Orange Juice: A Private Label Product for the Nineties?

by
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Abstract

Orange juice began as a branded product in the 1950s, but private and packer labels soon became dominant. Brands gained share during the 1980s with the introduction of a third national brand and the growth of chilled juice. The large number of packer labels makes brand and private label share measures misleading for structure-performance studies. Private label appeals to manufacturers who like the lower risk, the absence of slotting allowances, and fewer entry barriers. Pasteurized orange juice, however, the newest product form to experience rapid private label growth, is uncharacteristic because of large capital investment required for efficient market entry.

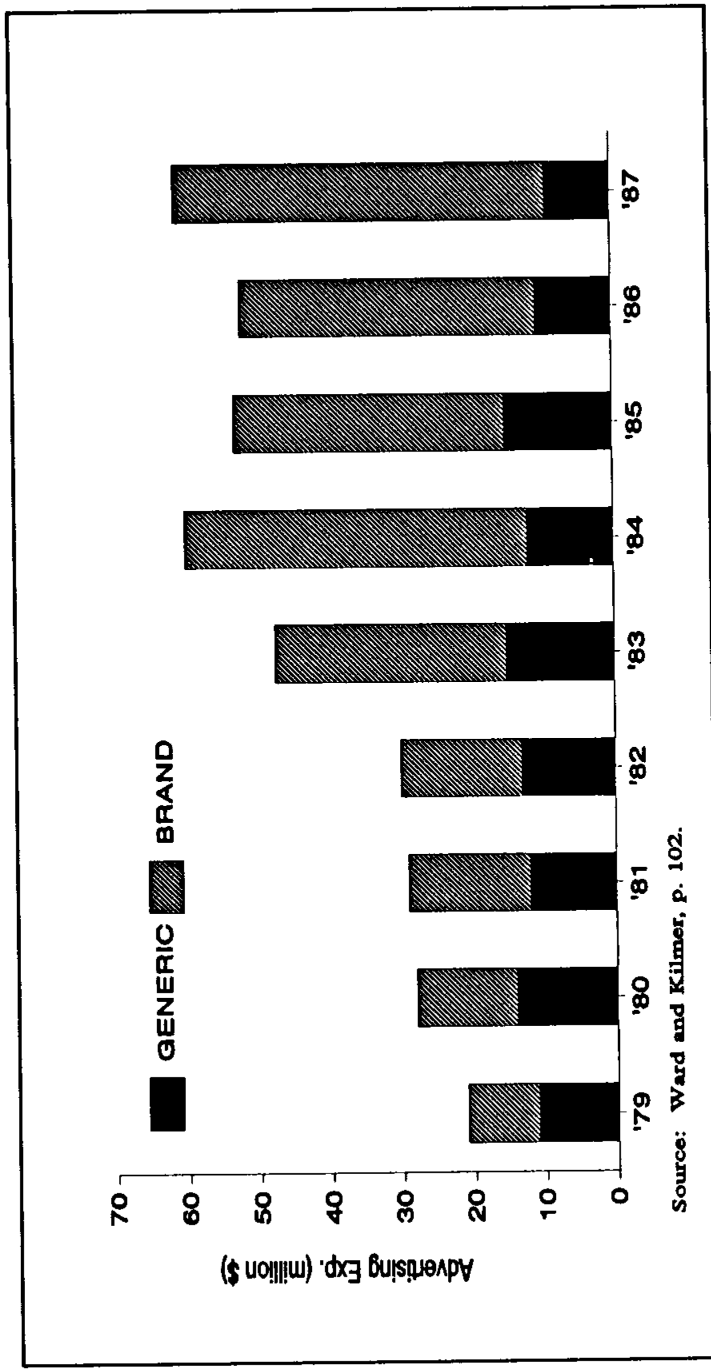
Orange Juice: A Private Label Product for the Nineties?

Good morning ladies and gentlemen. It is a pleasure to be here this morning to talk to you about the orange juice industry, and particularly about the differing roles of branded and private label products within the industry. It is also good to see so many familiar faces from my days as a researcher. At the outset let me say that my remarks today will be largely institutional in nature. I will not attempt to develop any theoretical framework for what I say, that kind of work I will leave to you. I hope that some of my observations will be useful to you in your research, perhaps leaving with you some unanswered questions which will tweak your research interests.

Perhaps nowhere is there an industry where the private label market is a more important segment than in orange juice. In some orange juice products, private label is still the "leading brand," but it wasn't always that way, as we shall see. For 1991, however, the top three advertised brands commanded a 52.8 percent share of total orange juice sales. In the chilled ready to serve category the brands held 60.7 percent of sales, while in FCOJ brands lagged at only 43.4 percent of sales.

According to a recent *Forbes* article, branded products were the "jewels of the 1980s" but there are signs that the gilt is wearing off as consumers balk at higher prices and are switching to private label alternatives. The top three brand share of some 11 categories of common grocery store products has declined between 1985 and 1990. For baking mixes, for instance, the top three brands share fell from 68.9 percent in 1985 to 43.1 percent in 1990. For disposable diapers, a heavily advertised product, brand share fell from 81.2 percent to 53.8 percent over the same period. How much of the change is due to the recession is an unknown, but there is some evidence that consumers are less wedded to specific brands.

For orange juice, on the other hand the brand share rose over the same period from 44.5 percent to 53.3 percent. In part this is due to the introduction of a third national brand during the 1983/84 season. Citrus Hill brand, owned by Procter and Gamble, was introduced with a level of advertising support never before seen in the citrus industry. By some reports, the advertising expenditures during the first year of the brand actually exceeded the purchase price of the company. Figure 1, from Ward and Kilmer's study of the Florida Citrus industry illustrates rather graphically the growth in brand advertising over the latter part of the 1980s. Generic advertising, which had been the staple of the industry for many years, actually declined over the period. And, several studies by Ward have supported the contention that brand advertising has contributed to brand growth, as well as total orange juice consumption.



Source: Ward and Kilmer, p. 102.

Figure 1. ANNUAL ADVERTISING EXPENDITURES ON ALL CITRUS JUICES

In 1991 we saw a significant swing in the share of private label orange juice. In frozen concentrate the combination of recession and pricing resulted in a loss of nearly ten share points by the leading three brands. This trend was partially reversed later in the year as the brands began pricing aggressively, and recent price increases which were reflected in private label almost immediately will be reflected in the brands only after about a three month lag. This has resulted in retail prices of brands at or near the level of private label, which should lead to gains in share for the brands.

Before we delve more deeply into some statistics on the industry and its development let me define a few terms which may be helpful later on. As most of you are aware, orange juice comes in a variety of product forms, and in fact consumers perceive these product forms so differently that some are not substitutable for others at the market level, at least not to the extent that their cross price elasticities are positive and significant. The old standby, and still the leading product form, is FCOJ. Some might argue that chilled orange juice (COJ) is the leading product form, but my research indicates that COJ is really a combination of two products, chilled from concentrate (RECON) and chilled pasteurized orange juice (POJ), often referred to as "premium." There are several other forms of orange juice, but they constitute a very small share of the overall market. Among them are fresh squeezed orange juice, frozen orange juice (FOJ), which is a non pasteurized fresh frozen product, canned single strength orange juice (CSSOJ) which has long been declining in importance, and aseptically packaged products.

In foodservice there are a number of products not typically seem at retail. For dispensing, there are more highly concentrated FCOJ products, single serving products in pure pack and plastic containers, as well as the more familiar package forms seen at retail. For the remainder of this paper I will concentrate primarily on the retail market, though some of the comments will apply to branded and private label foodservice markets as well.

Although immediately after the development of frozen concentrated orange juice (FCOJ) in the late 1940s brands were king, by the mid 1950s the private label industry as we know it today was born, not just for orange juice but for the food industry as a whole. The original advertised brand of FCOJ was Snow Crop. It has an interesting history. Right after World War II noting that Birdseye had invented quick freezing, several WWII vets put together a marketing company to sell frozen fruits and vegetables. FCOJ had just been invented by the Florida Citrus Commission so Snow Crop contacted Vacuum Foods Corporation, the forerunner of Minute Maid, to pack product for them in their Plymouth, FL plant. The shipment of product was made in April, 1946.

From the beginning vacuum foods was a potential competitor. Vacuum foods was founded by some engineers and scientists who had been associated with the dehydrated orange juice project at the National Research Corp. in Cambridge, Massachusetts. In the late 1940s Minute Maid was formed with the support of C.V. Whitney, a New York investment banker. Later Bing Crosby got tied into the struggling company by advertising the product on radio. Crosby was paid in stock and was given the exclusive distribution rights to the West Coast. Though he was never involved in the direct management of the company he became synonymous with the product and many people thought he owned the company. Minute Maid made no attempt to clarify Crosby's connection with the company, since Crosby's popularity was a plus for the company.

During the early 1950s Snow Crop and Minute Maid fought it out. Minute Maid was strongest on the Northeast and West coast, with Snow Crop dominant in the Midwest and Mid Atlantic. In 1954 Minute Maid bought the Snow Crop Division of Clinton Foods, but with a 35 percent share of the industry's capacity, with 5 plants, (two Minute Maid and three Snow Crop), the FTC reviewed the purchase and required divestiture of two of the plants. The Frostproof plant was purchased by Ben Hill Griffin, a member of Minute Maid's board. Griffin produced private label products in the Frostproof plant until selling to Procter and Gamble (Citrus Hill Brand) in the early 1980s.

Today at retail there are three advertised brands in national distribution, Minute Maid, Tropicana, and Citrus Hill. Each are owned by huge food and beverage firms, Minute Maid by Coca Cola, Tropicana by Seagrams, and Citrus Hill by Procter and Gamble. There are a few regional brands, the largest being FloridaGold owned by Lykes Pasco, and Florida's Natural, owned by Citrus World. The Citrus World product is in one product form (POJ) only, whereas Minute Maid, Tropicana, and FloridaGold market virtually all product forms, Citrus Hill is a bit more limited in its offerings. Sunkist, in California is attempting to launch their brand, but it is in relatively narrow distribution. There are a few brands known as Packer Labels still in distribution, including Pasco and Old South, our packer labels, Donald Duck, owned by Citrus World, and perhaps ten or so very small packer labels sold by a number of small Florida processors.

Packer labels fall somewhere between brands and private label. They really precede both brands and private label in the orange juice industry. Prior to the development of FCOJ they were the only labels. Today they are used mainly by small stores that are not members of

buying groups or wholesale houses and do not do a sufficient business to warrant developing their own label. Generally the advantage of the packer label is that it is legal...not a small concern these days, and often exclusive within the market area the store serves. The packer makes sure the label is up to date with respect to FDA labeling laws. Our packer label business is quite small relative to the rest of our business but there are a few important products and accounts. One major chain, for instance, uses its own label for most of its juice products, yet for its RECON orange juice uses our Old South packer label. As with private label products, there is no advertising support for packer label products.

The earliest examples of packer labels were Lykes Pasco's own labels. In the late 1940s and early 1950s Old South was the #1 "brand" in New York and Chicago. FloridaGold was #1 in Philadelphia and Detroit. This success was attributable to the fact that A&P used these packer labels as their exclusive brands in these markets, and as you will recall, A&P once commanded the leading share in retail grocery sales. But by the mid-1950s A&P developed, with the help of Lykes Pasco, their own label...and what A&P did in the fifties, others soon followed.

Unfortunately companies like A.C. Neilsen identify packer label products as brands, and only private labels as "controlled brands." This probably overstates the importance of branded products within any product group. Since these packer labels are marketed more like private label products than branded products, and the advertising is not there, failure to adjust the data could be a problem. Of course depending on product there may be so many of these un-advertised "brands" that adjustment of the data would be virtually impossible without considerable knowledge of the industry. Take, for example, the Washington, D.C. market for ready to serve orange juice. There are currently 34 "brands" identified by A.C. Neilsen scantrak. Using the strict definition of controlled brand, the brand share in that market is 75.6 percent. Yet there are only five brands that advertise at all, representing 68.8 percent of the market, and the top three national brands represent 63.8 percent of the market.

A really unusual market in Charlotte, NC. Here all "brands" have a 71.4 percent share, yet the top three have only 38.2 percent and all 5 advertised brands in the market have 52.2 percent. What makes this market unusual is that a packer label is used by a leading chain as its house label for recon chilled orange juice, and it has a 10 percent share of the market. Or take the Richmond/Norfolk market where controlled brand has only a 20.7 percent share. Does this show brand dominance? Not really, the same packer label is the number 2 "brand" in the market with a 16.3% share. That may show the importance of the chain in that market, but it probably shows little about brand dominance. Again, the researcher needs to know a bit more about the particular market and data than one could normally expect him to know, in order to use the information correctly.

Let us turn now to a discussion of brand and private label business as we understand it today. There are several important differences between the branded and private label business, and I believe these differences are somewhat consistent across products. First, let me state that Lykes Pasco is in just about every juice market segment there is. On the retail side we sell private and packer labels, and we have branded products. Our FloridaGold brand is number four overall in the United States, though in the 40 percent of households we reach we are third. In Canada we are second nationwide, and first in Ontario, the most populous province with our Old South brand. In foodservice we have the strongest brand franchise, Vitality, in the post mix dispenser industry. In addition to selling juices, we also have a dispenser design and manufacturing division which serves all segments of the foodservice industry, including our most recent ventures, juice and coffee dispensers designed especially for cruise ships and gambling casinos. In addition to our branded foodservice business, we produce some private label foodservice products, and even a packer label line of canned juices.

We are in all of these market segments, but it isn't always easy to serve all of these masters. As you know, Florida has suffered the past decade with numerous serious freezes. It is important to our customers to know that their needs will be served in the event of a freeze. As you can imagine there was some consternation when we introduced our FloridaGold brand in 1981...and it froze. Would we take care of our private label customers at the expense of the brand business? Obviously, we wouldn't want to slight either, and we didn't have to due largely to the growth of offshore supplies during the 1980s.

To run out of a branded item would mean delisting, and perhaps for six months or so. In the early 1980s maybe all you lost was the business, but now you would have to buy your way back on the shelf with slotting fees. To run out of a private label would have repercussions as well. Private label customers can and will change vendors for small price differences. Many have several vendors at a time, so they simply shift their volumes around if prices are different or if service is bad. While you might not lose such a customer altogether, you may have to buy your way back into his good graces if you fail to deliver.

For the 100 percent account especially, you cannot let the

customer be without product. If that happens, you soon will be sharing that business with someone else, and that is a negative across the board. Not only do you lose business, but you gain uncertainty...how much will he buy from us this year, this month, etc., and how much from the other guy. Remember, there's no such thing as a contract in this business. You agree to supply, and the customer does as he pleases...and guess who's right? After a serious freeze in 1977 our Vice Chairman, Bill Edwards sent out an announcement to some of our best customers. It went something like this. "Due to the severe freeze, you will take what we give you, when we want to give it to you, and at what price we ask. After the crisis is over we will revert to kissing your [behind] as usual."

What is the appeal of a private label? To the owner of the label it may be many faceted. Private labels are profitable, generally resulting in more efficient use of shelf space than brands. For orange juice, in an admittedly unscientific sample, I found that stores generally allocate about 40 percent of their orange juice freezer space to their own brand and less than 20 percent of their chilled orange juice space to private label. That contrasts with a private label share of FCOJ sales of 53 percent and chilled share of 47 percent. These rough numbers suggest that private label FCOJ juice turns about one third faster than branded FCOJ and private label chilled more than twice as fast. Obviously this is only part of the story, but I think these figures suggest there is profitability in private label. In addition to profitability, private label products are controlled by the chain. Label design, promotional activity, even formulation, to some extent.

From the consumer's perspective, obviously price is a primary consideration. While high and consistent quality have long been the claim of branded products, in recent years private label products have been positioned as quality alternatives to brands. Topco, a large buying group in the United States has a broad line of top quality products in its "World Classics" line, and Federated its "Royal Classics." Loblaw's, in Canada, has a line of top quality products in its "President's Choice," brand. A&P of Canada has countered with its own top line "brand" of "Master's Choice," and Steinbergs has their "Preference" line.

From the manufacturer's perspective private label is often viewed as a safer, if lower margin, business. Generally, new products are not introduced in private label form, rather, chains will accept a private label alternative of a successful branded product. In the orange juice market, there are now private label pulp added and pulp free versions of frozen concentrated orange juice, as well as a rapidly growing private label segment in the so-called premium category, which is otherwise known as pasteurized orange juice. This product concept was pioneered by Tropicana, with rapid growth during the 1980s. Now, virtually every leading chain offers a version of the product, packed by a number of private label companies like our own.

While private label products generally may be attractive because of low entry barriers from a technology and capital perspective, the pasteurized orange category bucks that trend. In order to sell such a product on a year round basis, single strength squeezed juice, that has never been concentrated, must be available year round. And further, it generally must be of Grade A quality (color). Oranges of Grade A color are harvested in Florida for only about four months of the year, consequently there is a need for large carryover stocks for blending. Since the product is single strength, seven times as much space is required for storage, and the most efficient and effective storage medium, the aseptic tank farm, is quite expensive to construct and maintain.

There are examples of products that are first introduced as a private label product, however, most are classic examples of product failure, and often for the reason that there is insufficient advertising support to "educate" the consumer about the product's positive attributes. An example of one such product, unfortunately one of our own, is frozen orange juice in a portion pack. The product is about as good as one can get without having fresh oranges to squeeze. In fact, Consumer Reports rated the product second only to fresh orange juice squeezed in their kitchens. But without advertising support, the consumer was confused about the product. It was in a single serving size, yet it was sold in the frozen food case, which is not where one typically looks for single servings of beverages. It was frozen, yet was designed as a single serve beverage. How does one "prepare" it? Do you thaw it in a microwave, or leave it in a lunch box all morning, or put it on the dashboard of your car? Even though thawing instructions and serving suggestions were included on the product itself, without advertising it is difficult to communicate such information to the consumer.

Of course, it is also possible that the product failed because it had nothing to offer the consumer, or was priced wrong, or was perceived as a poor value. These are classic reasons for product failure and the reasons brands introduce new products and private label manufacturers to follow only after the concept has proven successful. Also, retailers are less willing to devote shelf space to new concepts which are introduced in private label form without adequate advertising support, is quite high.

Let us turn now to some of the major differences in the ways in which private label and branded products are marketed. I once characterized the differences between private label and branded sales as the difference between filling and order and offering a bribe. I am told that I wasn't that far off. Generally the private label business is with the corporate office. The companies develop a relationship and people work together toward a common goal, selling more orange juice profitably. Personal contacts, trust, and friendships are an important part of the business. Not that price doesn't matter, but not only price matters. For branded business most often the contact is at the Divisional level. This may be a city, or a portion of a state. Branded products are generally sold through brokers. The function of the broker is to communicate, usually on a weekly basis, with the stores. Brokers tell stores about your program, make presentations on your behalf, and most importantly **protect your shelf space**. It may cost anywhere from $2,000 to $15,000 per item (sku) per division to acquire shelf space, and it may take months to acquire spacings for branded items. Typically, no slotting is charged for private label items, though it happens occasionally. For brands there is a division policy as to spacings etc.. The job of the broker is to make sure that the store follows, or preferably, exceeds, the policy.

Branded products must be supported. This will entail advertising, television, FSI's with coupons, regular newspaper ads with coupons. More and more now local marketing is placing "demands on your price." These "demands on price" are consistent with the overall trend in the food industry to move from advertising to promotion dollars. More promotional dollars are demanded versus advertising dollars. Five years ago couponing and rebates accounted for about 45 to 50 percent of a food company's marketing budget, but now these expenditures are approaching 75 percent (Forbes p 116). In addition to the pressure to buy the price down there is increasing pressure to buy ads in the best food day section of the paper. These ads have become profit centers for the larger chains, and it is not uncommon to buy an ad within an ad for $5,000 to $10,000.

Do branded products command a price premium? Over private label products yes, over each other, only on a limited basis. Only two products, Minute Maid frozen concentrate, and Tropicana Pure Premium chilled, have a brand franchise strong enough to consistently command a price premium. None of the other brands in any product form can sustain a premium over another brand.

The programs are getting more sophisticated and more interesting, if more confusing. Years ago private label FCOJ was sold at the "card price." Whatever the card said, that was the price. Occasionally some of the smaller packers would discount off the leader's card by 10 cents per case, but that was about it. Now it is different, largely due to the way accruals are treated.

There are several different types of private label buyers out there. First, there is the chain that uses accruals for occasional deep discount features. Second, there is the everyday low price (EDLP) chain, that takes the accrual in cash and keeps a consistent low price at retail. Some of these chains are rather sophisticated and work with you to develop an annual marketing plan for their "brand" with a schedule of features, etc. Others are less prone to planning in this way. There are also buying groups like Topco, Western Family, and Surefine Central. They will develop marketing plans for their customers and work with the processor to push out product during feature periods at discounted prices. The accruals build up in a fund for use in buying down the price for deep discounted features several times per year. The other kind of customer is the Private Label Broker, like Federated, which owns labels that they sell to forty or fifty small firms that are too small to have their own labels. Since the retailer can use the same label or "brand name" for foods in different departments, they prefer to use these brokers "brands" to using a different packer label for juices, and one for frozen vegetables and another for canned goods, for instance.

The branded program consists of price less off invoice promotional allowance. Another volume inducement, the "Bill Back," is an amount which will be held back and given to the account if the product is featured with some price inducement. Every Day Low Price (EDLP), stores ask for and get the bill back automatically since their everyday price is conducive to healthy volumes.

Understanding pricing of brands and private label products is an art, and one at which I am not adept. I know that the Florida Department of Citrus Economic Research Division struggles to understand what prices are in effect when they develop models and forecast prices and sales. Once it was easy, just use the private label card price. The world was much simpler then, the card price even reflected adequately the brand price. But, with such a multiplicity of programs as we now have, relying solely on the card price is no longer sufficient.

Can we expect branded orange juice to continue to encroach on the private label share as it has since the introduction of Citrus Hill and the acceleration of brand advertising in the 1980s? Or, has brand penetration reached an equilibrium? I won't venture a forecast, however, I will point out several factors which suggest that private label orange juice is alive and will, in spite of the brands' successes of recent years. There have been numerous reports in the press that

Procter and Gamble is dissatisfied with the performance of Citrus Hill and even speculation that the plant and brand might be for sale. What effect the sale of Citrus Hill might have on brand penetration would be sheer speculation. However, recall that the plant was once used to produce private label products prior to Procter and Gamble's purchase. Whether a purchaser would convert it back to private label or continue with the brand would depend on the outlook for the brand's success. Number three brands are not usually considered to be highly valuable, and even with large advertising expenditures and the Citrus Hill brand has captured a relatively small share of the market.

Further, the Florida Department of Citrus generic advertising programs have tended in the past to deliver the message that Florida Quality orange juice is a homogeneous product. That is, of course, anathema to the brands. Tropicana in particular, and Coca-Cola to a lesser extent have fought the use of that kind of advertising because the message is not one that supports brand differentiation. There is currently a weak mandate before the commission to support the advertising of an "all Florida" orange juice, as distinguished from a juice blended with off-shore juice which may be of "Florida Quality." The initial reaction of a comprehensive consultant's study is that consumers perceive that all orange juice comes from Florida anyway, and that a campaign to promote such differentiation would be premature at this time.

I hope this excursion into the orange juice industry has been enlightening. I would be happy to answer any questions you may have.

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