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rketing Sweet Cherries F.O.B. PRICES

The level and stability of the sweet cherry F.O.B. price is one of the greatest concerns for producers of sweet cherries. A change of just a few cents per pound can significantly increase or decrease their returns over the season. The sweet cherry F.O.B. price can vary dramatically from season to season as well as day to day. Any increase in the ability of growers and shippers to understand and predict F.O.B. price during the season can yield more consistent profits for the Northwest sweet cherry industry.

This report (a) illustrates the typical behavior of the F.O.B. price using data from the 1971 and 1972 sweet cherry seasons, (b) identifies some of the factors affecting sweet cherry F.O.B. prices through the season, (c) indicates how these factors can be used to predict daily F.O.B. price, and (d) suggests possible alternatives as Northwest growers and shippers attempt to avoid F.O.B. prices below production and marketing costs.

How Does Sweet Cherry F.O.B. Price Change Over the Season?

Knowledge of expected price movements can aid the grower and marketer in their daily decision-making. The sweet cherry season is characterized by almost daily changes in F.O.B. prices. A comparison of the widely different 1971 and 1972 marketing seasons allows identification of certain price movements that consistently occur and other price variations that differ between the two seasons. The 1971 season was a record production year because of favorable weather conditions and new plantings coming into bearing. The 1972 season was one in which adverse weather conditions severly restricted the supply of sweet cherries reaching the consuming markets. The industry can expect similar widely different crop sizes in the future.

Figure 1 traces the price and volume movements for the 1971 and 1972 seasons. It shows the overwhelming influence of volume shipped on price. Volume was at a consistently higher level in 1971 than in 1972. As a result, price was at a consistently lower level.

Noticeable as well as is the difference in timing of price and volume peaks for the two seasons. In 1971, the season started in the last week of June and continued with strong volume shipments even past the second week of July. This resulted in the price continuing to decline until the latter part of July when a strengthening of price finally occurred. In contrast, in the 1972 season shipments started about a week earlier and peaked about the 24th of June when a regional rain severely affected shipments. Shipments fairly steadily declined from that time on.

Price movements in 1972 were also noticeably different. The F.O.B. price started substantially higher than in 1971 when a large quantity of California cherries were still in the marketing channels. Because of shortness of supply, the low point of prices in 1972 was reached about two weeks earlier than in 1971. When the price recovery came in 1972, it was much stronger.

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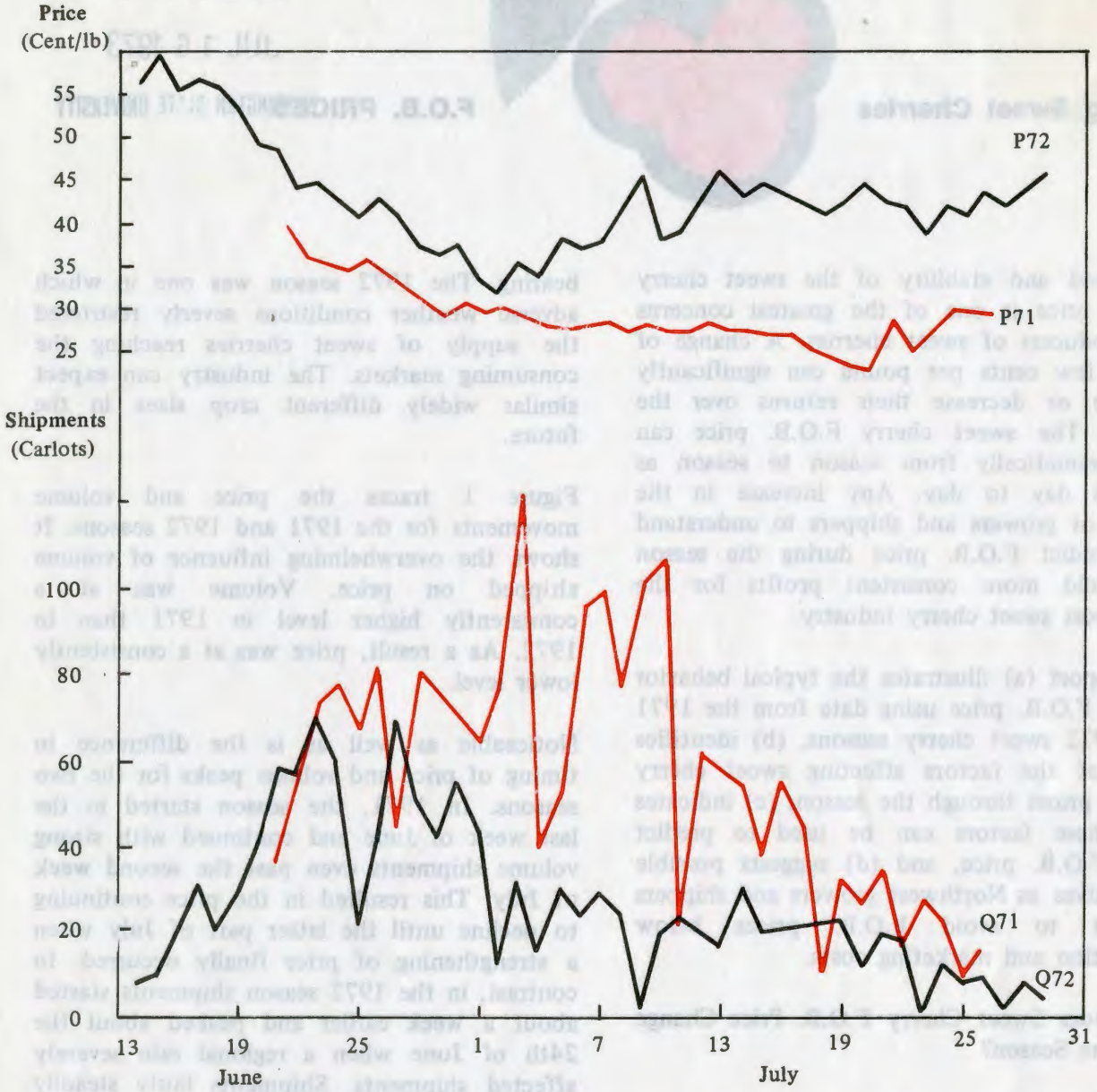

Figure 1: Price and Shipments at F.O.B., 1971 and 1972

Even though these two seasons were subject to different price and volume patterns, several features were common to price movements in both seasons. The day-to-day price instability is a recurrent characteristic of the sweet cherry season and is noted in both the 1971 and 1972 seasons. Also common to both seasons, and in fact most seasons, is a significant midseason price dip and an accompanying strengthening of the market later in the season. An additional feature growers can expect to see in most seasons is a price lag as changes in shipment volumes occur. For example, the peak of shipments occurred in 1971 on July 3, but the price did not begin to recover until three weeks later.

Possible Factors Affecting F.O.B. Price

Although a review of the 1971 and 1972 marketing seasons indicates that quantity has a significant effect on F.O.B. price, other factors can also have an effect. Market

conditions in the large consuming centers, i.e., New York, Los Angeles, or Chicago, probably have more effect in determining the daily F.O.B. price than the quantity of sweet cherries shipped on that day. For example, when New York buyers have large supplies from all sources, the F.O.B. price weakens.

Although shippers tend to think of daily quantity in terms of volume shipped by them in any day, F.O.B. price is affected by the *total* quantity available to buyers in the market on any day. This figure includes the quantity shipped on that day, plus quantity unsold in the consuming markets, quantity moving toward the market, etc. Cherries shipped unsold have a noticeable effect on the F.O.B. price in the market.

The length of time Northwest sweet cherries have been available has an impact on F.O.B. prices. This arises for several related reasons. Early in the season the "newness" of the product makes the consumer eager to buy the new sweet cherries, even at a high price. However, as the season progresses, the consumer may shift to other new fruits or become "tired" of cherries.

As each area begins harvesting, buyers show a preference for those fresh supplies. Additionally, as the "warehousing and marketing" pipeline fills, the quality of the product may be affected by natural aging factors beyond the producers' control, but commonly reflected in a declining F.O.B. price.

Price Uncertainty

A complicating factor in the determination of sweet cherry F.O.B. price is the practice of "price protection," i.e., F.O.B. sales being subject to a later negotiated "price adjustment." Sweet cherries must be shipped long distances. Accordingly, both shipper and receiver face risk of quality deterioration or price declines. Price protection results in most of the weight of the risk of a price decline being shifted to the producers. Moreover, these price adjustments are not reported in the daily market news and are not originally disclosed to growers. This creates both F.O.B. price uncertainty *and* a confused view of daily F.O.B. price.

Low Midseason F.O.B. Price

In years when the general level of sweet cherry price is low, the midseason price will frequently drop below the grower's breakeven point, i.e. when the F.O.B. price does not cover the grower's costs of production, harvesting, and marketing (Figure 2). Growers who enter the market at that time have the most difficult problems.

Figure 2 shows that, if quantity available is 10 percent above the 1971 production levels, F.O.B. price would fall below the breakeven

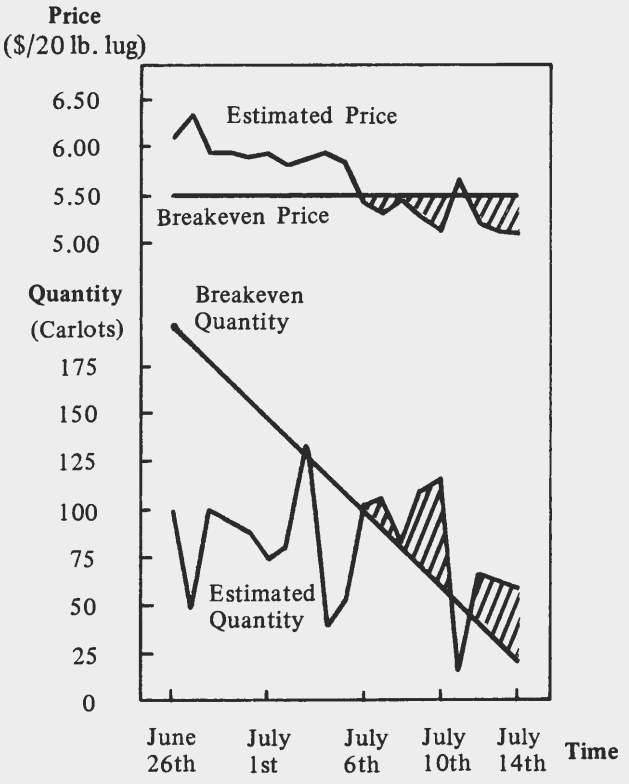

Figure 2: Estimated Price Versus Breakeven Price and Estimated Quantity Versus Breakeven Quantity

point (assumed to be $5.50 per lug) by July 6 and could remain there during the period of peak shipments.

What can growers who are in the market at this time do to avoid severe losses? Figure 2 also indicates the maximum quantity that the Northwest sweet cherry industry can ship on any one day without depressing price below costs of production and marketing. After July 6, shippers tend to move more sweet cherries to the fresh market than the market will bear. A major problem for the industry is what to do with these excessive quantities if they are not shipped fresh.

Industry Predicting Power

A knowledge of how F.O.B. prices move through the season and major factors affecting F.O.B. prices can be used for the benefit of the industry. Some of the questions that can now be answered (by computer analysis in the Department of Agricultural Economics) include: (1) the likely price over the season for any given crop size; (2) the likely price on any day of the season depending on the quantity of sweet cherries the Northwest expects to ship; and (3) what daily quantity can the market absorb and still produce a breakeven return to growers?

This ability to forecast prices will give the industry advance information on what pricing structure is needed to move a given size of crop. It can be used to give shippers and growers warning of when the market is glutted. It can help the growers who harvest around the first week of July by telling them what is the most profitable strategy for harvesting and marketing their crops. This knowledge also will allow the industry to evaluate alternative pricing and shipping strategies for different sizes of crops.

Strategies to Avoid Low Midseason F.O.B. Prices

The sweet cherry grower and shipper does have available means to avoid or minimize the price drop in midseason. The objective of such action is, of course, to keep the F.O.B. price from dropping below the grower's costs.

1. **Re-allocating Sweet Cherry Supply.** Northwest sweet cherries are mostly shipped to the big metropolitan centers in the Middle West and on the East Coast. Yet, other important urban centers in the South and Southeast receive little cherry shipments. These new markets must be explored and developed, either by individual shippers or joint industry action. Reaching new markets or strengthening some of the weaker ones should permit a re-allocation of cherry supply and an avoidance of market gluts.

2. **Shifting a Greater Percentage of Sweet Cherry Production into Processing.** Processing markets have taken up to 30 percent of Northwest sweet cherries in the past. The outlook in traditional processing markets for brined and canned cherries is not bright. A strong hope is to develop new processing markets. However, a strong processing industry for sweet cherries can only be built if more stable supplies than in the past can be guaranteed.

3. **Strengthening Industry Organization.** The Washington State Marketing Order has proved to be a very effective instrument in improving the quality and size of the fresh sweet cherry entering the markets. The promotional program sponsored by the Northwest cherry industry has also strengthened the market. Yet, as the industry faces the prospect of even larger crops in the mid-1970's, it is now time to reexamine what further strengthening or broadening of these institutions is needed in the future.

The only way in which F.O.B. price can be stabilized and kept above growers' breakeven point is through new and energetic measures by the industry.

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