Sunshine Farms

Case prepared by Charles A. Rarick, Ph.D., of the Andreas School of Business, Barry University

Sunshine Farms, Inc., is a fourth-generation family business located in South Florida. Sunshine began as a small farm devoted to citrus fruits and vegetables, and over the years the company has prospered. Sunshine Farms now grows and markets limes, lemons, mangos, snap beans, tomatoes, and other "row crops." Sunshine Farms has endured hurricanes, tropical flooding, freezes, and plant diseases; however, its most recent challenge appears to be its greatest.

Since the passage of the North American Free Trade Agreement (NAFTA), a number of Florida farms have been closed. With the reduction of tariffs on agricultural products, farmers have had difficulty competing with Mexican producers. Many Mexican farm products are imported into the United States and sold at a price that is considerably below the cost of domestic products. Row crop farmers, as compared to nurseries, have been particularly hard hit by the Mexican competition.

Domestic producers complain that lower labour costs, and fewer environmental regulations in Mexico, allow Mexican farmers to export their products into the United States at a price that will not allow American farmers to make a profit. Without tariffs on these goods, and given the inability to differentiate their products, some American farms have not been able to make a profit and stay in business.

Sunshine Farms possessed a strong competitive advantage prior to NAFTA. Florida weather allows for a growing season that is much longer than that in other parts of the United States. Florida farmers were able to grow products in December and January when much of the country was experiencing frigid temperatures. Mexican farmers were exporting agricultural products into the United States prior to NAFTA; however, the tariffs assessed on those products made Sunshine's prices competitive. With lower production costs, longer growing seasons, and the elimination of tariffs, Mexican farm products have become a significant threat to the survival of some domestic farmers.

Ben McDonald, CEO of Sunshine Farms, is worried not only about the survival of his business, but the survival of the entire Florida farming community. "In 20 years you won't have a single row crop farmer left in Florida," McDonald predicts. Since farm products are commodities, it is difficult to brand the products and extract a premium price. "Consumers are usually not aware of where their tomatoes come from, and in most cases they simply don't care. All they care about is price," says McDonald. He has stated on several occasions that "We should learn from the country's dependence on foreign oil and the disruptions in supply. Just wait until this happens in food production."

Some have recommended that Ben and others shift their focus toward the nursery business. The nurseries of South Florida have been doing very well with the construction increases in the United States, and they seem less vulnerable to foreign imports. Others have recommended that American farmers begin to brand their products or place a "Grown in the USA" label on them in order to charge a higher price. Few row crop farmers have successfully made the shift into nurseries or seem willing to brand their products. As more farms continue to close each year, Ben wonders if Sunshine Farms can survive in a free-trade environment.

Discussion Questions:

1. Is NAFTA unfair to American farmers? Explain.
2. Could Sunshine Farms differentiate its products by placing a "Grown in the USA" label on them in order to charge a premium price?
3. What would you recommend to Ben McDonald in order to save the farm?