the uncertainty. Consequently, tart cherry products as known today might be difficult or extremely expensive to find in the future. The development of an artificial cherry is not beyond the realm of possibility. Public policies designed to help mitigate the effects of uncertainty must recognize and plan for uncertainty and dynamic system changes over time. Institutions like bargaining arrangements and marketing orders have such dynamic elements. Unfortunately, elements of these institutions run into conflict with conventionally-held beliefs about the role of competition as a regulator of economic behavior. Should these beliefs prevent the exercise of existing options or development of new options to deal with commodity uncertainty, the long-term viability of subsectors like tart cherries might be jeopardized.

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