

Welch Foods, Inc. and National Grape Cooperative Association

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Welch Foods Inc. (Welch's) is a wholly-owned subsidiary of the National Grape Cooperative Association, Inc. (National Grape). Despite another successful year in 2002 in terms of net sales and patronage distributions, Welch's President and CEO, Dan Dillon, says his company faces an increasingly strong challenge to remain relevant to customers and consumers. Dan Dillon put it this way: "At our current size, are we going to be able to remain on the radar screen of companies such as Wal-Mart? Will they want to see us if we request a meeting?" Additionally, says Dillon, it is critical for Welch's that its consumers associate grape juice with the distinctive characteristics of Concord and Niagara grapes. This question of competitive relevance and scale is critical to all food companies in the rapidly consolidating marketplace. But perhaps more important to the viability and survival of a cooperative-owned food processing company like Welch's is governance. Will the structure of the board of directors support the strategies that Welch's need to implement to remain relevant?

Dillon has made it his mission to maintain Welch's relevancy by strengthening relationships with key customers and suppliers as well as providing consumers with the products they want at a price point they believe is competitive. A man who describes himself as "committed, concerned and approachable," Dillon had a deep understanding of Welch's ethos and emphasized that every business effort in the company supported and reinforced that ethos. Welch's ethos embodied trust, timeliness, naturalness, quality and sense of family.

The question of relevance was not new at Welch's or to Dillon. When a consultant advised Welch's to move away from dark juices in the early 1980s, Dillon, then a young Welch's executive responded sharply that that view was unacceptable. He proceeded to embark on a mission to prove that "the purple grape juice" was not only a successful product with a future, but capable of leading the entire juice category. By 2002, Welch's purple grape juice and other products claimed number one or number two spots among all non-citrus multi-serve manufacturers.

Origin of National Grape Cooperative and Welch Foods

Jack Kaplan, an entrepreneur, purchased a small grape processing facility in 1933 from some investment bankers in Brocton, N.Y., and called his new company National Grape Corporation. To control inflation during WWII, the United States government instituted price control policies for most industries but exempted farmer cooperatives, allowing them to pass through their prices to the market. Kaplan decided to take advantage of this legislation by selling his company to the growers supplying grapes to his plant on the condition they formed a cooperative. The growers accepted and National Grape was born in 1945. Its membership has grown to encompass the majority of the Concord and Niagara grape growers in Michigan, New York, Ohio, Pennsylvania, Washington, and Ontario, Canada.

In 1869, Dr. Thomas Welch and his son Charles applied Louis Pasteur's theory to the processing of Concord grapes, succeeding in producing an unfermented wine for use at church services. Charles took over the business in the 1870s, producing "Dr. Welch's Unfermented Wine" on a part time basis while running his dentistry practice. He changed the brand name to "Dr. Welch's

Grape Juice” in 1890, and after a successful exhibition of the product at the Chicago World Fair in 1893, dropped the “Dr.” from the label. This success at the World Fair also caused the younger Dr. Welch to quit his dentistry practice and devote his attention to the company full time, growing the business and the brand significantly. Charles successfully ran the company until his death in 1926 and the company was sold to a group of private investors from Tennessee shortly thereafter.

Welch’s came up for sale in 1945 and Kaplan purchased it and became its president. Kaplan set in motion for National Grape to purchase Welch’s during the early 1950s, with the objective of giving growers “complete control of their destiny, from raw fruit to finished product.” But since the growers did not have the money to pay outright, Kaplan offered them a “mortgage” that allowed him to specify how the processing company was governed. In 1956, the directors of National Grape Cooperative voted to purchase Welch’s stock and paid off the mortgage on the company in three years.

Over time, National Grape Cooperative Association set the vision “to be the best choice of present and future members to market their grape production.” Its mission focused on being “dedicated to providing the most profitable long-term market for all of its members’ quality Concord and Niagara grapes.” Its ownership of Welch Foods, Inc. provided it with a vehicle to achieve the vision and accomplish the mission.

The Governance System in National Grape and Welch Foods

National Grape and Welch’s each has its own board of directors, a stipulation put in place by Kaplan when he sold his processing company to the growers. Aware of the failure rate of farmer cooperatives attempting to undertake consumer products manufacturing and marketing, Kaplan stipulated a two-board system to allow the growers to govern the cooperative and a mix of growers and people knowledgeable in the packaged goods industry to govern Welch’s. The two-board system turned out to provide the appropriate checks and balances required to manage the complex business of growing, processing and marketing consumer packaged goods. “What you have is an arrangement that carefully balances the needs and concerns of the growers with the needs of the business,” explained Dillon. “You have this stable system in place that carefully analyzes and weighs the costs and benefits of every key decision that needs to be made,” Dillon continued about the two board system.

In 2003, National Grape’s governance was based on the traditional one-member, one-vote principle of cooperative representation. The key Concord and Niagara grape growing areas for National Grape were: Yakima Valley in Washington State; southwestern Michigan and northern Ohio; the Lake Erie area of New York and Pennsylvania; and the Finger Lakes in New York and Ontario, Canada. These four key areas were divided into 13 production districts and 103 geographical sections.

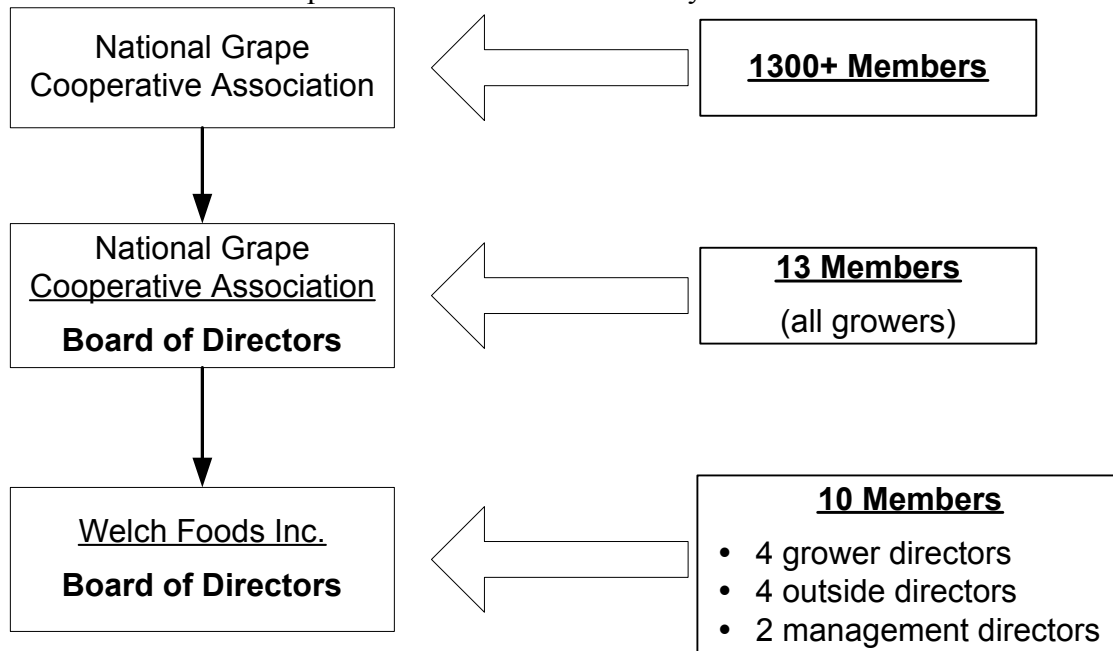
National Grape’s board of directors comprised 13 members elected from each of the production areas and was responsible for establishing policies regarding member needs and raw grape production. The board elected the officers of National Grape annually and appointed a general manager to implement board policy and oversee operations. The distribution of directors in the different areas is based on number of grower members in the area. Areas I, II and III each has three directors while Area IV has four directors. Because the directors are elected by area, it is

possible for more than one director to come from a particular district. Each director is elected to a three-year term and director terms are staggered into three classes, each class representing a particular year on the board. There were no term limits on directors as long as they are willing to serve and are elected by members in their area.

In addition to the board, National Grape’s members annually elected 13 delegates to represent them in each of the organization’s 13 production districts. Their responsibilities included acting as a critical communications link between members, the board, and management and chairing their district’s membership meetings. Finally, the advisory committees, comprising 103 members, are elected from the geographical sections to provide direct feedback on issues to the board and to management and provide a gauge on the pulse of the general membership. Advisory committee members met at the local level about four to six times per year.

There are 10 people on Welch’s board, comprising four representatives from the National Grape board, four outside directors and two representatives of Welch’s management, including the company’s CEO (Exhibit 1). The four representatives from National Grape include the chair of National Grape’s board and three others elected by National Grape’s board. The outside directors are appointed from a slate of candidates and the management representatives are submitted by the nominating committee of Welch’s board to the National Grape board. Membership of the Welch’s board is for one year. “The fact that there are four outside directors and four growers provides the balance that has contributed to the effectiveness of this model,” Dillon observed.

Exhibit 1. National Grape and Welch’s Two-Board System



Dillon was very clear in his perception about the relationship between the two companies. “We look at the members of National as our stockholders and we think about the National Board in the same way General Motors thinks about its investment bankers,” he explained. “We provide them with all the information they need, but we do not ask them for a vote.”

When there are major issues that could affect growers – acquisitions, divestitures, plant closings, etc. – Welch’s discussed those issues with the National Grape board to ensure that there was enhanced understanding of the possible ramifications. Welch’s also negotiated grape quality specifications with National Grape to ensure that Welch’s products remained competitive in the consumer marketplace in terms of its value proposition and that growers received competitive compensation for their products. Once these specifications were decided, neither Welch’s nor National Grape can change them without the other’s consent. This arrangement has worked very well for both companies, given that the National Grape board has all the relevant information motivating decisions at Welch’s.

But the two-board system demanded significant effort from all concerned to work effectively. For example, Welch’s staff devoted a lot of time educating new National Grape and Welch’s directors so as to create a “common language” and facilitate communication. A.B. (Trey) Wright, Welch’s CFO, explained it this way: “Outside board members have to learn the difference between proceeds and profits, and the grower-members, who tend to talk and think in terms of crop year results have to learn to convert to fiscal year results because Welch’s is run on a fiscal year basis.”

The representatives of National Grape’s board on Welch’s board have changed more frequently than the outside directors. Consequently, they needed more training to ensure that the “common language” was maintained among Welch’s board members. For example, Welch’s people noted that they often have to explain to new growers on Welch’s board the importance of financing assets with sufficient equity because there is a belief that since Welch’s can borrow at better interest rates than producers, it should distribute all proceeds and borrow or leverage with debt to finance capital improvements. This education was not limited to just National Grape’s representatives on Welch’s board. Welch’s made presentations to the National Grape board at almost every National Grape board meeting and answered any questions that allowed National Grape’s board members to increase their understanding of the packaged goods business and industry. Welch’s also provided all necessary information to the National Grape board, as any public company does. “We have to do this. It helps us operate more efficiently and create the value that is our primary objective,” Dillon pointed out.

There was significant collegiality among board members, despite their different backgrounds. “The outside directors respect the growers because of their extensive agricultural knowledge and the owners respect the outside directors for their commitment and valuable input,” noted Wright about the relationship among Welch’s board members. “In 22 years of going to six board meetings a year, I can count on one hand the number of times we have ever had a vote that wasn’t unanimous,” Dillon added. Thus, the system works because people learn quickly to appreciate the challenges confronting the packaged goods company and their responsibilities in addressing these challenges. “Even those who get elected to the board on the promise of changing the system change their opinions once they come on the board and recognize the effort everyone is putting in to addressing the issues confronting us,” Dillon noted.

Welch’s board structured its management compensation incentives to be aligned with the grower-owners’ rewards. For example, management was rewarded on items such as net proceeds per ton of grapes received and not on profit per case of grape juice sold. “This ties it all together,” Wright pointed out. “Even though we are separate companies and we focus on the

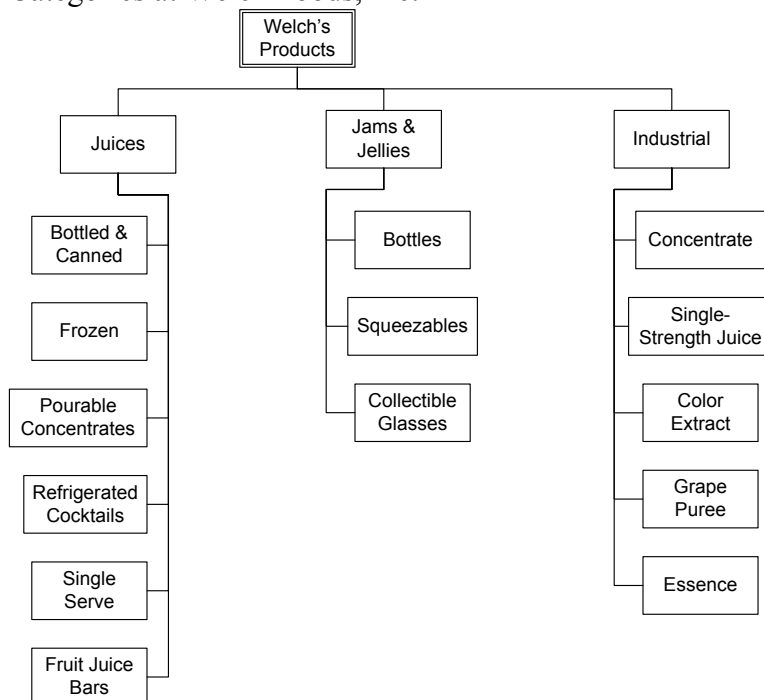
different segments of the business, the reward systems are the same and they tie the two companies together.”

The governance structure at National Grape and Welch’s offered them two critical advantages: (1) it has allowed National Grape to focus on its core functions – such as cooperative and ownership issues and the production and delivery of quality grapes; and (2) it has allowed Welch’s to focus on the job of product development, manufacturing, marketing, and sale of packaged goods. Since the issues facing grape producers and the packaged goods company were different, the governance system ensured that the critical issues in each facet were not overlooked or under-emphasized. Dillon recognized this important benefit of the two-board system when he noted that “We are able to succeed at what we do because of the two-board system which insulates us from most of the issues occurring at the production level.”

The Business of Welch Foods

Welch’s saw its purpose as building long-term value in the cooperative and releasing that value back to the grower-owners over time and to provide a reliable market for their grapes through excellence in product quality, customer service, market responsiveness and consumer satisfaction. Welch’s processed 50 percent of Concord grapes and 80 percent of Niagara grapes produced in the United States into juices, jellies, jams and other products. It was the leading marketer of Concord and Niagara grape-based products in the world. The company produced a variety of other fruit-based products, including 100 percent juices and juice cocktails. The company owned the Welch’s and BAMA brand names, using the latter in the marketing of its jams, jellies and preserves in the South. Its products were available in bottled, refrigerated, single serve, and frozen and shelf-stable formats. Additionally, it served the industrial market, supplying concentrates to further processors and other manufacturers (Exhibit 2).

Exhibit 2. Product Categories at Welch Foods, Inc.



Marketing and Promotion

Welch's was one of the first food companies to take advantage of radio and television to market products. In 1934, it began an 11-year sponsorship of the Irene Rich radio show. It became one of television's first corporate sponsors when it found a fit between its products and its image and the Howdy Doody show in 1951. Its "Memories" advertising campaign, which features young spokeschildren, enters its tenth year in 2004. Since the early days with Charles Welch, the company focused on innovative marketing and sales approaches – magazines, radio, television, the side of trolley cars – to reach customers and consumers. For example, it advertised in magazines to explain to its customers why there were shortages of Welch's products during WWII. Welch's also introduced the long-running jelly glasses in 1953 featuring Howdy Doody as the first "star." Since then, the campaign has featured kids' favorite movie and cartoon characters such as Simba's Pride, Winnie the Pooh, Tom and Jerry, Looney Tunes characters, The Flintstones, Jimmy Neutron and Dragon Tales characters.

Welch's always looked for ways to extend its strong brand image. One such opportunity was the 1999 licensing agreement with C.H. Robinson, which allowed Welch's to enter the fresh produce aisle with branded fresh grapes. The program had been very successful, generating sales of more than 16 million packages of Welch's Fresh Grapes to consumers and involving more than 30 grocery chains across the country in its first year.

Welch's was very aggressive in the increasingly competitive fruit juice market, using new product launchings, well-crafted and targeted consumer promotions and advertising and enhanced consumer communication in various media, including via the internet. The company recently established a loyalty program with Upromise, whereby money is contributed to a child's college education fund when a consumer (with a Upromise account) purchases Welch's jelly products. The company has also collaborated with ValuPage.com to offer consumers the opportunity to select particular promotional products online and print associated coupons to be used in participating stores for discounts on its products.

International Activities

By 2003, Welch's was marketing its products in 40 international markets, but the company's principal export markets were Canada, Japan, South Korea, and the Latin America-Caribbean area. Through an alliance arrangement, the company processed and distributed a variety of shelf-stable products in the UK, introducing seven new products in 2002 and launching an approximately \$8 million marketing campaign (television ads, a public relations campaign championing the health benefits of its products, and a tactical sampling program encompassing radio promotions) to support them. The company also signed a distribution agreement with Nong Shim, a South Korean consumer products company, to improve its penetration into the Southeast Asian market. Welch's had used a similar strategic alliances approach when it entered Japan, reducing new market entry costs and enhancing its competitive advantage. Total international sales in 2003 reached \$120 million compared with \$100 million in 2002.

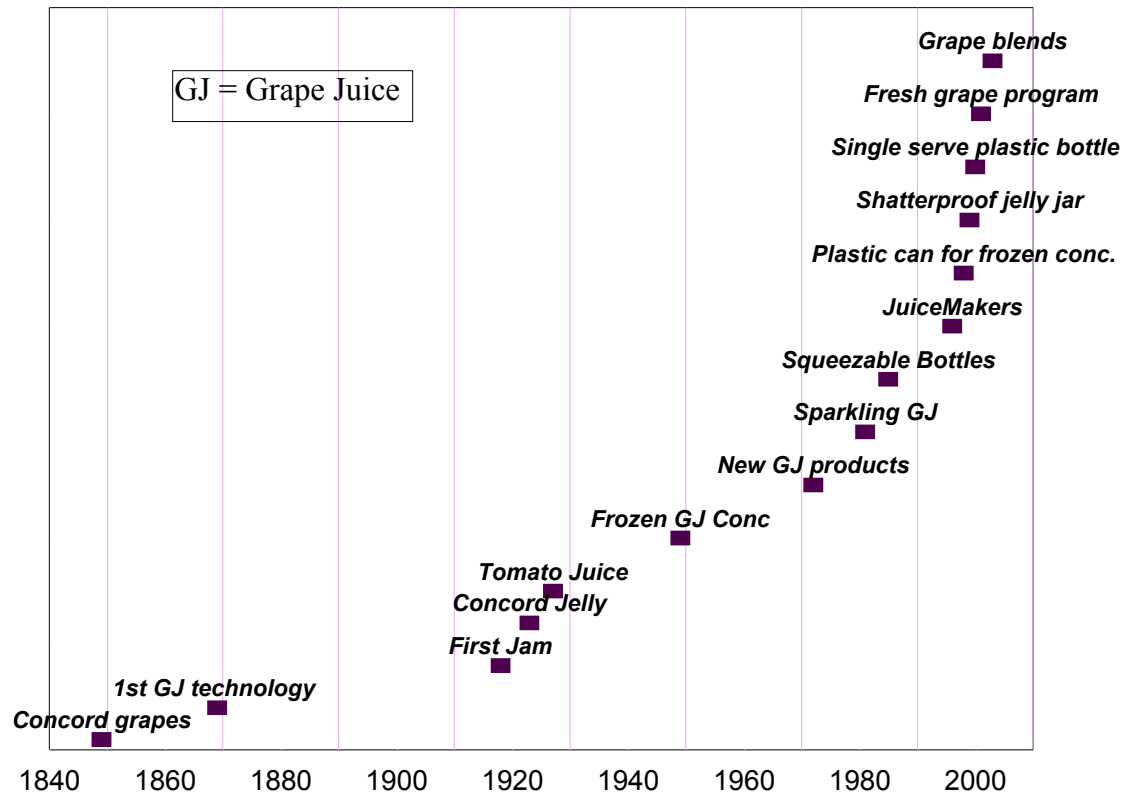
Innovations in Products and Packaging

From its early days, Welch's had continuously looked to product and packaging innovation as a competitive strategy (Exhibit 3). For example, it introduced the squeezable containers for jelly

and jams in 1985 to improve the feasibility of kids preparing their own sandwiches and launched the shatterproof jelly jar in 1999 to minimize accidents when kids took the initiative to “take care of themselves.” Welch’s had also focused on innovation in convenience, such as the introduction of shelf-stable juice concentrates in 1996 which allowed juice to be mixed without waiting for it to thaw. In 2003, the company introduced three new 100 percent white grape blends into the market.

A principal driver in these efforts is the objective to have 25 percent of the company’s sales come from new products (products that have been introduced within the past five years). This objective was considered essential in not only extending and growing Welch’s brand, but in answering the demands of consumers as their tastes and needs evolved. “In other words,” emphasizes Dillon, “it’s what the company has to do in order to remain relevant.”

Exhibit 3. Innovation at Welch’s Through the Years



Source: Developed from information on Welch Foods Inc.’s website (www.welchs.com).

Research and Development

In 1997, Welch’s built a new Technology Center in Billerica, Mass., a short drive from the company’s Concord headquarters. The 40,000 square-foot facility, one of the largest among cooperative organizations, employed about 50 quality control, engineering and research and development professionals. Prior to building the Technology Center, Welch’s research and development, engineering and quality control professionals were located 350 miles away in Westfield, NY, away from the marketing, market research and operations people with whom they needed to interact frequently. It was hoped that by bringing the marketing and market research group together with the engineering, quality control and research and development group in the same facility, ideas would flow more easily and the enhanced communication would

engender more new products. It did – in the generation of both products and intellectual property. Dillon explained it this way: “In the first 50 years of the company’s existence, we received two patents; in the last five years, we have filed for 14 patents and to date have received patent awards on nine of those. It tells you what sort of company we are today compared to what we have been.”

Welch’s has driven its product development objective with its own internal effort as well as through collaboration with other organizations and researchers. For example, the company has contributed to funding research exploring the health benefits of grape juice made from Concord and Niagara grapes. A USDA study found that Welch’s Purple 100 percent grape juice had three times more antioxidant power than other popular juices such as grapefruit, orange, tomato, and apple, and more antioxidant power than 42 other tested fruits and vegetables.¹ Other preliminary studies have suggested that the antioxidant activity of Concord grape juice may be similar to that of red wine. In 1999, *Circulation*, the journal of the American Heart Association, published a report by researchers from the University of Wisconsin Medical School indicating that the elasticity of blood vessels increased significantly and the rate at which their LDL (“bad”) cholesterol oxidized decreased significantly when their subjects drank purple grape juice for two weeks. Similarly, in 2002, researchers at the University of Illinois Urbana-Champaign indicated that purple grape juice fed to laboratory animals led to significant reductions in both mammary tumors mass and the number of tumors per animal. Another study published in *Experimental Biology* in April 2003 showed that men with elevated blood pressure could experience significant decrease in their blood pressure if they drank Concord grape juice.

Not one to miss opportunities, Welch’s recruited such celebrity personalities as Larry King and Paul Harvey to extol the health benefits of Welch’s products to consumers. The company also communicated directly with medical practitioners and attended the relevant medical conventions to educate and exhibit to the professionals about the role of its products in human health.

Technology and Quality

Welch’s ethos embodied trust, timeliness, naturalness, quality and sense of family. It has achieved this with an intense focus on protecting its brand image while listening and responding to the needs of consumers. The company’s reputation for quality has been earned through sustained dedication to uniform standards. Welch’s excellent quality control enabled the company to offer premium products consistently and continuously. The company also introduced new technologies, such as its three-time pasteurization process (once after harvest, once after filtering and a final pasteurization after the bottle is filled), which, according to company reports, has increased first-pass inspection from approximately 70 percent to over 90 percent.

The company installed a web-based information system to provide up-to-date information on prices, promotion and category information in 1998. Company officials note that not only did this improve information flow and support efficient customer service, but it also allowed Welch’s to respond faster to market conditions. Although retailers were not tied into Welch’s extranet information system directly, the system allowed sales representatives to get more accurate and timely information. To improve its merchandising performance, Welch’s also installed software in partnership with a software development company to create orders and

¹ Wang, H., G. Cao and R.L. Prior. “Total antioxidant capacity of fruits,” *J. Agric. Food Chem.* 44(1996):701-705.

manage the inventories of its retail customers. This technology allowed some retailers to double the number of times they turned Welch's products. These efforts at improving efficiency of customers through effective use of information technology matched Welch's desire to strengthen customer relationships.

Financial Performance

Company financial performance can be measured in several ways. Size and change in size is one way. Useful size measures are sales and total assets. Profitability and change in profitability is another way. Useful profitability measures are gross margin percentage, net proceeds, return on sales percentage, and return on equity percentage. Common profitability measures, like return on equity or investment, cannot be calculated and compared in the usual way to other food processing companies because net proceeds in Welch's are not equivalent to net income. Welch's operates on a pool basis, and hence, its cost of sales does not include the cost of purchasing grapes from members. Members are not paid a market price for their grapes but receive net proceeds which include the purchase value of their grapes. Solvency is another important performance measure. One useful measure is equity to assets percentage. This measure is comparable to all food processors, whether or not they operate on a pool basis.

Total net sales increased by 3.4 percent between 2001 and 2002 from \$535 million to \$553.5 million after declining 2.8 percent between 2000 and 2001 (Exhibit 4). The increase in 2002 was attributed to increased sales volume, increased prices and reduced trade promotion activities. Net proceeds or net earnings have also been declining after peaking at about \$78 million in 2000, although proceeds per ton, a key financial measure for grower-owners, have increased. The decline in 2002 was explained by the restructuring charge of \$7.6 million while the decline in 2001 was explained by the decrease in sales volume and sales margins driven by the short crop supply situation experienced by patrons. The restructuring charge comprised a \$2.3 million cash charge and a \$5.3 million non-cash charge associated with the closing of the General Office in Westfield, N.Y., downsizing the organization and processing facilities in Concord and relocating administrative functions to Corporate Headquarters in Concord, Mass.

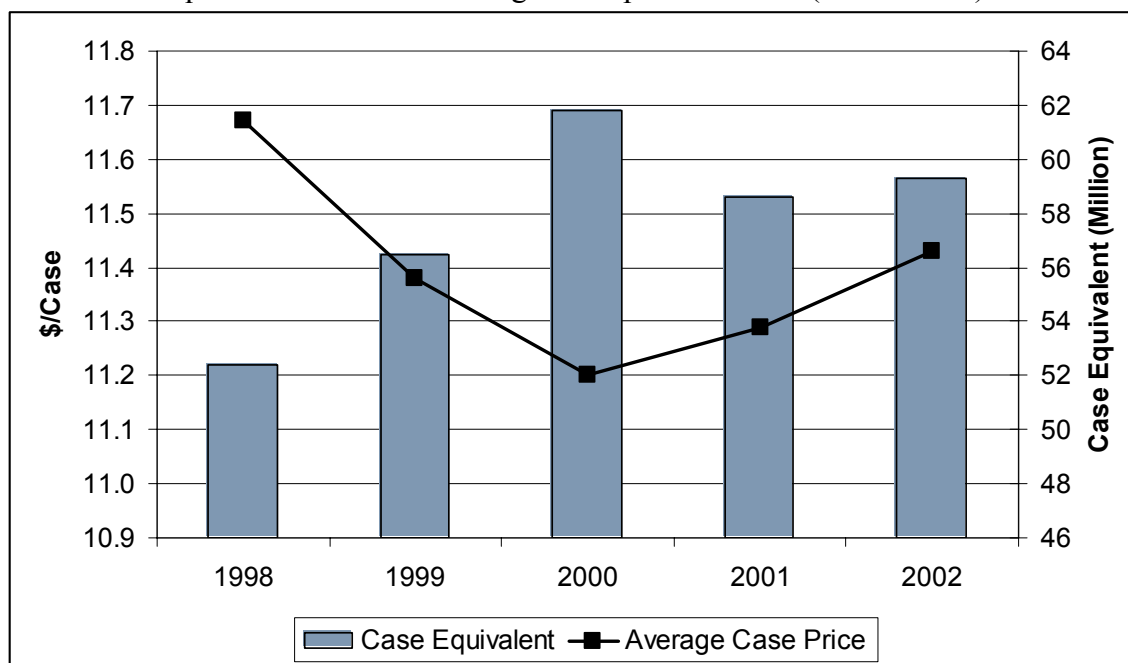
Exhibit 4. Summary Financial Indicators for Welch Foods

<i>(In Thousands)</i>	1998	1999	2000	2001	2002
Operations					
Net Sales	509,331	526,454	550,275	535,027	553,476
Cost of Sales	319,835	327,485	350,126	347,390	346,051
Gross Margin Percentage	37.2%	37.8%	36.4%	35.1%	37.5%
Patron Cash Distribution	55,723	57,621	60,608	51,314	56,358
Patron Equity Investment	16,645	17,211	18,103	15,327	14,982
Federal Income Taxes (Benefit)	(2,117)	(1,950)	(50)	520	(350)
Net Proceeds	69,807	70,532	78,084	67,367	65,056
Return on Sales	13.7%	13.4%	14.2%	12.6%	11.8%
Financial Position					
Working Capital	166,173	147,025	158,008	150,063	130,602
Net Property, Plant and Equipment	108,919	111,241	118,134	119,648	122,073
Total Assets	366,841	351,269	383,155	352,647	330,472
Current Liabilities	107,641	101,472	119,205	93,783	106,580
Non-Current Liabilities	167,381	157,151	165,795	155,603	128,730
Owners' Equity	91,819	92,646	98,155	103,261	95,162
Equity to Assets Ratio	25%	26%	26%	29%	29%

Source: National Grape Cooperative Association Inc. and Welch Foods Inc. Annual Report, Various years.

The total number of equivalent case sales increased 1.2 percent in 2002 from 58.6 million to 59.3 million cases after a 5 percent decline in 2001. At its peak in the last five years, Welch's equivalent case sales were about 61.7 million cases. The net sales and case sold equivalent data indicated that the company experienced slightly higher average unit prices for its products in 2002 compared to the two previous years (Exhibit 5). The average price per case in 2002 was about 4 percent lower than it was in 1998 and about the same as 1999 average equivalent case prices. This slight decline resulted from a significant increase in refrigerated and single-serve juice businesses which usually carried lower prices. But improvements in volume and pricing in the bottled juice business dampened the effect of the increased single-serve sales.

Exhibit 5. Case Equivalent Sales and Average Price per Case Sold (1998 - 2002)



Source: National Grape Cooperative Association Inc. and Welch Foods Inc. Annual Report, Various years.

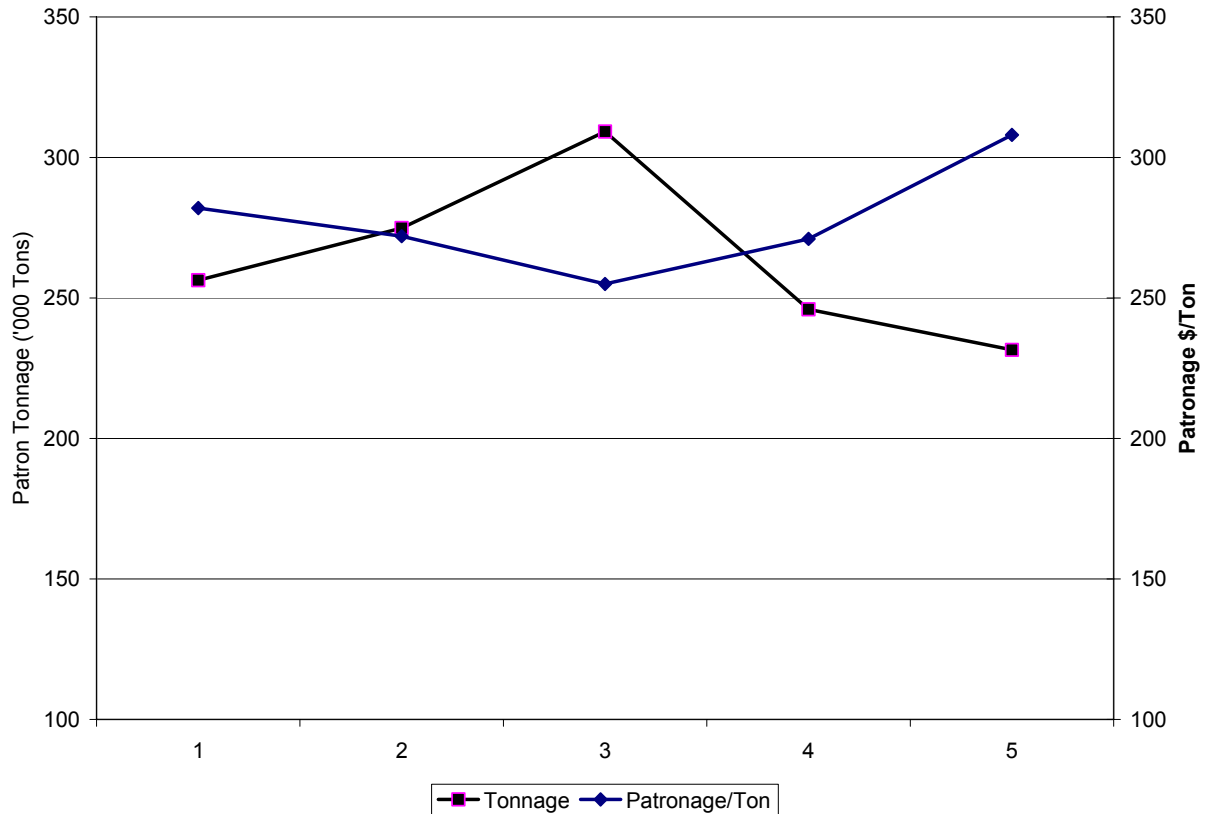
Sales at Welch’s trended upwards at an average annual rate of almost 4 percent between 1997 and 2002 fiscal years. This was the organic growth rate expected by Dillon for the whole company, although specific segments such as juice were expected to grow at double-digit rates. For example, the company’s 10-ounce plastic bottle single-serve juice products experienced a 15 percent growth between 2001 and 2002. And while jams and jellies were not considered growth segments for the company, squeezable spreads posted a 47 percent improvement in sales between 2001 and 2002. After declining slightly between 2000 and 2001, gross profit margin percent improved from 35.1 percent in 2001 and to 37.5 percent in 2002. The company’s accounting is structured such that cost of sales excluded the cost of grapes supplied by grower-owners, explaining the relatively high sales margin percent. The lower sales margin percent in 2001 resulted primarily from the need to rework Welch’s products because of the poor crop supply experienced by its grower-owners that year as well as increased utility cost.

Patron Financial Performance

The members of the cooperative are the residual recipients of the company’s financial performance and their payment is referred to as patronage distribution or refund. The patronage distribution or refund received by a member depended on the volume of business the member did with the cooperative. Patron proceeds have varied widely over the five years, 1998-2002. They ranged from a high of \$78.7 million in 2000 to a low of \$66.6 million in 2001. Although most members consider proceeds received per acre as the most important measure of their profitability, the fact that some of their acreage is non-bearing can confuse this measure. However, since proceeds per ton were based primarily on members’ patronage in the particular year, it provided a good indicator of their performance, reflecting the impact of weather and other conditions in the industry. Proceeds per ton have varied from \$255 in 2000 to \$208 in 2002, and paralleled the average price per case even as total tons sold by members varied between about 239,529 tons in 2002 and 309,218 tons 2000 (Exhibit 6). It is not surprising that

with price per case equivalent at the lowest in 2000 and tonnage delivered at the highest, the patronage per ton will be lowest in 2000.

Exhibit 6: Total Patron Tonnage Sold and Patronage per Ton (1998 -2002)



Source: National Grape Cooperative Association Inc. and Welch Foods Inc. Annual Report, Various years.

Challenges and Options

The future presented some interesting challenges for Welch’s and National Grape because of changes in the market and industry. Dillon believed that because his company offered growers premium prices, and a secure market for their grapes provided quality specifications were met, National Grape’s share of good Concord and Niagara grape growers would continue to increase. But access to high quality grapes is only one side of the equation; the other side is for Welch’s to remain relevant by living its ethos, by strengthening the brand and responding to customer needs. “If we continue to be innovative, then we can remain relevant in the marketplace,” Dillon emphasized.

The challenges presented by well-financed competitors and private label products continued to put pressure on the cooperative. Chicago-based Information Resources Inc. reported that total category sales for bottled grape juice was \$221.4 million in the 52 weeks ending December 29, 2002 and private labels accounted for almost 24 percent.² However, while private label grape juice dollar sales increased by 3.6 percent compared to the year before, the total grape juice

² Gale Group, Inc. “Drink up! The shelf stable juice segment proves fruitful for private label, though opportunities remain in single-serves and isotonic,” Private Label Buyer, Vol. 17, No. 3; Pg. 31, March 2003.

category declined by 1.7 percent. Overall, seven of the top 14 bottled shelf-stable juice subcategories posted gains in market share and nine of these outperformed the subcategory as a whole in the 52 weeks ending December 29, 2002. The challenge posed by store brands was that they often offered lower prices and, when bundled with the same or higher quality and packaging presentation, they successfully seized market share away from national branded products. Other competitors to Welch's were SoBe's new Long John Lizard's Grape Grog which, although it contained only 5 percent real grape fruit, had grape seed extract and vitamin C added and was marketed to a different market segment – young and active – with an intense aggressiveness akin to the marketing strategies of its parent company, PepsiCo.

Grape juice was in direct competition with other fruit juices, especially apple juice. New research results showed the nutraceutical qualities of grape juice and other fruit juices such as cranberries and the companies are using these results to differentiate themselves in the face of increasing competition among processors and marketers. For this reason, government regulations that provided inequitable distribution of advantages in the manufacturing process could adversely affect grape juice's competitiveness. A case in point was the changes in labeling regulations imposed by the Food and Drug Administration (FDA) which required that grape juice manufacturers who declared "grape juice" or "from grape concentrate" on their retail product labels cannot dilute those products below 16.0° brix. Processors used to dilute some grape juice products to 14.3° brix. On the other hand, apple and pear concentrates can be diluted to 11.2° brix and still qualify in labeling their products "juice" or "from concentrate." Since higher brix implied lower volume, this meant that grape manufacturers processed a lower volume of juice from the same quantity of concentrate than their apple or pear competitors. For example, a gallon of grape juice concentrate yields 5.4 gallons of reconstituted juice while a gallon of apple juice concentrate yields 8.1 gallons of reconstituted juice. While these regulations may help producers sell more grapes for processing, they do impose significant pressure on processors who are confronted with competition from other juices and beverages in the marketplace.

Finally, there were numerous mergers and consolidations in the beverage products and inputs industries leading to increased concentration. Larger companies had larger product lines to offer wholesalers and distributors who were looking to minimize their operating costs. Larger companies also tended to have lower technology costs and were more able to adopt technologies that offered supply chain benefits. Smaller companies that were unable to meet the service needs of larger customers and provide economies of size benefits to their suppliers face an increasing threat of becoming less relevant in their markets. Welch's is a unique company with control over a unique input – Concord and Niagara grapes. However, Welch's was faced with the challenge of searching for ways to improve its relevance in the marketplace with consumers, to its customers and to its suppliers. Dan Dillon took this challenge seriously.

Conclusion

Welch's and National Grape had done well when most producer-owned packaged goods companies and agricultural cooperatives were facing significant performance challenges. Welch's and its owner-cooperative, National Grape, have successfully used a two-board system to ensure that there is an equitable balance between the needs of growers and the needs of the packaged products company. This structure allowed the two companies to identify and focus on the critical components of their respective but related businesses.

However, the market landscape was changing rapidly and Welch's board needed to continuously explore ways to maintain and improve the company's relevancy with consumers, its customers and its suppliers. For example, to expand its product portfolio, Welch's may have to adopt the traditional mergers and acquisition approach that many in the industry are using to increase market share and gain economies of size. Or it may also embark on building larger strategic alliances. Either of these options may require significant capital outlay. One way to achieve the required investment is to reduce cash patronage payments and cash equity redemptions, increasing the equity investment of patrons. Dillon and his Welch's need to assess if the two-board system, which has worked well over the last half-century for Welch's and National Grape, will support the different strategies that they need to pursue to maintain Welch's relevance in the changing marketplace.

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