

ACTION ITEM #1

Increasing Market Demand for Cosmic Crisp® (Stacy Pearson/ Dr. André-Denis Wright)

NOVEMBER 16, 2018

TO ALL MEMBERS OF THE BOARD OF REGENTS

SUBJECT: Use of Royalty Revenues to Increase Market Demand for WSU Apple Cosmic Crisp®.

PROPOSED: That the Board of Regents authorize and delegate authority to the President or his designee to enter into a contract to support marketing of the WSU Apple Cosmic Crisp®, with a four year, not to exceed value of \$10,100,000.

SUBMITTED BY: Stacy Pearson, Vice President for Finance and Administration
Dr. André-Denis Wright, Dean of the College of Agricultural, Human and Natural Resource Sciences

SUPPORTING INFORMATION: WSU is the owner of intellectual property rights to the patented apple cultivar, WA 38, and the trademark rights to Cosmic Crisp®. WSU has licensed the intellectual property rights to bring the apple to the marketplace. WSU will receive a share of royalty payments from each tree sold, as well as per box of Cosmic Crisp® apples sold.

The patented apple cultivar has been broadly adopted through close collaboration with Washington growers. Washington growers planted approximately 6.7 million trees from calendar year 2017 and 2018 with projections for an additional 5 million trees in calendar year 2019. It will take approximately 2 to 3 years from the initial planting for the trees to bear commercial grade fruit.

As a result of the large uptake by Washington growers, projected yield data suggests that there will be a high supply of Cosmic Crisp® fruit in the marketplace for 2019 and beyond. For example, current estimates provide that there will be approximately 175,000 40-pound cases of apples in 2019, rising to approximately 5,000,000 cases by 2021.

With such a large supply of Cosmic Crisp® apples expected in the market, it is in the best interest of Washington growers and WSU to ensure that there is an appropriate, corresponding level of customer

demand. In addition, with 37 competing apple varieties in the current market, competition for shelf space and “share of consumer wallet” is fierce and underscores the need to market the new variety. A consumer marketing campaign is critical to generating brand awareness, enticing consumers to taste the apple, and moving the fruit off retail shelves. Consumer demand will make it easier for Washington growers to place the new variety with large grocery stores and distribution chains. Since WSU will receive a fruit royalty if the apples sell for a price in excess of \$20.00 per 40-pound box wholesale (FOB) price, it is highly advantageous to the University to assist in increasing customer awareness and demand.

As discussed with the Board of Regents in the September meeting, WSU has pursued and completed negotiation of a short-term contract with Proprietary Variety Management, LLC (PVM) in the amount of \$614,635 on October 11, 2018 to get the initial marketing activities started. The contract runs through the end of calendar year 2018. PVM will receive a 3.3% administrative fee within the contracted amount. The contract has language that allows WSU to terminate for convenience with 30 day notice. The cost of the contract will be paid using royalty revenue from licensing WSU’s intellectual property rights to the patented apple cultivar, WA 38, and the trademark rights to Cosmic Crisp®. The contract fell within the existing delegated authority of the President and the VP for Finance and Administration, and did not require additional Board approval.

WSU is currently negotiating with PVM to manage a multi-year marketing campaign directed at consumers for the apple. It is expected that this contract will cover the next four calendar years from 2019-2022, with the ability to cancel for convenience with 30 day notice. Within the contractual cost, PVM will receive a 3.3% administrative fee. The total, not to exceed value of the four-year contract is \$10,100,000. The cost of the contract will be paid using royalty revenue received from licensing WSU’s intellectual property rights to the patented apple cultivar, WA 38, and the trademark rights to Cosmic Crisp®. Prior to finalizing the contract, WSU Office of Finance and Administration will review the royalty revenue projections to ensure that they are sufficient to cover the cost of the contract. These projections will continue to be monitored over the life of the contract.

It is proposed that the Board of Regents authorize and delegate authority to the President or his designee to enter into a contract to support marketing of the WSU Apple Cosmic Crisp® with a four year contract, not to exceed is \$10,100,000.

BOARD OF REGENTS
Increasing Market Demand for Cosmic Crisp®

Resolution #181116-590

WHEREAS, the Board of Regents of Washington State University by virtue of RCW 28B.10.528 has authority to delegate by resolution to the President of the University, or designee, powers and duties vested in or imposed upon the Board by law and to enable the President, or designee to act on behalf of the Board of Regents in matters relating to the administration and governance of the University.

RESOLVED: That the Board of Regents authorize and delegate authority to the President or his designee to enter into a contract to support marketing of the WSU Apple Cosmic Crisp®, with a four year, not to exceed value of \$10,100,000.

Dated this 16th day of November, 2018.

Chair, Board of Regents

Secretary, Board of Regents