As Serious a Threat as HLB: The Collapsing Orange Juice Market

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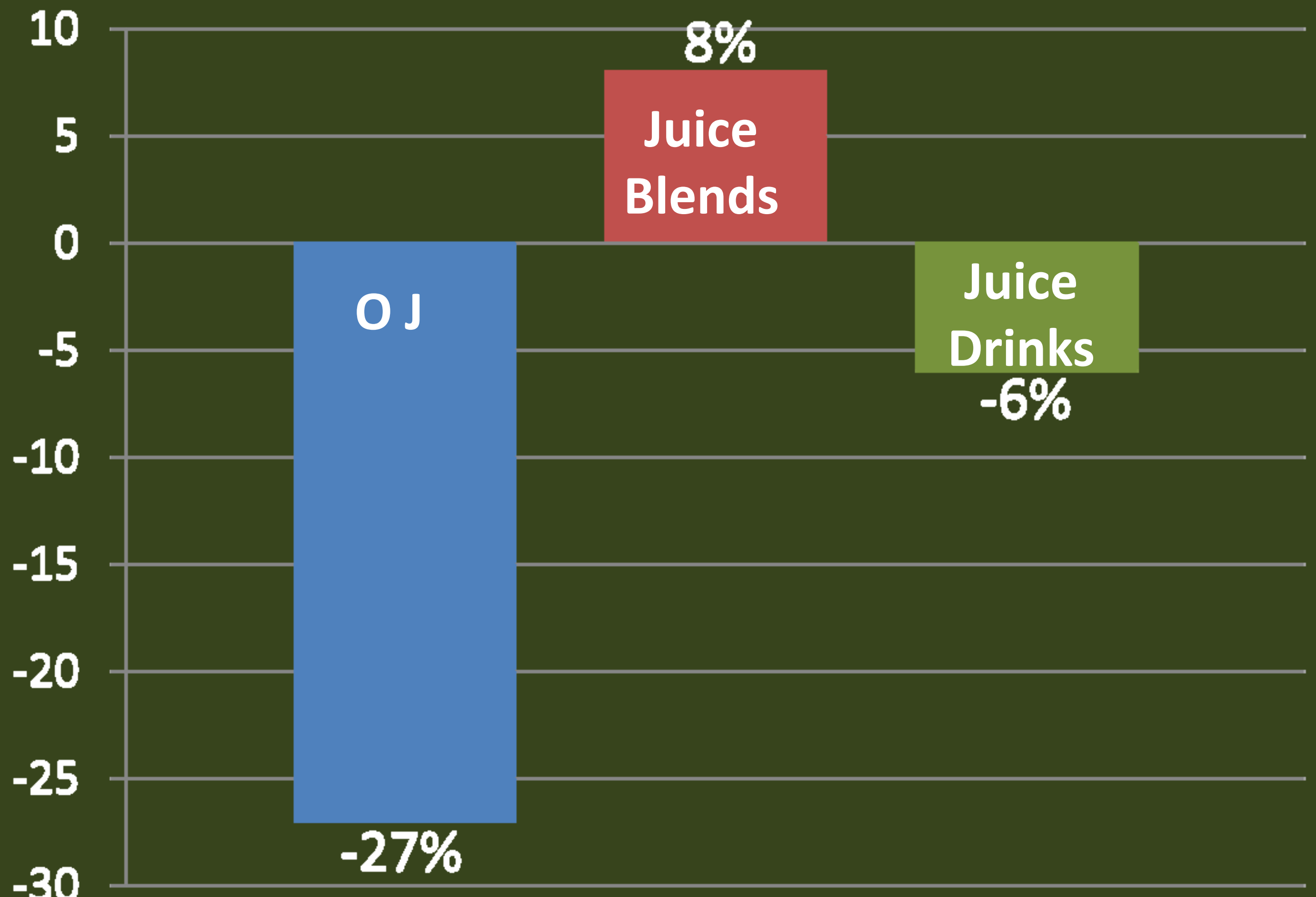
Changes in Consumption Between 2005 and 2010



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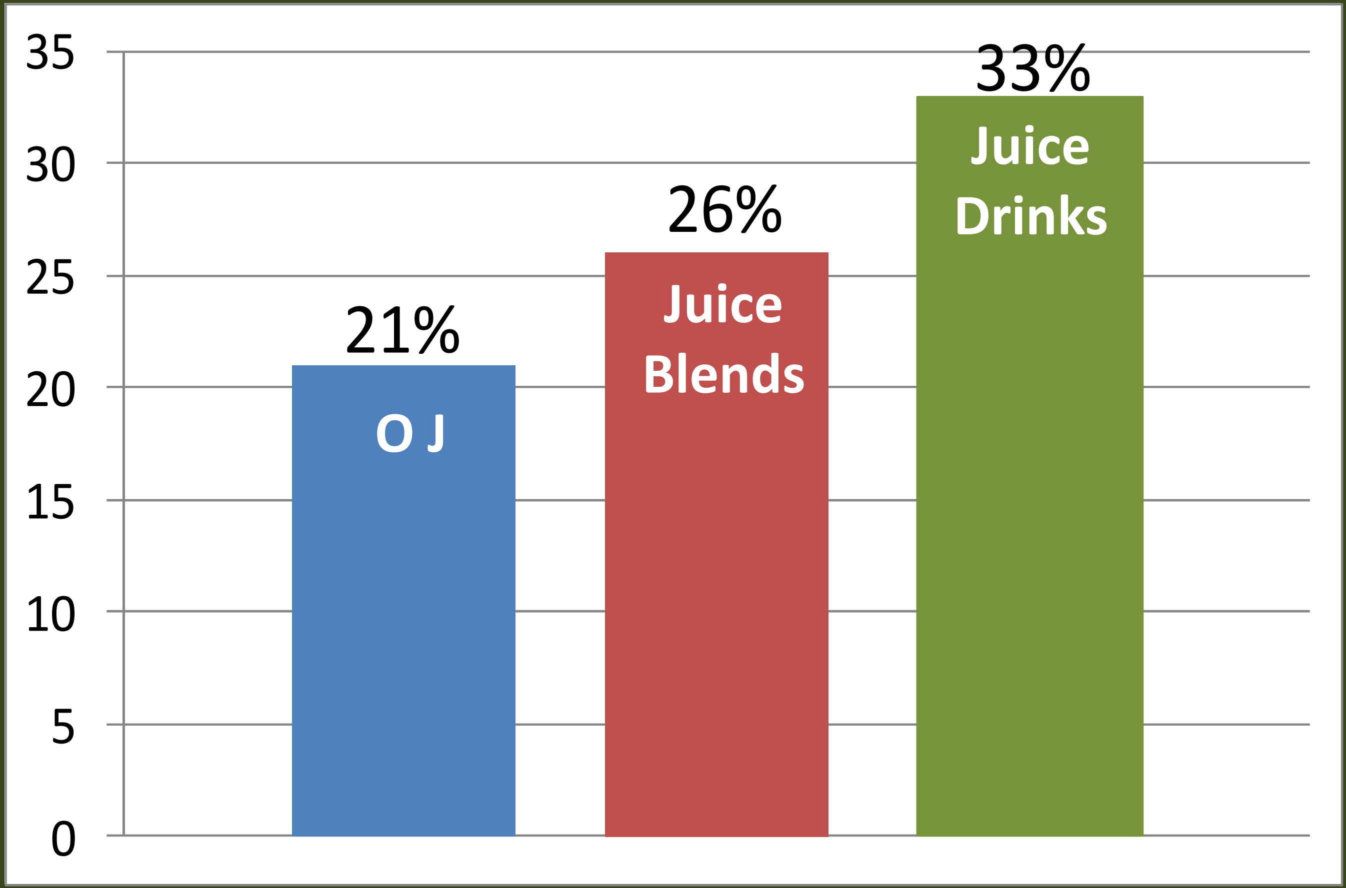
Changes in Prices Between 2005 and 2010



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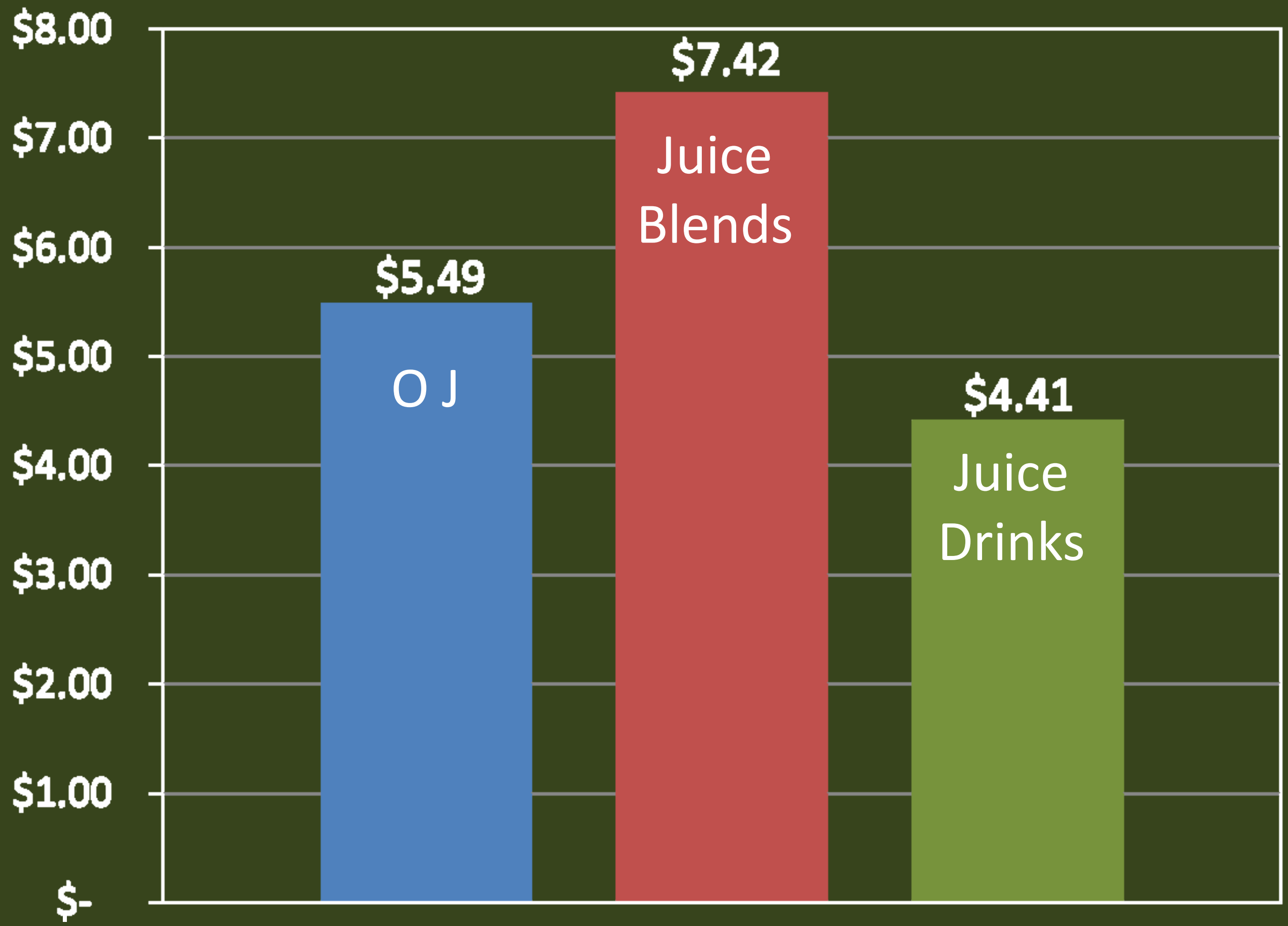
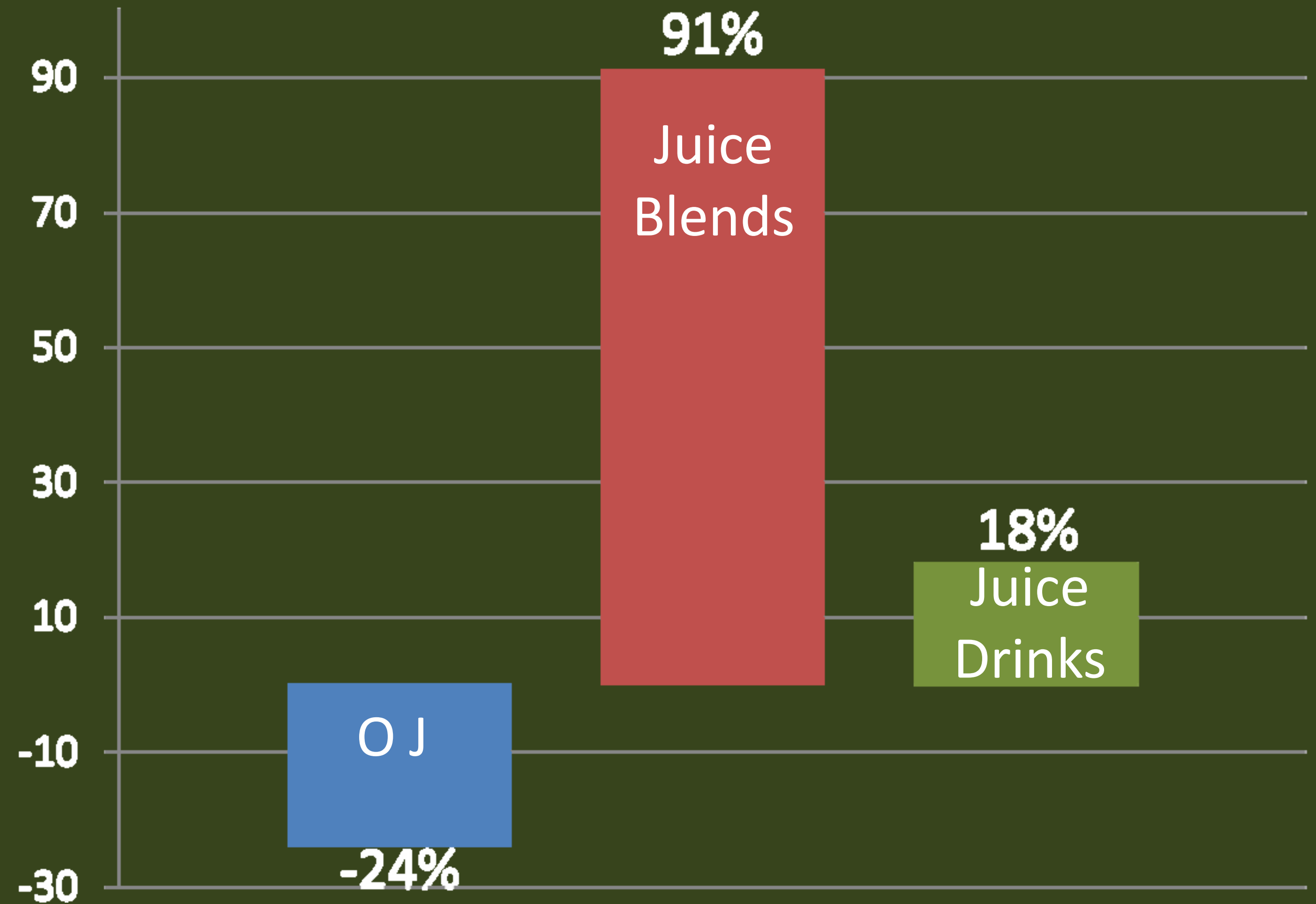
Prices Per Gallon in 2010



Change in Shares of the Combined OJ, Juice Blend and Juice Drink Market: 1989-2010



What’s Happening?

- Orange juice consumption is spiraling down while consumption of juice blends is increasing
- Consumption of juice drinks has declined, but only by a fourth as much as orange juice
- Orange Juice in being replaced by juice blends and juice drinks

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But Fruit Prices Are At Records Highs

- That's because of reduced supplies
- If OJ demand continues to decline, in five years or less we could have fruit prices at $1.00 even if supplies are as low as 120 million boxes

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Demand for Orange Juice is Substantially Lower Than Before

- Analysis by Ron Ward and Allen Morris
- OJ demand is now 21% less at all prices
- Demand for juice blends is now twice as high at all prices

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Demand for Orange Juice is Substantially Lower than Before

- The consumer's willingness to substitute juice blends for OJ when OJ prices increase is more than twice as great as it was prior to 1998
- Juice drinks are not a significant substitute for OJ

Why Has All This Happened?

- Is it funds taken away from marketing to fund HLB research?
- No

FDOC Marketing Funds

Fiscal Year	Million Dollars
2006-07	34.6
2007-08	36.3
2008-09	34.6
2009-10	32.6
2010-11B	34.2

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My Opinion of What's Causing the Problem

- In 2001, the FDOC merchandising field force was eliminated
- In 2001, the health and wellness message was removed from advertising

The Result

- Between 2000 and 2004, OJ consumption dropped 8%
- Retail OJ prices were unchanged
- Processed orange prices dropped by 22%

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The Advertising was Changed

- In 2004, advertising with a health and wellness message was restored
- Message was less focused
- Merchandising field force was not restored

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The Result

- It didn't work
- As shown at the start of this presentation, OJ demand is still spiraling downward

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To Solve the Problem, Four Key Questions Must Be Answered

1. Does generic marketing grow OJ demand?
2. Is it cost effective?
3. Will advertising by the brands alone do the job?
4. Is merchandising cost effective?

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Numerous Studies Show Generic Marketing Grows OJ Demand

- Lee and Brown (1985)
- Ward (1992)
- Brown and Lee (1999)
- Forecasting and Business Analysis (FABA) in 2003

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Results of FABA Study

- Generic advertising increased OJ demand by 3.3 to 7.7%
- Each dollar spent resulted in an additional 1.9 to 4.4 gallons of consumption
- The benefit to cost ratio was 13.3
- Brand advertising did not grow total OJ demand, it simply shifted market shares between brands

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Is Merchandising Cost Effective?

- Nielsen all outlet data measures all retail store sales
- Nielsen > $2 million annual volume measures most retail store sales
- According to the FDOC, most of the difference is Wal-Mart sales

Is Merchandising Cost Effective?

- Sales in > $2 million stores declined by 29% between 2005 and 2010
- Sales in the difference between all outlet stores and > $2 million stores did not decline
- They increased only slightly, but that was 29% more than the other stores that got little or no merchandising support

Is Merchandising Cost Effective?

- According to the FDOC, because of its size, over past 5 years they have directed a major merchandising effort toward Wal-Mart

-- The only store where FDOC has a TV presence

- Also have a merchandising effort at Kroger, Safeway and Publix
- Is the performance of OJ in Wal-Mart proof merchandising is cost effective?
- Not necessarily

Is Merchandising Cost Effective?

- Maury Boyd’s grove that has had greening for 4 years and is now 100% infected isn’t necessarily proof that an enhanced foliar nutrient program protects citrus trees from greening
- But his almost 600 boxes per acre Hamlin yields this season make it highly probable that it does

Solving the Problem Requires Three Key Changes

1. Different generic advertising
2. Restore merchandising force
3. Obtain and maintain data on substitutes for OJ

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Different Generic Advertising

- The current ad is not only applicable to OJ
- Its message could also be claimed by products like high protein nutrition bars, instant breakfast, juice blends, even high caffeine products

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Current Advertisement

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Different Generic Advertising

- This advertisement does not answer two fundamentally important questions required for effective advertising

1. What makes this product different from other products consumers could choose?
2. Is this difference of value?

Different Generic Advertising

- Regulatory agencies are increasingly imposing regulations that prevent making focused health and wellness messages
- I think the next advertisement does the job
- It has a focused message unique to OJ without focused health claims

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Recommended Advertisement

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Restoring Merchandising Force

- The previous merchandising field force was 21 people
- That is no longer required because of consolidation among retailers

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Market Share Among Major U.S. Food Retailers, 1998

Company	Share		
Kroger	9.6		
Alberston's	8.0		
Wal-Mart	7.1		
Safeway	5.6		
Ahold USA	4.4	Top 5:	34.7 %
Supervalu	4.0		
Fleming	3.4		
Winn-Dixie	3.1		
Publix	2.7		
A & P	2.3	Top 10:	50.4 %

Source: Supermarket News

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Market Share Among Major U.S. Food Retailers, 2008

Company	Share		
Wal-Mart	29.0		
Kroger	8.6		
Costco	8.1		
SuperValu	5.0		
Safeway	5.0	Top 5:	55.7 %
Loblaw Cos.	3.5		
Publix	2.7		
Ahold USA	2.4		
Delhaize America	2.1		
C&S Wholsale	2.1	Top 10:	68.5 %

Source: Supermarket News

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Retailer Consolidation

- FDOC estimates that the Top 40 accounts are now about 70% of the market

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Restore Merchandising Force

- Not money for promotions
- Information provided to trade that shows the financial benefits to them of selling more OJ
- Currently, three people are attempting to do this, one mostly focused on foodservice
- Add three more to increase the effort

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Obtain and Maintain Data on Substitutes for OJ

- Juice blends
- Monthly volumes and prices, nationally
- In an environment as competitive as the juice market, what the competition (substitutes) is doing is critically important to managing OJ marketing

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Can the Industry Afford to Makes These Changes?

- The industry can’t afford not to

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