



J. TUCKER

National Cranberry Cooperative, 1996

On February 14, 1996, Hugo Schaeffer, vice president of operations at the National Cranberry Cooperative (NCC), called his assistant, Mel O'Brien, into his office.

Mel, I spent all day yesterday reviewing last fall's process fruit operations at receiving plant #1 [RP1] with Will Walliston, the superintendent, and talking with the co-op members [growers] in that area. It's obvious to me that we haven't solved our problems at that plant, yet. Even though we spent \$200,000 last winter for a fifth Kiwanee dumper at RP1, our overtime costs were still out of control last fall, and the growers are still upset that their trucks and drivers had to spend so much time waiting to unload process fruit into the receiving plant. I can't blame them for being upset. They are the owners of this cooperative, and they resent having to lease trucks and hire drivers to get the berries out of the field and then watch them stand idle, waiting to unload¹.

Walliston thinks that the way to avoid these problems next fall is to increase our capacity by buying some new equipment. I want you to go out there and take a hard look at the RP1 operation and find out what we need to do to improve operations before the 1996 crop comes in. We're going to have to move quickly if we are going to order new equipment, since the purchasing and installation lead times are in excess of six months. By the way, the growers in that region indicated that they plan on about the same size crop this year as last. But it looks like the percentage of water-harvested berries this year will increase to 70% of total process fruit from last year's 58%, which means that we'll have to change the way we schedule our daily operations.

NCC and the Cranberry Industry

NCC was an organization formed and owned by growers of cranberries to process and market their berries. In recent years, 99% of all sales of cranberries were made by the various cooperatives active in the cranberry industry. NCC was one of the larger cooperatives and had operations in all the principal growing areas of North America: Massachusetts, New Jersey, Wisconsin, Washington, Oregon, British

¹ Growers paid as much as \$100 per hour to lease a truck and driver.

This case represents a major revision of the case "American Cranberry Cooperative" written by J. Tucker. Certain dates and financial data have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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Columbia, and Nova Scotia. **Table A** contains industry data for U.S. production and sales of cranberries.

Table A Data on U.S. Cranberry Harvest

Crop Year	Production/Utilization (in barrels) ^a				Process	Average Price (all uses, \$ per barrel) ^b
	Acreage Harvested	Barrels per Acre	Production	Fresh Sales		
Five-Year Average						
1960-1964	26,022	23.7	615,000	466,844	148,256	22.12
1965-1969	25,434	24.9	643,300	380,965	253,335	31.00
1970-1974	26,205	31.3	822,580	381,320	436,060	34.30
1975-1979	24,842	39.8	983,660	439,170	532,070	23.42
1980-1984	21,448	51.2	1,096,160	427,520	543,860	21.54
1985-1989	20,778	62.6	1,300,120	468,340	755,750	24.00
1990-1994	20,988	73.7	1,546,120	327,980	1,169,360	38.24
Annual						
1990	20,640	69.6	1,436,800	389,600	1,033,200	31.00
1991	20,760	77.0	1,598,600	328,000	1,249,600	34.32
1992	21,220	66.2	1,404,300	278,300	1,034,900	37.20
1993	21,135	69.4	1,467,800	301,900	1,111,200	41.24
1994	21,185	86.1	1,823,100	342,100	1,417,900	42.20
1995 ^c	21,445	95.1	2,038,600	367,000	1,418,600	36.10

Source: Annual reports of Crop Reporting Board, Statistical Service, USDA.

Note: Data gathered on five states – Massachusetts, New Jersey, Oregon, Washington, and Wisconsin.

^a Differences between production and utilization (fresh sales and process) represent economic abandonment.

^b Beginning in 1964 the series represents equivalent returns at first receiving station, fresh and processing combined. Years prior to 1964 represent season average prices received by growers for all methods of sale, fresh and processing combined.

^c Preliminary figures for 1995.

Some significant trends are observable in **Table A**. Probably the most important trend was the increasing surplus of cranberries produced over those utilized. This surplus was serious enough by 1993 for the growers to resort to the Agriculture Marketing Agreement Act of 1937. Under this act, growers can regulate and control the size of an agricultural crop if the federal government and more than two-thirds of the growers agree to a plan for crop restriction. In 1993, 87% of the growers agreed (making it binding on the others also) that no new acreage was to be developed over the next six years and that each grower would have a maximum allotment at the end of six years equal to the average of the grower's best two years from 1993 through 1998.

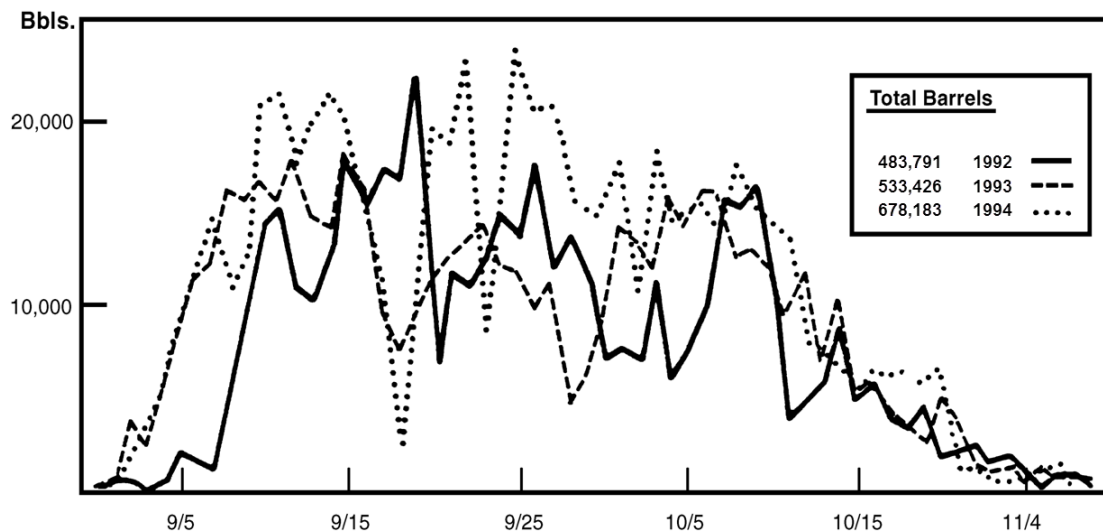
In 1995 the growers resorted to the Agriculture Marketing Agreement Act once again. Under the Cranberry Marketing Order of 1995, the growers and the government agreed that 10% of the 1995 crop should be set aside. The set aside berries (berries that are either destroyed or used in a way that will not influence the market price) amounted to more than 200,000 barrels (bbls). (A barrel of cranberries weighs 100 lbs.) Handlers physically set aside 10% of the berries before harvesting, under the supervision of a committee of growers and representatives from the Department of Agriculture.

Another important trend was the increasing mechanization of cranberry harvesting. **Water harvesting**, in particular, was developing rapidly in the vicinity of receiving plant No. 1. Under the traditional **dry harvesting**, berries were hand-picked from the bushes. In water harvesting, the bogs were flooded, the berries were mechanically shaken from the bushes, and the berries then were collected easily since they floated to the surface of the water. Water harvesting could result in yields up to 20% greater than those obtained via dry harvesting, but it caused some damage and it shortened the time that harvested fruit could be held prior to either its use or freezing for long-term storage. Water harvesting had developed at a remarkable rate in some areas. Receiving plant No. 1 received 25,000 bbls. of water-harvested fruit in 1993, 125,000 bbls. in 1994, and 350,000 bbls. in 1995.

Receiving Plant No. 1 (RP1)

RP1 received both “fresh” fruit and “process” fruit during a season that usually started early in September and was effectively finished by early December (see **Figure A**). The fresh fruit operation (preparing cranberries for sale as whole fresh fruit) was completely separate from the process fruit operation (that prepares cranberries for juice, canning, freezing, and other process fruit products) and took the fruit from receiving through packaging. This case is concerned only with the process fruit operation.

Figure A Daily Delivery of Both Fresh and Process Berries to RP1



The handling of process fruit at RP1 was highly mechanized. The process could be classified into several operations: receiving and testing, dumping, temporary holding, destoning,² dechaffing,³ drying, separation, and bulking and bagging. The objective of the total process was to gather bulk berries and prepare them for storage and processing into frozen fresh berries, sauce, and juice.

²Destoning was the separation of foreign materials, such as small stones, that might be mixed in with the berries.

³Dechaffing was the removal of stems, leaves, and so forth that might still be attached to the berries.

Process Fruit Receiving

Bulk trucks carrying process berries arrived at RP1 randomly throughout the day as shown in **Exhibit 1**. The average truck delivery was 75 bbls. When the trucks arrived at RP1 they were weighed, and the gross weight and the tare (empty) weight were recorded. Prior to unloading, a sample of about 30 lbs. of fruit (0.3 bbl.) was taken from the truck. Later, this sample would be run through a small version of the cleaning and drying process used in the plant. By comparing the before and after weight of this sample, it was possible to estimate the percentage of the truck's net weight made up of clean, dry berries. At the same time, another sample was taken to determine the percentage of unusable berries (poor, smaller, and frosted berries) in the truck. The grower was credited for the estimated weight of the clean, dry, usable berries. (See **Exhibit 2** for total 1995 deliveries of process berries.)

At the time the truck was weighed, the truckload of berries was graded according to color. Using color pictures as a guide, the chief berry receiver classified the berries as Nos. 1, 2A, 2B, or 3, from poorest color (No. 1) to best (No. 3). There was a premium of \$1.50 per bbl. paid for No. 3 berries, since color was considered to be a very important attribute of both juice products and whole sauce. Whenever there was any question about whether or not a truckload was No. 2B or No. 3 berries, the chief berry receiver usually chose No. 3. In 1995 the \$1.50 premium was paid on about 450,000 bbls. of berries. When these berries were used, however, it was found that only about half of them were No. 3's.

To improve this yield, Schaeffer was considering the installation of a light meter system for color grading. This system was projected to cost \$40,000 and would require a full-time skilled operator at the same pay grade as the chief berry receiver.

Temporary Holding

After a truckload of process berries had been weighed, sampled, and color graded, the truck moved to one of the five Kiwanee dumpers. The truck was backed onto the dumper platform which then tilted until the contents of the truck dumped onto one of five rapidly moving belt conveyors. Each of the five conveyors took the berries to the second level of the plant and deposited them on other conveyors capable of running the berries into any one of 27 temporary holding bins. Bins numbered 1-24 held 250 bbls. of berries each. Bins 25, 26, and 27 held 400 bbls. each. All of the conveyors were controlled from a central control panel.

It usually took from 7 to 8 minutes to back a truck onto a Kiwanee dumper, empty its contents, and leave the platform. At times some trucks had to wait several hours, however, before they could empty their contents. These waits occurred when the holding bins became full and there was no place in the receiving plant to temporarily store berries before further operations.

The holding bins emptied onto conveyors on the first level of the plant. Once the bins were opened, the berries flowed onto the conveyors and started their way through the destoning (dry berries only), dechaffing, drying (water-harvested berries only), quality grading, and either bulk loading or bagging operations.

Destoning, Dechaffing, and Drying

Holding bins 25-27 were for wet (water-harvested) berries only. Holding bins 17-24 could be used for either wet or dry berries. Wet berries from these bins were taken directly to one of the three

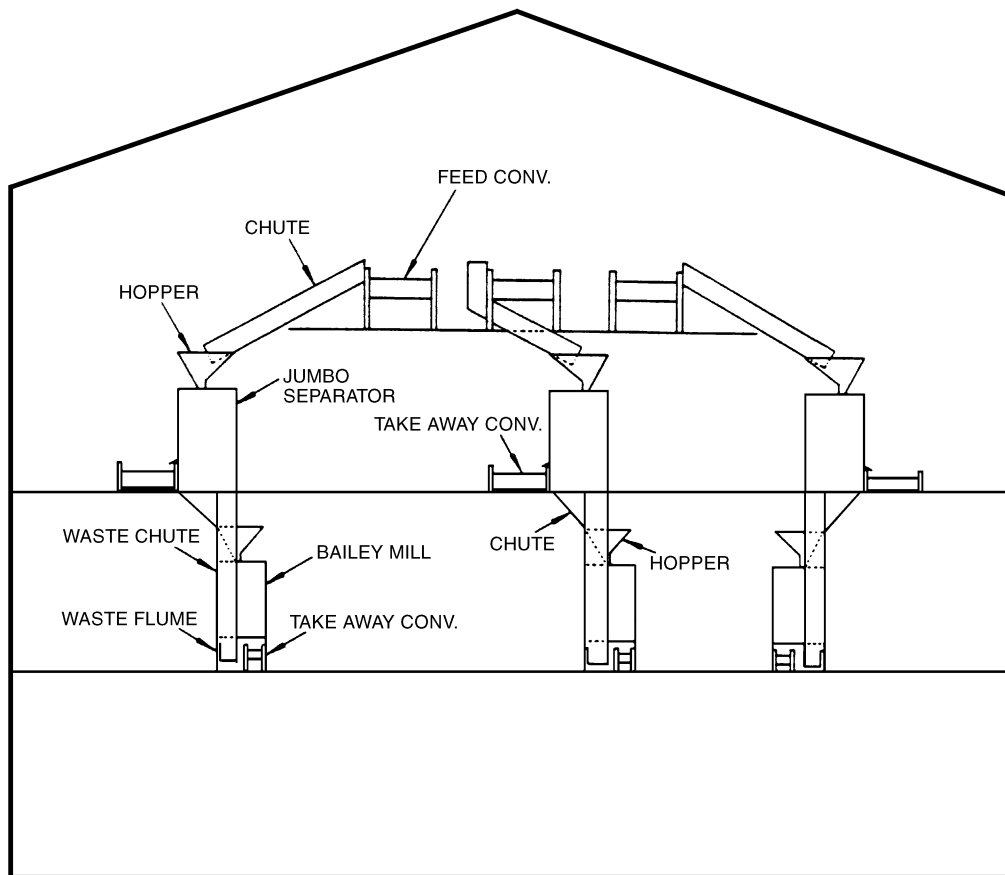
dechaffing units (destoning was unnecessary with water-harvested berries) which could process up to 1,500 bbls. per hour each. After dechaffing, these wet berries were taken to one of the three drying units where they were dried at rates up to 200 bbls. per hour per dryer.

Holding bins 1-16 were for dry berries only. Berries from these bins were routed through one of three destoning units, each of which could process up to 1,500 bbls. of berries per hour, before going through a dechaffing unit. Frequently, both wet and dry berries were processed at the same time though the system. The wet berries would be processed through the part of the system that included the dryers, while the dry berries were processed through the area containing the destoning units. National Cranberry's current plant layout had two dechaffing units dedicated to wet berries, and one to dry berries.

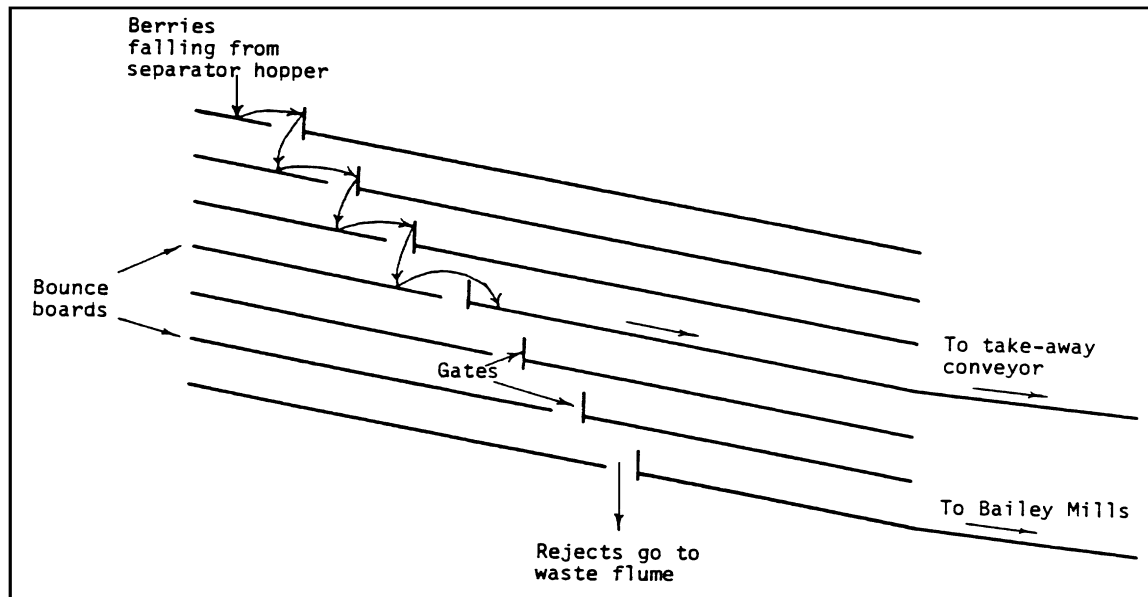
Superintendent Walliston had told O'Brien that, with an increasing percentage of wet berries coming to the plant, it might make sense to convert some of holding bins 1-16 so they could be used for wet berries also. This would cost \$10,000 per bin. Or, perhaps, he had mentioned, a few new dryers might be needed. These would cost \$60,000 each. He wondered what the benefits might be of adding more dryers and whether those benefits would warrant the cost.

Quality Grading

After destoning, dechaffing, and drying, berries were transported to large take-away conveyors that moved berries from the first level of the receiving building to the third level of the adjoining separator building. Here these take away conveyors became "feed conveyors" as they were now feeding berries into the jumbo separators (see **Figure B**). The jumbo separators identified three classes of berries—first quality berries, potential second-quality berries, and unacceptable berries.

Figure B RP1 Separator Building

The separation process was a simple one that was based on the fact that good cranberries will bounce higher than poor cranberries (see **Figure C** for a drawing of the separation process).

Figure C Separator Operation

The first-quality berries went directly onto one of three take-away conveyors on the second level and were transported to the shipping area. The unacceptable berries fell through waste chutes into water-filled waste flumes on the first level and were floated off to the disposal area. The potential second-quality berries fell into the Bailey mills on the second level of the building. The Bailey mills separated the stream of incoming berries into second-quality berries and unacceptable berries. The Bailey mills operated on the same principle as the jumbo separators. Over the years the percentage of second-quality berries had consistently been close to 12%.

Each of the three separator lines could process up to 400 bbls. per hour.

Bulking and Bagging

Conveyors carried berries from the separator building into the shipping building, feeding berries onto any one of the three main flexible conveyors in the shipping area. Each of the three conveyors in the shipping area could be moved to feed berries into bagging stations, bulk bin stations, or bulk truck stations. The berries left RP1 in bulk trucks for shipment directly to the finish processing plant or in bins for storage at freezers with bulk storage capability.

Scheduling the Work Force

During the harvest season—September 1 to December 15—the process fruit side of RP1 was operated seven days a week with either a 27-member work force or a 53-member work force, depending on the relative volume of berry receipts. Will Walliston explained to Mel O'Brien,

Last year, trucks arrived at 7:00, and we only staffed the dumpers and the bins, and then started the rest of the operation at 11:00. This year, with an increase in the percentage of wet berries that we expect, we're going to have to fire up the operation, on peak days, with two shifts – one from 7:00 to 3:00, and one from 3:00 to 11:00. I'm hoping that'll cut

into last year's huge overtime expenditures and will limit the extra capital that we'll need to spend. But, that's what your report will help me decide.

There were 27 employees at RP1 who were employed for the entire year; all others were hired for the season only. The 27 non-seasonal employees were all members of the Teamsters Union, as were 15 seasonal workers. Seasonal workers could work only between the dates of August 15 and December 25 by agreement with the union. Most seasonal workers were employed via a state employment agency that set up operations each fall. The employment agency helped in placing seasonal workers in the receiving plant and in harvesting jobs with the local growers. The pay rate for seasonal workers in the process fruit section was \$8.00 per hour. They were paid the overtime rate of 1-1/2 times their straight-time rate for anything over 40 hours per week. The straight-time pay rate for the full-year employees averaged \$13.00 per hour.

When it was necessary to work beyond 11 p.m., a crew of only eight or nine workers was required to run the holding bins empty and do bulk loading. Although dry fruit could be held in the bins overnight, it was considered undesirable to hold wet fruit any longer than necessary, so wet fruit was always run out before shutting down. The plant never ran more than 22 hours a day, since at least 2 hours were required for cleaning and maintenance work. (Downtime due to unscheduled maintenance was very small; said Walliston: "We ran 350,000 bbls. through the wet system in 1995 and we were down a total of less than 8 hours.")

Exhibit 1 Log of Total Deliveries on September 23, 1995

Time	Color	Wet/Dry	Weight	Time	Color	Wet/Dry	Weight	Time	Color	Wet/Dry	Weight
411	3	W	33940	673	3	D	3600	949	2	W	11540
413	3	D	9980	674	2	W	7280	954	3	W	12580
416	3	D	10020	676	3	W	9240	957	3	D	11040
428	1	D	12200	638	3	W	12700	959	3	D	7740
429	3	W	8980	640	3	W	28780	961	3	W	12500
445	3	D	7520	645	2	D	18000	962	3	D	7000
446	3	D	4140	648	3	D	8240	968	3	D	7340
448	3	D	11720	650	3	W	13820	969	3	D	4260
451	2	D	6520	651	2	W	11280	975	3	D	1660
456	3	D	1480	655	3	D	1280	977	3	D	4980
459	3	W	12660	660	3	D	500	980	3	W	12640
460	3	D	31640	663	2	D	29560	982	3	D	6420
462	3	W	11920	664	2	D	9720	984	3	D	11200
463	3	D	2060	665	3	W	8000	986	3	D	11920
468	3	D	6020	666	3	W	24640	1000	3	W	12320
471	3	W	12640	671	3	D	1880	1005	3	W	8860
472	3	D	3940	673	2	W	12760	1008	2	W	7140
477	3	D	6060	674	3	D	9980	1010	3	D	7180
480	3	D	4660	677	3	W	12980	1011	2	D	11220
482	3	D	1880	678	2	D	7860	1012	2	D	6840
485	3	D	7260	681	3	W	11480	1022	3	D	9600
485	3	D	4960	684	3	D	12680	1040	3	D	11100
498	2	D	3160	688	2	D	5640	1043	3	W	11080
499	2	D	3320	780	3	D	2220	1046	1	W	11020
500	3	D	17420	780	3	W	11500	1047	1	W	11240
508	3	D	3360	781	3	W	9460	1050	3	D	35060
511	3	D	10420	793	3	W	12660	1051	3	W	31580
512	2	D	5780	809	2	W	5620	1056	3	D	7420
513	3	W	5500	811	2	D	2540	1061	3	D	4500
515	3	D	8880	817	3	D	11760	1064	2	D	5700
519	3	D	17880	818	2	D	7720	1068	3	D	4940
522	3	D	1580	823	2	W	7080	1073	2	D	2420
524	3	D	6440	825	2	W	20400	1079	3	D	9440
527	3	W	7850	838	3	D	12200	1081	2	D	11620
528	3	W	73720	841	2	D	7420	1082	3	D	8360
533	2	W	11340	842	2	W	3140	1084	3	D	10500
534	2	D	6480	843	3	D	13740	1085	3	D	3240
535	3	D	5280	845	3	D	2840	1090	3	W	10280
538	3	D	11640	846	3	D	15240	1091	3	D	8140
543	2	W	11180	848	2	D	11540	1092	2	W	2440
551	3	D	2900	850	3	W	31460	1095	3	D	13720
560	3	D	3580	855	3	W	9300	1103	3	W	43180
565	3	D	8400	862	3	D	4580	1111	3	W	13420
567	3	D	3920	874	3	W	11280	1116	3	D	7400
570	3	D	1200	876	2	W	12720	1126	3	D	7260
572	3	D	3480	877	2	D	14140	1127	3	D	6240
577	3	D	3580	878	3	D	26700	1129	2	W	13120
580	3	W	8440	879	3	W	11820	1132	3	D	8340
581	3	D	8500	882	3	D	12800	1134	3	D	6160
584	2	D	7560	887	2	D	7980	1140	3	D	9020
586	3	D	4540	895	3	D	8900	1140	3	D	9020
587	3	D	9040	897	3	D	11420	1140	3	W	9240
588	2	D	3360	900	3	W	7160	1140	2	D	7660
591	3	D	2820	904	3	D	17680	1140	3	D	3960
594	3	W	13500	916	3	D	8780	1140	3	D	4100
597	3	W	11560	922	3	D	3660	1140	2	W	11860
599	3	D	19340	924	3	W	14840	1140	3	D	11460
601	3	D	20340	927	3	W	9160	1140	2	W	11240
604	3	D	9600	942	3	W	15960	1140	3	D	1980
609	3	W	13020	945	3	D	1280	1140	3	D	10480
625	2	D	2620	947	3	D	10300	1140	2	D	11680
630	2	W	11460								

Cranberries Delivered

Wet	768,600
Dry	1,065,420
Color #1	34,460
Color #2	401,080
Color #3	1,398,480
Total pounds	1,834,020
Total number of trucks	243

Note: All weights are in pounds. The time recorded was *minutes after 12:00 A.M.* For example, the recorded time of 411 was equivalent to 6:51 A.M.

Exhibit 2 Deliveries of Process Berries 1995

Day	Total Deliveries (scale weight in bbls.)	Delivered Wet	Color No. 1	Color No. 2	Color No. 3
9/1–9/19	44,176	54%	6%	72%	22%
9/20	16,014	31	0	44	56
9/21	17,024	39	0	35	65
9/22	16,550	39	0	22	78
9/23	18,340	42	2	22	76
9/24	18,879	41	0	21	79
9/25	18,257	36	0	14	86
9/26	17,905	45	0	10	90
9/27	16,281	42	0	18	82
9/28	13,343	38	0	15	85
9/29	18,717	43	1	11	88
9/30	18,063	59	1	9	90
10/1	18,018	69	1	11	88
10/2	15,195	60	2	18	80
10/3	15,816	60	3	12	85
10/4	16,536	57	5	21	74
10/5	17,304	55	2	26	72
10/6	14,793	46	7	32	61
10/7	13,862	61	3	39	58
10/8	11,786	56	0	36	64
10/9	14,913	54	0	33	67
10/10–12/10	<u>238,413</u>	<u>75</u>	<u>0</u>	<u>22</u>	<u>78</u>
Total barrels	610,185	58	1	25	74