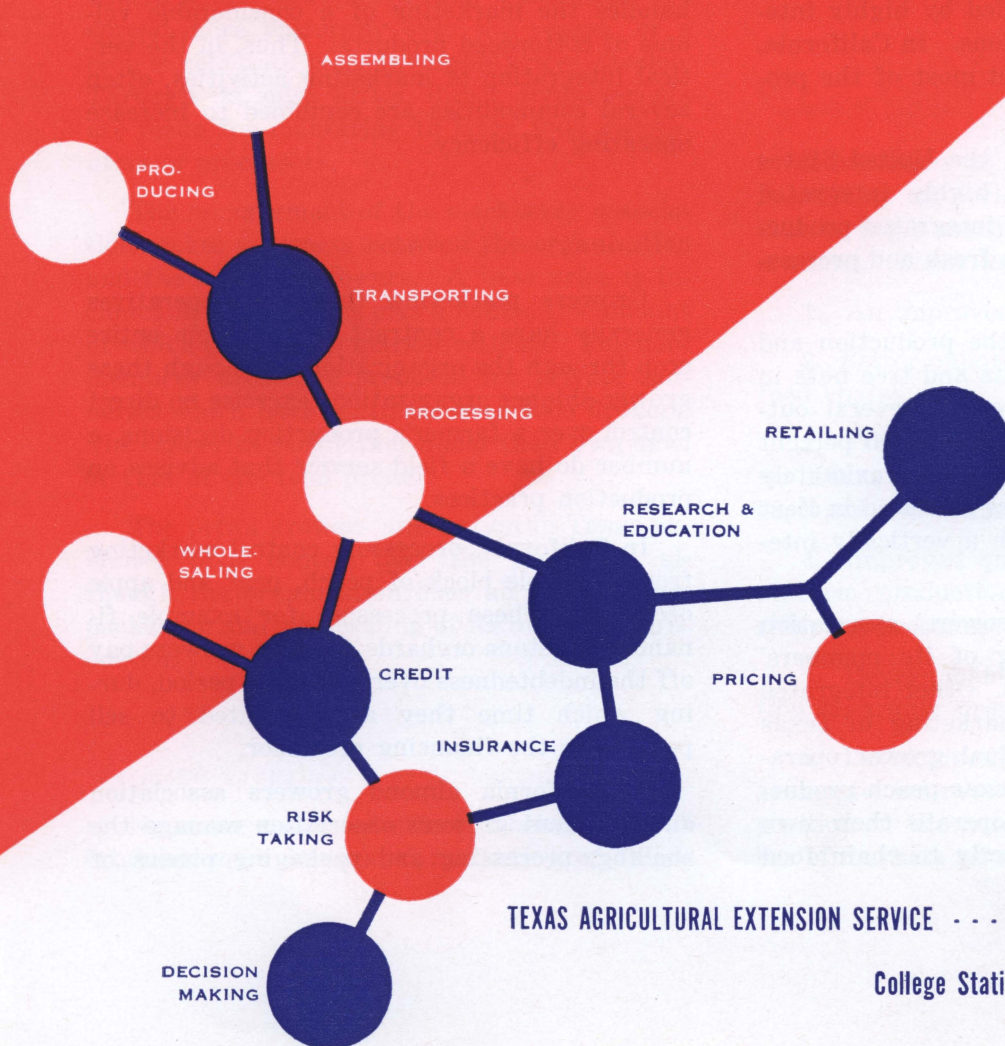


# VERTICAL INTEGRATION

## IN TEXAS AGRICULTURE

### Deciduous Fruits and Nuts

Integrated production and marketing of deciduous fruits and nuts vary considerably by individual products. Only limited vertical integration exists for most of these items in Texas. However, there are several outstanding exceptions. An estimated 90 percent of the plums and peaches and 30 percent of the blackberries produced in East Texas are marketed through this system. One major outlet for pecans in Central Texas also is under the integrated system.



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# VERTICAL INTEGRATION IN TEXAS AGRICULTURE

## Deciduous Fruits and Nuts

### *Nature and Extent*

The extent and type of vertical integration in marketing deciduous fruits and nuts vary considerably by individual products.

Grower-shippers are the most significant integrating influence at the production level for deciduous fruits marketed fresh. Cooperative grower-shipper organizations handle an estimated 20 percent of the total United States volume of the major deciduous fruits and tree nuts. Cooperatives in the Pacific Northwest handle about half of the crop, but in the East only a minor part of the crop is handled by cooperatives.

Processors also have established integrated marketing programs. They control sizable blocks of peach, pear and apple orchards in California.

Tree nuts also are handled by highly integrated marketing organizations. In California, grower organizations market most of the production of these nuts.

Cranberries marketed in the United States are another example of a highly integrated marketing system. A large integrated producers association markets both fresh and processed cranberries.

Vertical integration in the production and marketing of deciduous fruits and tree nuts in Texas is limited, but, there are several outstanding exceptions. An estimated 90 percent of the plums and peaches and approximately 30 percent of the blackberries produced in East Texas are marketed through a vertically integrated system.

An East Texas plum growers' association has handled the marketing of its members' production for several years. Other integrated forms of deciduous fruit marketing in Texas are limited more to individual grower operations. For example, East Texas peach producers with sizable orchards operate their own packing sheds and sell directly to chain food

stores and other outlets. A few cooperatives in East Texas also pack and market peaches.

Thirty percent of the East Texas blackberries are marketed through an integrated arrangement of one of the area's cooperatives. Most of the other blackberries in East Texas move directly to private canneries.

Other deciduous fruits in East Texas are not grown in sufficient volume to be important commercially.

Pecan growers in sections of Central Texas have an association. This association handles the grading, packaging and wholesaling of pecans on both an "in-the-shell" and "shelled" basis. It is affiliated with similar organizations in other sections of the nation. A considerable amount of Southwest and Southeast pecans are marketed through this type of integrated organization. This organization also handles the marketing of a considerable volume of cottonseed products. Thus, in the vertical integration of marketing activities, often several commodities are combined to increase operating efficiency.

### *Management Practices*

Growers marketing through cooperatives generally have a contract to sell their entire crop through the organization. Although these grower-shipper organizations exercise no direct control over a farmer's production decisions, a number do have a field service that advises on production practices.

In California, processors control marketing from a sizable block of peach, pear and apple orchards. These processors for example finance clingstone orchards, and the growers pay off the indebtedness over a 10-year period, during which time they are obligated to sell peaches to the financing processor.

A California almond growers association and a walnut growers association manage the shelling, processing and packaging phases of

these industries. They finance nation-wide advertising to stimulate consumer demand and maintain stocks at principal marketing centers around the nation.

The cranberry producers association determines what portions of the crops, in order to maximize income, should be sold fresh and what portions should be processed in its canning facilities. Its brand label is familiar to the homemaker.

Most vertical integration in marketing deciduous fruits and nuts in Texas has been in the following manner:

Peach growers produce, grade, package and have direct contact with the chain stores. This involves about 90 percent of the peach crop.

In East Texas, a plum growers' association operates cold storage facilities near Tyler by which plums are stored and shipments are spread more uniformly over the season, or a crop is held until more favorable prices develop. Through its sales office, direct arrangements are made for marketing to large food distributors or processors.

The management of the blackberry association makes contracts between the organization and the member growers. A base price is included in the contract plus a bonus, the amount of which depends on market returns. The non-members' crops are produced for private canneries which have contracts with food brokers. The canneries pack either under their own label or that of the food broker.

The pecan growers association in Texas exercises little control over the producers, although the organization does all the grading, packaging and wholesaling of its members' production.

### *Future Growth*

No major concerted effort is being made to establish more integrated marketing of Texas

deciduous fruits and nuts. However, further developments may be forced by the requirements of chain food stores and other buyers for products that are graded on a strict standardized quality basis. No doubt some economies in operating cost can be gained by handling the larger volume by presently integrated marketing organizations. For example, two peach cooperatives in East Texas operated last year as one association.

If current research to establish new grades for Texas pecans is successful, growers may begin to organize into more effective marketing combinations for premium prices in return for higher quality pecans. As the present trend toward more integration of production and marketing of other food products in Texas continues, this may induce increased interest in the possibilities of this type of an arrangement for producers of fruits and nuts.

### *Advantages*

Advantages to be gained from integrated marketing of deciduous fruits and nuts are mainly those associated with large-volume operations. These include:

1. An improved bargaining position.
2. Better opportunity to sell direct to large food chains.
3. Possibility of establishing brand names for Texas products and building consumer acceptance and demand for the brand.
4. Improved quality control through more uniform production, harvesting, packing and shipping procedures.
5. Development of better market information regarding prices and available outlets.
6. Development of market research programs to improve the producers' competitive position in the market and increase the number of markets served.

## *Disadvantages*

Disadvantages that may result from integrated marketing of deciduous fruits and nuts also are associated mainly with large-volume operations. These include:

1. Adherence by producers to overall control over marketing of their production.
2. Additional administrative expense of an integrated marketing organization.
3. Adherence to adopted fruit maturity and size standards.
4. Time and expense of attending organization meetings and voting on marketing regulations, merchandising and advertising program alternatives and financial budgets.

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 fourteenth 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.

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