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Seeing Red?

Growth Opportunities for Texas Red Grapefruit

Despite their superior sweetness and color, Texas red grapefruit are often undervalued due to external blemishes. A strategic look at the industry identifies new market alternatives for culled fruit that may add value.

Don't read another word until you understand this one concept: strategic analysis can be cruel. Yes, it can be a great tool for identifying opportunities for growth. But done properly, it also lays bare your most crippling weaknesses and imminent threats. While one hand lifts up to grasp undiscovered fruit, the other slashes at deadwood.

That said, what we have here is a discussion of potential opportunities for growth of the Texas grapefruit industry through an honest assessment of its competitive factors. What we don't have is a sure solution. When all is said and done, we are left with ideas that seem ideal but need to be held up against what is possible.

We proceed by looking at the positive and negative factors that exist both within and without the Texas grapefruit industry. Because we are evaluating the entire industry, we include some strengths and weaknesses that might be attributed to specific firms. However, there is no finger pointing here. Any identified solutions will likely require the cooperative effort of all industry participants.

Industry Background

The United States is the leading producer of grapefruit, producing 25.1% of world supply in 2005. Recently, U.S. grapefruit production has declined at a rate close to 6% annually. Domestic production can be divided into three categories: fresh market (40%), processed (37%) and exports (22%).

Domestically, commercial grapefruit production is concentrated in only a few states: Arizona, California, Florida, and Texas.

Florida produces the largest amount of grapefruit, which is used mainly for juicing. In contrast, Arizona, California, and Texas utilize primarily the fresh market for selling their fruit. Florida and Texas fruit are usually available during the winter months, while Arizona and California fruit are marketed during spring and summer.

Additionally, there are important variety differences across these growing areas. Texas production is characterized by the Rio Red and Star Ruby varieties that are known for their sweetness and dark red color. Despite the superiority of these varieties to other Ruby Red grapefruit, growing conditions in the Lower Rio Grande Valley result in a significant amount of fruit becoming wind scarred. The blemished fruit is culled from the fresh market and processed into juice.

Thus, Texas grapefruit reach consumers through two basic channels: a fresh market for whole fruit, and a juice market for shed eliminations. In addition, some whole fruit finds its way into school foodservice programs.

Consumers

Another factor remains that is particularly troublesome for the grapefruit industry, namely decreased demand. Historically, grapefruit consumption has been identified with older segments of the population. In general, grapefruit has failed to reach out to new customer segments to any large degree, and further, may be facing problems within its existing segment due to possible interactions with newer medications.

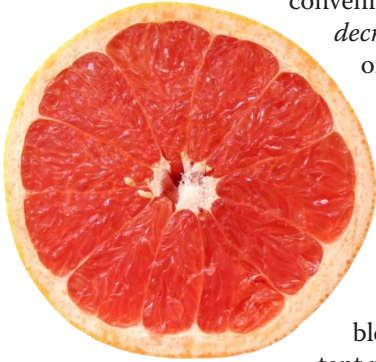
Regardless of past consumer demographics, Texas red grapefruit are a healthy component of anyone's diet. In addition to vitamins A and C, they are a good source

of dietary fiber and lycopene. Coupled with consumer health trends of low consumption of fruits and vegetables as well as the increasing incidence of obesity, Texas red grapefruit have some obvious marketable characteristics. In fact, from a marketing standpoint, the greatest impediment to brand success is the image created from other grapefruit varieties of a bitter product that only appeals to certain mature palates.

Perhaps the greatest factor to consider regarding the trend of declining consumption is convenience. The U.S. consumer today is more sophisticated than those of two decades ago. Fruits must meet changing needs, most notably taste, healthiness and convenience. Perhaps the most convincing evidence of the impact of

convenience on citrus can be seen in the *decreased* per capita consumption of oranges and grapefruit compared to the *increased* per capita consumption of tangerines.

Convenience as a marketable characteristic of fruit may imply some form of processing. On the other hand, consumers perceive fresh fruit and vegetables to be an increasingly important part of their diet.



Industry Structure

The Texas citrus industry is populated by a variety of participants that provide a significant degree of channel integration. Numerous grower-shippers are located throughout the lower Rio Grande valley in addition to packing sheds and distributors. One of these in particular, Edinburg Citrus Association, is cooperatively owned. Currently, Edinburg Citrus Association is the lone cooperative owning member of Texas Citrus Exchange (TCX), the local juice processor. However, the industry is characterized by a general sense of cooperation in that they have found ways to work across the lines that typically separate cooperatives and investor-oriented firms.

Indeed, TCX provides an important service for the entire industry. In addition to processing and sales of bulk juice, TCX also manufactures and distributes citrus by-products and cans BigTex brand grapefruit juice. The brand is well known. Primary marketing efforts however, are controlled by a Florida citrus cooperative.

Let's summarize our findings for the Texas citrus industry...

Strengths

- Isolated growing region provides insulation from disease or market conditions affecting other parts of the country.
- Texas red grapefruit superior in flavor and color in comparison to other grapefruit.
- The Texas industry enjoys significant integration into pro-

cessing and distribution.

- Texas red grapefruit are eagerly sought in the fresh whole fruit market.
- There exists a great history of cooperation among industry participants.

Weaknesses

- Fruit that are otherwise of high quality on the inside are easily wind-scarred or blemished on the surface.
- The relatively small production of Texas red grapefruit means that bulk sales of the juice may need to be blended with other juice.
- There is a general lack of resources for marketing new branded value-added products.
- Consumption of whole fruit is not very convenient, and the most convenient preparation sometimes incorporates the bitter parts composed of peel, albedo, and inner membrane.

Threats

- Demand is seemingly in decline.
- There is increased competition from other fruits.
- There exists outside competition from the larger Florida market.

Finally, before presenting the opportunities to explore, it should be realized that there are basically two sources for additional growth in the industry: 1) expand sales of existing product categories, and 2) expand sales into new product categories. For the first that means greater distribution to an already shrinking customer base. It may require greater sales efforts and advertising to reach new customers. The second implies costly and possibly risky development of new products. Although it does have the potential to increase profit margins, overhead costs could also increase due to the need for increased marketing efforts. Perhaps the lesson here is that in one form or another, growth requires investment.

With that in mind, here are two opportunities for growth that (given current strengths and weaknesses) the industry could consider for investment.

Opportunities

- Expand sales through the school foodservice market through participation in government programs.
- Enter the value-added fresh-cut market with a product that features segmented fresh grapefruit. Distribute through wholesale markets or by contract.

The industry will be challenged to consider these and other options as it strives for growth in the future. Projects along these lines are already under consideration, but will require great coordination and cooperation to come to fruition.