

*Outputs:* Lambert, Matthew P., *Supply Response for U.S. Cranberry Producers: 1965-2001*, MS Thesis, Department of Resource Economics, University of Massachusetts-Amherst, May 2003;  
Jesse, Ed, *Cranberry Price Forecasting*, Staff Paper No. 459, Department of Agricultural and Applied Economics, University of Wisconsin-Madison, March 2003.

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## SEEING RED

### *Cranberry cooperatives and falling prices*

In the 1980s, cranberries became a red-hot commodity. There were reports of the fruit's health benefits, the industry was finding new uses for cranberries in blended juices, and international markets were growing. Consumer demand for the product surged, and prices rose accordingly. Not surprisingly, there was a boom in planting to take advantage of the rising demand and high prices.

Growers began making long-term investment decisions based on short-term prices, and acreage devoted to cranberries not only spread but new varieties made it extremely productive. Even with increased production, prices continued to rise. In 1986, production was more than 4 million barrels, the highest to date, while real (deflated) prices surpassed \$50 per barrel (100 pounds), a price not seen in almost 40 years.

By 1998, however, expanded production outpaced demand. Millions of barrels were left in inventory. In 1999, a record crop of 6.4 million barrels was produced, which caused grower prices to crash. With demand softening and inventories overloaded, growers voted to enact their Federal marketing order as a way to reduce supply and raise prices.

The cranberry marketing order was used to establish grower delivery quotas. In 2000, growers voted to set production allotment at 85% of historical sales, with roughly 5.5 million barrels allowed to hit market. This did little to raise returns to growers, so the following year allotment was limited to 65%, with 4.6 million barrels allowed to reach market. This restriction was more effective in raising grower prices, and the order has not been used since the 2001 crop.



### **PREDICTING CRANBERRY SUPPLY AND PRICE**

In an effort to evaluate the actual and potential effectiveness of the cranberry order in influencing production response and grower prices, researchers in the FSRG-funded study developed models to project cranberry production and prices with and without application of the order. The models provide estimates of production for each major producing area (Massachusetts, New Jersey,

Oregon, Washington, and Wisconsin) and can be used to specify production levels consistent with industry price objectives.

### COOPERATION IN THE COOPERATIVE?

The study also assessed Ocean Spray's leadership role in the U.S. cranberry industry and the cooperative's behavior from 1996-2003. Even with success in returning higher prices, the industry was struggling. Ocean Spray's largest member, Northland Cranberries, Inc., departed the cooperative and became an aggressive competitor in the cranberry juice market. Attempts by Ocean Spray to regain market share by expanding acreage precipitated the industry crisis after sales slumped, eventually leading to the imposition of the marketing order.

Ocean Spray subsequently underwent a restructuring that led to industry turmoil. In 2003, the governing board was removed and replaced with members who were committed to exploring opportunities to either sell the company or enter into a joint venture with an investor-owned beverage company. Members voted down a proposal to sell part of Ocean Spray to Pepsico in 2004.

The final report of the study will use interviews of members and former members of Ocean Spray to provide more definitive conclusions and interpretations of firm behavior

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**ISSUES:** Relationship between cranberry supply and grower prices. Federal marketing orders. Volume controls. Predicting commodity prices. Agricultural cooperatives and leadership.

**FINDINGS:** A model for forecasting prices and specifying production level to maximize grower return. Analysis of firm strategic behavior

**OTHER MATERIAL:** *Ocean Spray Cooperative: Lessons in Cooperative Management*. Final study report. Forthcoming at <http://www.aae.wisc.edu/fsrg/>.

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