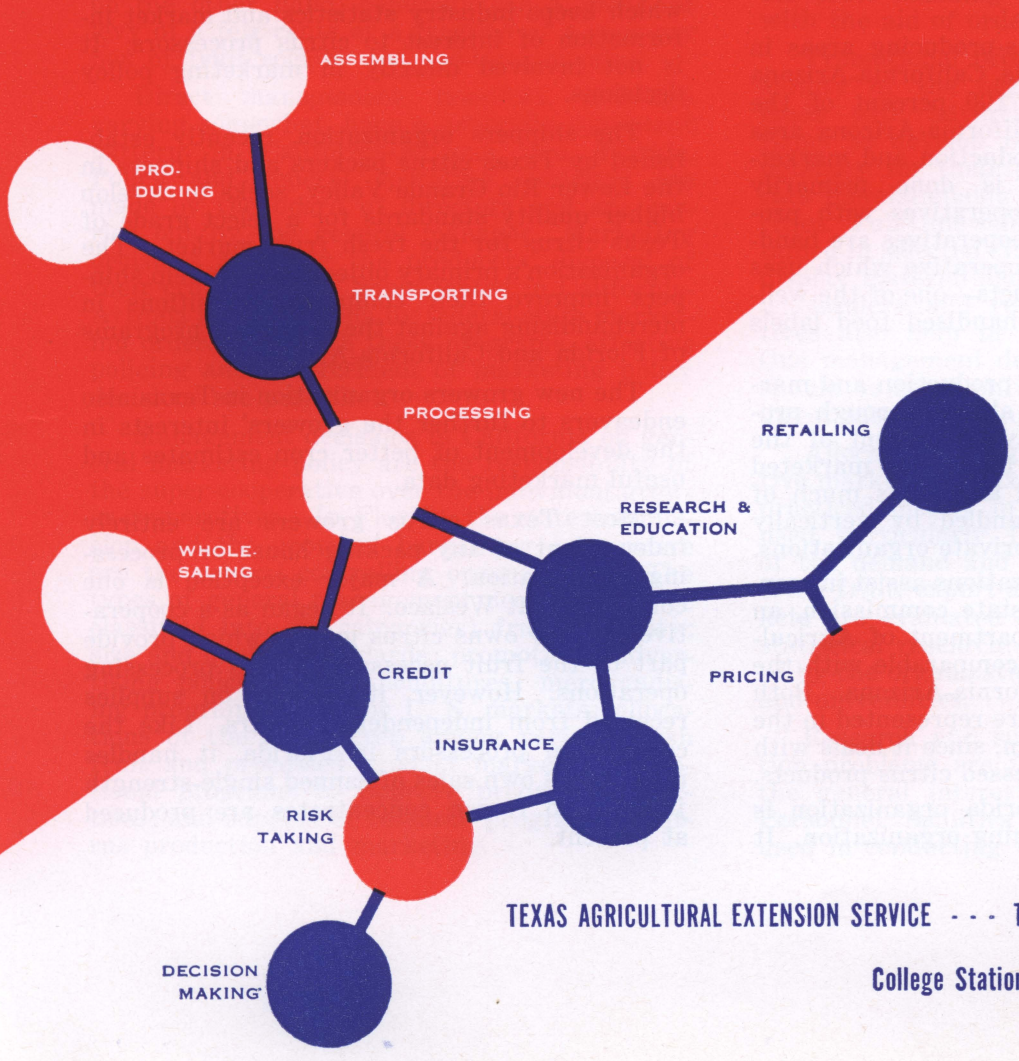
VERTICAL INTEGRATION IN TEXAS AGRICULTURE

Citrus Fruits

Rapid changes have taken place in recent years in marketing arrangements for many agricultural products, including citrus. In numerous instances the changes have taken the form of vertical integration in the marketing process. Perhaps the best known of these is the national chain stores' practice of sending their buyers directly to producing areas. This permits all of the marketing operation from the grower to the retail store to be coordinated under one management. Several types of integrated arrangements exist also in the management of marketing agricultural commodities which are of equal significance. All of these changes have an important impact on the production and marketing outlet for Texas agriculture.



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Citrus Fruits

The citrus industry is one of the most extensively organized commodity groups in the United States. In both California and Florida, citrus producers are closely organized and they control the marketing and merchandising programs for their products.

The citrus industry in Texas has not been well organized as a result of circumstances over the past 10 years, including two damaging freezes that almost eliminated producing groves. A vertically integrated marketing organization is being established in Texas comparable with the ones in California and Florida. A new organization has been formed by Texas packer-shippers to promote and merchandise high-quality Texas citrus fruit. Another has been organized to further the interests of citrus growers.

With the establishment of the Texas organizations, the citrus industry in the United States is practically 100 percent integrated in certain phases of marketing.

Nature and Extent of Vertical Integration

The three major citrus-producing areas in the United States are Texas, California-Arizona and Florida. Practically 100 percent of the citrus produced in the California-Arizona area is under an integrated production and marketing arrangement. This is done primarily through a network of cooperatives with producer membership. The cooperatives are banded together by a super-cooperative which uses a brand name for its products—one of the well-recognized and best merchandised food labels in the United States.

Most of the integrated production and marketing of Florida's citrus also is through producer cooperatives. Nearly 50 percent of the fresh citrus produced in Florida is marketed by these cooperatives and almost as much of the processed fruit is handled by vertically integrated cooperative or private organizations.

Two other large organizations assist in marketing Florida citrus. A state commission, an agency of the Florida Department of Agriculture, serves in a capacity comparable with the super-cooperative in California-Arizona. Both producers and processors are represented in the state commission's program, since it deals with fresh fruit as well as processed citrus products.

The second major Florida organization is strictly a growers' bargaining organization. It operates as a merchandising and bargaining cooperative for growers in dealing with fresh fruit buyers and canning companies. Neither organization handles citrus fruit directly. Each endeavors to assist in various marketing and operational procedures that would be mutually helpful to the citrus industry.

In addition to the cooperatives in Florida, much vertical integration also exists in the form of other private commercial or organizations. These commercial concerns are almost exclusively involved in the processing of canned or frozen fruit and juices for the Florida citrus industry. Brand names of these corporations are well known to the public. The large cooperative is engaged in citrus fruit processing. These commercial or cooperative processing concerns are integrated in that they own or control extensive citrus groves. A primary consideration in owning their groves is quality control. Fruit from other groves also is purchased at market prices.

Not usually counted among producer marketing organizations is an association of Florida canners. It is primarily a trade association which keeps industry statistics and market information of interest to citrus processors. It is not involved directly in marketing policy decisions.

The shippers organization, recently established by Texas citrus packers and shippers in the Lower Rio Grande Valley, seeks to develop higher quality standards for a select grade of Texas citrus for the fresh fruit market. The organization's primary objective is to help shippers improve their competitive positions in merchandising against the organized programs of Florida and California-Arizona.

The new growers organization in Texas also endeavors to further the growers' interests in the development of better crop estimates and useful marketing data.

Most Texas citrus growers are entirely independent of any packing house or processing organization. A major exception is one corporation at Weslaco. It began as a cooperative. It now owns citrus groves which provide part of the fruit necessary for its processing operations. However, it depends on supplies received from independent growers. Like the commercial processors in Florida, it handles many of its own sales of canned single-strength juices. No frozen concentrates are produced at present.

It is estimated that not more than 20 percent of the citrus production in Texas moves through channels that are representative of integrated production and marketing operations.

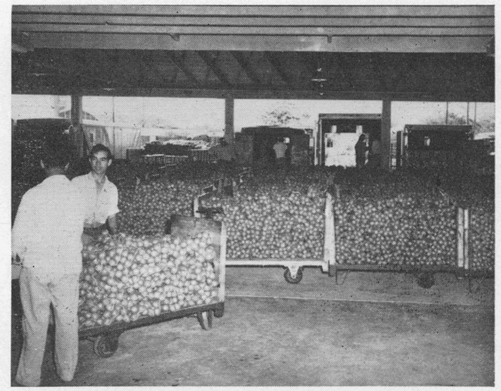
Present Management Practices Used

The organizational structure for vertical integration in the production and marketing of citrus has taken the form of cooperatives or private corporations. Florida and California-Arizona rely primarily on cooperatives. There has been less inclination toward cooperatives in Texas and more reliance on voluntary associations.

Whether cooperative or private, the management usually consists of a board of directors representing different districts or producers and a salaried general manager. Other specialized statisticians or marketing specialists are used as needed. Financing in private corporations is from sales funds. Cooperatives, on the other hand, generally use a check-off levy of a few cents or a fraction of a cent per box of fruit sold by the producer-member.

Direct management practices, although varying somewhat, have a generally consistent pattern in California-Arizona and Florida. Policy and general operating decisions are made by the board of directors and are carried out by the general manager. Marketing decisions affecting the producers' disposal of their crops also are implemented in California-Arizona and in Florida by federal-state marketing orders. Through these programs, effective policing and enforcement of marketing policy decisions are possible.

Management decisions in California on general marketing policy are the responsibility of the super-cooperative over the individual grower-cooperatives. In Florida, the state commission and the growers' bargaining cooperative are the central controlling organizations. The types of general management decisions can be classified into six categories; fruit maturity; size and quality standards; promotional advertising policies and expenditures; merchandising programs in major U. S. markets; allocations of the citrus crop among various fresh fruit and processed product markets; promotional programs to improve production practices; and support of research programs in citrus production and marketing.



Loading citrus from a Texas packing house.

Decisions regarding fruit maturity, size and quality standards are enforced through the federal-state market order program. Those dealing with allocations of supplies may be handled through agreements with the individual fruit handling cooperatives and at times with the aid of order programs.

Promotional programs are the full responsibility of the organizations. Contracts are made with advertising and public relations firms to develop nationwide advertising and publicity for their products. There is a separate merchandising program in major market cities. Full-time sales representatives are maintained in selected cities and state areas to place display material and sales kits in the hands of wholesalers and retailers. These representatives also help in local publicity campaigns. One management decision concerns how much should be spent on national advertising versus direct merchandising.

Allocations of production among alternative markets to maximize returns to growers is practiced mostly in California; this has been used particularly for lemons. The strength of the demand and prices available in various fresh fruit, export and processed product markets are evaluated carefully by economic and statistical research. Such research is conducted by the organization or through local colleges and universities.

Research and survey programs on production problems are financed when they are to the general interest of all grower members. Personnel, facilities and funds also have been used in conducting three census counts to im-

prove crop production forecasts by the U. S. Department of Agriculture.

Private corporations or cooperatives in the citrus fruit processing business finance their own sales promotion campaigns for their particular brands. They maintain various types of sales organizations to suit their individual policies and needs. Company-held citrus groves also are used as a supply source for processed items such as canned or frozen grapefruit sections which require high-quality fruit.

In the early 1950's the Texas citrus industry organized according to a pattern used by the Florida state commission. In a friendly test of its enabling legislation, it was found to be legally faulty. Since the new organization of shippers and growers was developed during the 1958-59 harvesting season, their management practices and program have not fully evolved.

The shippers association, as a first step, has set specific standards which its members must adhere to in branding fruit with their adopted label. It is financing and advertising and promotional program to further the demand for Texas citrus products. The growers organization is giving initial emphasis to a tree census to have better information regarding the future production outlook in the Lower Rio Grande Valley.

Future Development

The quantity of Texas citrus marketed is increasing appreciably as a result of replantings following the freezes in 1949 and 1951. Therefore, interest in better coordination of Texas citrus marketing likely will continue. Another recent step in this direction was the law passed by the State Legislature requiring that all Texas citrus fruit marketed as fresh fruit be stamped as to the state of origin when it goes through the packing houses. Florida and California identify their fruit in a similar manner.

Although it is too early to determine what form of vertical integration will predominate for Texas citrus, evidently more steps will be taken to place its production and marketing in a better competitive position with Florida and California fruit. Otherwise, Texas producers may continue to find themselves "out-merchandised" by these major production areas.

Advantages

1. Managed marketing of a year's production to maximize the dollar return to growers.

2. Greater bargaining power in selling to large food buyers such as national and regional chain stores, and regional fruit and vegetable wholesalers.

3. Greater opportunity to establish product identity that can win increased consumer demand for Texas citrus.

4. Improved control over the quality of fresh citrus and citrus products marketed, particularly when implemented by federal-state marketing orders.

5. Possible establishment of additional outlets and uses for commercial grade or poor-quality fruit.

6. Ability to provide funds to the extent desired for advertising and merchandising promotion of Texas citrus.

7. Better statistics on crop production, disposition and prices.

8. An organization that can speak for growers on state and federal legislation.

Disadvantages

1. Some loss of individual control over the marketing of one's crop.

2. Adherence to certain fruit maturity, size and quality standards before making sales through the fresh market.

3. Necessity of attending organization meetings and voting on marketing regulations to be adopted, merchandising and advertising program alternatives and a financial budget.

4. Financing the marketing organization which possibly would be met through a check-off system of a few cents per box of fruit marketed.

Vertical integration refers to the linking together of two or more stages of production, processing or marketing activities under one management. The key feature of vertical integration is the centralization of decision-making, risk-bearing and supervision.

This is the fifteenth leaflet in the series "Vertical Integration in Texas Agriculture." Similar releases on other crops and livestock important to the Texas economy will follow.

By bringing together present knowledge and current practices regarding vertical integration in Texas agriculture, the staff of the Texas Agricultural Extension Service and Texas Agricultural Experiment Station in the Department of Agricultural Economics and Sociology hope to help you make wiser decisions about this matter.

Tyrus R. Timm

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