



WINTER 2013

GROWERS' CO-OPERATIVE GRAPE JUICE CO., INC. • A PUBLICATION FOR OUR PRODUCERS

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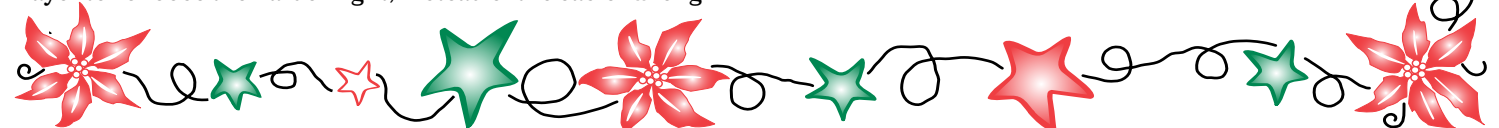
GM'S REPORT

David was a King and from his lineage came the King of King's; a Savior for the world, born in Bethlehem on Christmas Day. Although my given name is the same as David, I am certainly no King and much much more in need of saving than being a savior.

As I read over last year's GM report and last year's Annual Meeting predictions however, I can lay some claim to being a prophet at least for the business of Concord Grape markets. People never paid much attention to Chicken Little or the Boy that cried Wolf, because their predictions never came true. Unfortunately my predictions from a year before have come true. Our market that has been high priced and short on supply for many years, was showing significant signs of weak demand. As soon as a large crop was put onto this market, price was predicted to plummet. Well, welcome to our new reality!

Fortunately, I believe the Board of Directors, Management and employees have prepared the business for this circumstance. When we had a chance to make money we did, and when we had a chance to spend some of this on strategic projects we did, and did so while not incurring new debt. In fact debt has been paid down to a point where it will be virtually zero by the end of this fiscal year.

The temptation of short term borrowing to bridge the present cash flow decline was a key choice in front of the Board in this quarter and they declined. They chose to be conservative and rely on the good-will of members and wait for new year's sales volume to generate better cash flows. For my son attending West Point, this is an example interned in the Cadet Prayer to "choose the harder right, instead of the easier wrong"



President's Commentary

As customers are searching for product in a surplus grape juice market there can be various reasons why a customer may choose to buy product from a certain vendor. But the three most common reasons in maintaining customer accounts and securing orders are usually based on **Service, Price & Quality**. Growers Co-Op takes great pride of our reputation as being a known provider in the grape juice industry of the two components of **Service** and **Quality**.

Service: Growers Co-Op has always responded to our customer's needs. Whether in delivery time, type of shipment, or quantity, we have excelled in meeting the customer's expectations.

Price: The Co-Op will remain competitive in maintaining and securing orders. We will react as the market changes while striving to attain the highest earnings for our growers.

and I commend the Board for their choice.

In business, good-will is intended to be built up over time to be used as needed when difficulty arises. Having the good will of members who in most cases are market savvy and fiscally conservative themselves is very important in a Co-operative business. More importantly though is the good will of the customer, without whose support, none of us would exist. Growers Co-Op has always tried to take care of our customers with reliable service and a predictable high quality product. Despite all efforts at service and quality, the high market price of the past several years has certainly used up a substantial amount of the good will among our customer base.

This is one reason I tried to be one of the first to foreshadow upcoming low prices in correspondence and during customer visits. This was further reinforced when we knew the size of this year's crop was going to be huge. Growers reacted to this new reality and lowered prices dramatically not only on the new crop, but also on many commitments that were already made for the old crop to let customers know we were ready to lead the way to move volume this year. This sign of good will has been returned in many circumstances with good business volumes for the new year. Don't get me wrong, it has come at quite a price reduction, but I am hoping our volume from the very large crop will eventually make it a win-win for all involved. So stay tuned!

May all of you have a Blessed Christmas and healthy and prosperous new year with Peace on Earth and Good Will toward Men!

Dave

Quality: The Quality of our product will continue to be vital in maintaining and securing future business. Quality starts on the farm and for the most part is controlled by us as growers.

As the new season commences and trimming is under way in the vineyards, let's not forget our long standing 84 year old tradition of **Quality** and try replacing the quality that our customers expect with quantity.

To remain competitive we all must continue to strive to achieve the three components. The old saying "Gold can't be made from straw" still holds true today. If we want to remain on top and be a leader in the grape juice industry then we can't settle for anything less.

On behalf of Management, the Board of Directors and our employees I would like to extend to you and your family a festive Holiday season. May the 2014 New Year bring Health, Happiness and Prosperity.

Ron Nutting, President

FINANCIAL OVERVIEW (thru 1st QTR F14)

Category	YTD	Prev. YTD	Difference
Bulk Sales (gallons 68 Brix eq)	99194	173076	-42%
Retail Sales (no units)	85265	97277	-12%
Other fruit processing (tons)			
Grapes	2617	2927	
Blueberries	0	897	
Cherries	0	0	
Other	360	0	
Distributed Proceeds to date(\$/ton)	73	115	
Projected crop close (\$/ton)	300	494	

Well, numbers don't lie! The very small carryover from the 2012 crop made for low sales in the 1st quarter. The record 2013 crop has refilled the tanks and new sales commitments are being made to move this crop as completely as possible. The lack of inventory and slow start to post season selling has resulted in YTD Sales 42% below last year. Winery sales are lagging so far this year due to large amounts of grape juice filling many winery tanks further inhibiting sales in 1st quarter. It is expected that sales will build quickly and be at high levels in next quarters. Pricing however is dropping dramatically and when combined with low volumes has resulted in significant reduction in distributed proceeds to date and projected new crop close vs F13. Stay tuned.

EQUIPMENT PERFORMANCE STATS FROM CAPITAL INVESTMENTS

What a grape season! Everyone at Growers, as well as farmers, can tip their hat to a job well done in what seemed like a grape harvest that would never end. We had one of our finest crews this year coupled with capital improvements to key equipment and harvest preparations made for a smooth season. Looking back at equipment statistics to validate capital investment is a good way to remember this harvest.

The new Andritz decanter really got a work out this year. It processed 850 kettles (2,600 gallons per kettle) which equates to ~2.2 million gallons. The skeptic will say "It is a brand new machine; it did what it was supposed to do." Albeit that is true, I believe it exceeded our expectations. Reaching speeds of 65+ gallons per minute (50-53 gallons per minute typical with old decanter) with little change to torque, load %, vibration and output solids percentage. This machine will be very productive for Growers over the next several years.

The filter press and its operators were work horses this year as this is the most physically demanding machine during harvest. Capital investment moved the filter press to the basement and added an automated delivery system for filter aid and a conveyor system to remove spent cake after each run. Both additions allowed for smoother operation and an efficient turnaround time. There were 196 operation cycles this year at the filter press (62 in 2012). This equates to ~300,000 lbs of diatomaceous earth (filter aid) was used which used to be added by the operator via 50 lbs bags but this year was added via delivery system.

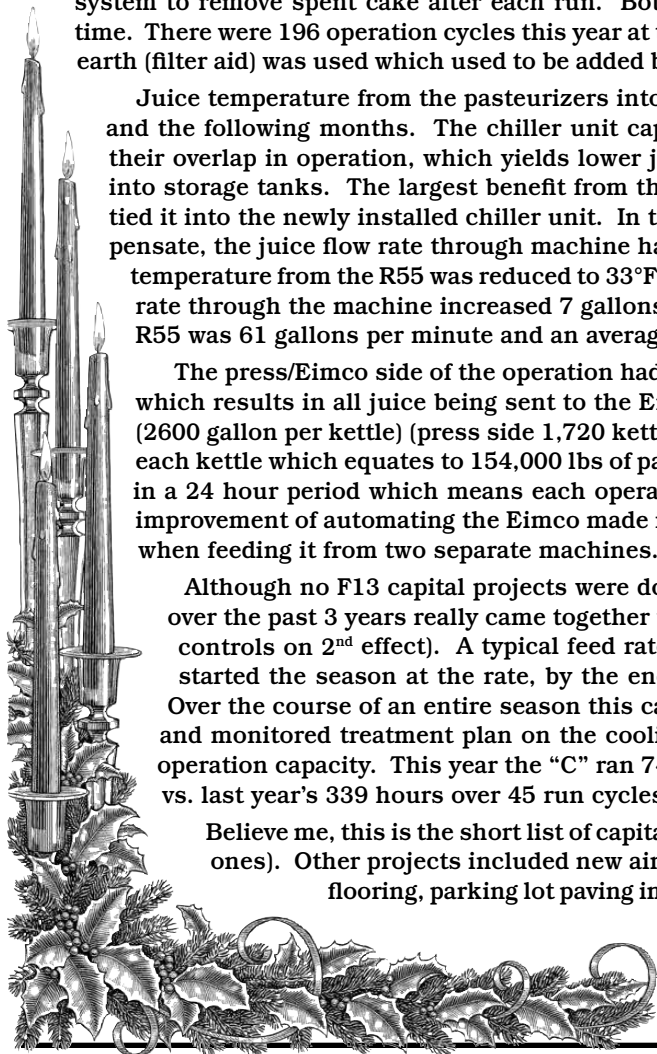
Juice temperature from the pasteurizers into cold storage is critical to ensure stability of product throughout harvest and the following months. The chiller unit capital project can operate each pasteurizer individually, as well as handle their overlap in operation, which yields lower juice temperature (target 32°F) at higher flow rates from each pasteurizer into storage tanks. The largest benefit from this capital project took the R55 pasteurizer off the main plant chiller and tied it into the newly installed chiller unit. In the past, R55 juice temperatures would reach as high as 40-43°F. To compensate, the juice flow rate through machine had to be reduced in order to lower the temperature. This year the average temperature from the R55 was reduced to 33°F (realistically never went higher than 34°F) from 36°F while the average feed rate through the machine increased 7 gallons per minute. In two of the last three years the maximum flow rate on the R55 was 61 gallons per minute and an average rate of 55 GPM. This year 61 gallons per minute was the R55s average.

The press/Eimco side of the operation had a very consistent year. At times we ran decanter juice over to the Eimco, which results in all juice being sent to the Eimco before it enters the main plant. The Eimco processed 1,812 kettles (2600 gallon per kettle) (press side 1,720 kettles). The Eimco operator has to add ~85 lbs of process paper (filter aid) to each kettle which equates to 154,000 lbs of paper went through our operator's hands. A peak of 90 kettles was achieved in a 24 hour period which means each operator from both shifts lifted 3,825 lbs of paper in 12 hours. A **F12** capital improvement of automating the Eimco made it very easy to keep in sync with the rest of the press shed operation, even when feeding it from two separate machines.

Although no F13 capital projects were done at the "C" concentrator this year, an accumulation of capital projects over the past 3 years really came together this harvest (F11: Cooling tower replacement & booster kettle, F12: Level controls on 2nd effect). A typical feed rate at the "C" during harvest averages 52-54 gallons per minute. While we started the season at the rate, by the end of season we were able to consistently run at 62+ gallons per minute. Over the course of an entire season this can make a big difference in freeing up storage space. Having a consistent and monitored treatment plan on the cooling tower that was implemented this year makes a huge difference to its operation capacity. This year the "C" ran 745 hours over 73 run cycles averaging 10 hours production time per cycle vs. last year's 339 hours over 45 run cycles average 7.5 hours of production time per run.

Believe me, this is the short list of capital improvements over the last year (although these were some of the biggest ones). Other projects included new air compressor, "B" tower fill, "B" vacuum pump, dejuicer VFD's, main plant flooring, parking lot paving improvements and others. **Everyone** at Growers spent a lot of time and effort implementing these projects to allow for a smooth and efficient harvest season. It is nice to see a Co-op dedicated to make investments into their facility to ensure reliable operation. Have a safe holiday season!

Joe Schuster, Plant Engineer



WHY IS THE PRICE OF CONCORD FALLING?

We have a big...no huge...or giant...maybe a monster sized crop in the tanks. It's Time to turn that juice into cash. We all implicitly know that large supply means lower prices, but why?

We remember graphs that show that if you sell widgets, you can sell a certain amount for a given price. If the price is reduced, more widgets can be sold. Elasticity is the term used to describe that price/ volume relationship. Some of our winery customers knew they were going to sell certain amount of sweet red wine, and last year paid whatever they needed to pay to secure that supply of juice. This year, they still are going to buy a similar amount, even though the price has dropped significantly. This is an inelastic market. On the other hand, high prices make our juice customers reformulate the blend to reduce the amount of expensive ingredients. In my last company during the last Concord price spike, I cut the purple grape product cost by 25% by reducing Concord usage by more than half (but switching to more flavorful eastern). This price increase leading to lower sales volume is a highly elastic market.

That price/volume chart assumed that there were infinite customers. In reality, in the world of Concord sales this is not true. The big users of Concord have been big users for a long time. Some buy all from us, some from our competitors, and some split. They are probably satisfied with their current

arrangement. Within the Concord user base, we have to do something special to change their buying habits. Responsive customer service is a must. Luckily price is one of the things that can rapidly change a juice bottler's buying habits. Another factor is if a customer has a lot of inventory of conc, they can keep saying no until prices drop more and more. If they really need to run production and have to get a supply, a higher price will do. These are all factors guiding Adam Smith's "invisible hand" in our Concord marketplace.

So what options do we have, other than lowering the price until enough customers say yes? Finding new customers who weren't even on that price/volume curve is the best way. We are in the kosher market again. Sales to the wine industry continue to be strong. Although international sales are tougher to do, they are country by country, new markets. This would be time for any good news on the health side too, but there hasn't been a lot lately.

The real test will be in the retail marketplace. Purple grape has been one of the highest price juices on the grocery shelf for a few years. We can only hope that with our lower prices, bottlers and grocery stores reduce their prices sufficiently so more consumer switch back to grape juice. And that is what ultimately will move a big crop.

Steve Cockram, Technical Director

"NOW THE REAL FUN BEGINS"

Every year presents itself with a different set of challenges. How will we process this crop, will it all fit? Who will we sell the crop to? Will we have enough to meet customer demands? Well anyone who paid attention to this growing year should know that having enough will not be a question, with record breaking tons per acre, total tons (Concord, Niagara and Catawba), and days worked, the real fun begins with processing this monster. Concentrate, rack, filter, concentrate, rack, filter and finally sell, sell, sell. A crop this size tends to present the same challenges after season as it did during season; where are we going to put all of this juice? This scenario leads to many weeks of planning, sales forecasting and moving juice from tank to tank whether it's racking or concentrating, something has to be done to make space.

Many often wonder what happens after harvest, with questions like does the plant work all year?; or my favorite; where does the juice go? It is always fun to explain, that the process does not end with the grapes being dumped and that there are many steps before the juice ends up as finished clarified 68 brix concentrate in a drum or in a tanker. The juice has to be clarified and given time to settle, it then needs to be concentrated and the bottom needs to be filtered and concentrated. The concentrate then needs to settle, racked to another and then tank bottom needs to be filtered and re-concentrated.

There are many things taken into consideration while processing, juice quality and other characteristics needed to meet specific customer demands like color, acid, brix, kosher or non-kosher. We now have options to meet these specific needs like exploring blend business to help utilize excess Niagara juice and re-enter the Kosher market to help sell the crop, we will also have Catawba concentrate to increase our market presence. It is always changing, but I guess that is part of the fun too!

I would like to wish everyone a Happy Holidays and thank the Growers crew for job well done.

Todd Donato, Plant Manager

FIELD REPORT

The 2013 growing season was undoubtedly an ultra productive growing season. Companywide we set several records. The one that continues to stand out in my eyes is the 9.01 tons per acre. That breaks the 1999 crop by over 20%, there are many factors that have aided in this over the last few years, we have replaced lower production, poorly maintained acreage with well maintained acreage, the 2012 frost was also a leading factor and also the addition of the new minimum standard policy allowed a bit more freedom.

As many of you that attended the annual meeting learned, our end of year average brix was lower than some of our competitors and we believe we need to get our committee back together and review the new policy. As we stated in our small group meetings in March of this year we knew this policy may need some tweaking after we worked with this for one year. I believe that we currently have too much freedom allowing us to differ from or competitor. The current thought is to lower the number of SD's that you could be below the average before a penalty would be enforced. The idea would be that with the tightening of the number we would take control of the ultra aggressive growers and maintain our reputation of growing high quality Concord Grapes.

Starting in January Dave and myself will be out on Fridays again conducting farm visits. We will try to see as many growers as possible as this is a great time to ask questions one on one and many good conversations come from these visits. I encourage anyone that would like to see us to give me a call or send over an e mail and we will be sure to stop by. And as always if any questions come up please get in touch with me at anytime. You can reach me on the cell at (716) 736 - 9249 or you can email at andy@concordgrapejuice.com.

I wish you and your families a Safe and Happy Holidays!!

Andrew Knight, Field Rep.

CHANGE IS NEVER ENDING

Last year at this time I wrote about the changes that had been made by the Board of Directors and staff on ways to cut back on costs of retail sales both direct and indirect, while still promoting the Concord grape. After a year of those concerted efforts we are seeing some significant changes. While our overall sales have not increased by dollar amounts certain products are seeing increases. Our sales in single strength juice have decreased while, sales in the gallons and five gallon pails has increased significantly. The gallons and five gallon pails take a lot less staff time to fill and ship out. Mostly they go by large shipments to one distributor and not a lot of little stores and I am not spending a significant amount of time making sales/delivery trips, which has freed me up to get into other trouble... One new account that has great potential is the Shake Shack in New York City. This is an upscale Shake and Burger chain that started as a trendy food cart in Central Park and grew into a chain of restaurants on the East Coast. When I last spoke to our contact there, he said the grape shakes have had a good review so far and we are looking forward to good sales. They have re-ordered already in one month's time. Our Fruit Stixs are seeing a large increase in sales and interest. I have sent out samples to several new enterprises that may develop into other large accounts. Also, the Fruit Stixs have been presented to several meetings of the Farm to School program that I have attended. I plan to work more on this idea during the winter slow season. The Fruit Stix are a perfect fruit for the school lunch, easy to serve and handle, tasty and full of good nutritional value. The Fruit Stixs have great potential for us.

Other duties I am now doing include some of the small bulk

juice sales, like 1 or 2 drums of juice or large orders of pails to wineries. This has freed up the management staff to be able to better attend to larger scale operations that make larger funds for the Co-op and better use of their time. I continue to work with the staff at the Grape Discovery Center with marketing and sales there. This may not take a lot of my time but it does assist us in promoting our products and the whole Concord grape industry. We have seen a significant increase in local sales of our product at the Center. Folks can now stop over at the Center to pick up their juice and not have to stop at the plant to climb those lovely stairs. I encourage you all to stop over at the Grape Discovery Center the exhibits are a wealth of information and tastefully displayed.

I have had some interest from a potential customer to buy large quantities of grapeseed oil, which we are not ready to supply but it does give me some things to think about and another opportunity to see if we can make monies on one of our by-products. One of those things to get into trouble with!! The grapeseed oil has become a favorite with many people we just need to find the way to produce it efficiently.

We may not be growing in overall sales at this present time, but through use of less plant resources, these sales should bring greater return to the Co-op now and in the future and create a better mix of products for future growth.

All in all the Retail Department is holding its own and working on growing and promoting the Concord grape industry.

Patty Hathaway, Retail Salesperson

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