

The Early Season Market

California avocado growers have been vocal about their disappointment in the early season market in the U.S. this year, and understandably so as f.o.b. prices weakened under the pressure of an enormous volume of imported fruit. After two years of smaller crops, hopes were pinned high that this year's anticipated 400 million pound harvest would command a favorable price, and some growers planned a picking strategy to remove a percentage of their fruit following the first release dates. Mother Nature cooperated and winter rains, where previously there had been none, accelerated maturity in some groves and brightened prospects. Fruit quality, for the most part, looked exceptional, and the season had all the markings of success to an optimistic farmer. Then came the tidal wave.

By the time February 29 arrived, the volume of imported avocados that entered the U.S. in the first two months of 2016 totaled close to 400 million pounds—the expected amount of the total California harvest for the entire year. All bets were on the Super Bowl as weekly arrivals continued to build along with the pre-game hype. In one week alone, ending January 24, a record 60 million pounds of imported fruit crossed into the U.S. The California harvest, by comparison, was 2.1 million pounds that week, of which 570,000 pounds found its way into a very crowded market.

There is little doubt that the California fruit sold in January eclipsed the import offerings in terms of quality. Large corporate retailers and big box chains complained to the Commission during that period about

how poorly some of the imported fruit was cutting. CAC's marketing staff had been out laying the groundwork for the 2016 California season, and many retailers were eagerly awaiting the availability of high quality, locally grown avocados. In fact, Jan DeLyser and her team of Retail Merchandising Directors called on a total of 28 retail accounts in all parts of the country in the opening weeks of the year, representing some 15,000 stores, giving trade customers a good sense of how the California crop was shaping up and when it would move to market. Retail promotions will begin to get underway, for the most part, in mid-March. On the foodservice side, 85 chains have been contacted, and 26 promotions are scheduled. Interest among the trade is high, to say the least.

So why doesn't this early interest translate into respectable field prices during January and February? Unfortunately, there are a number of contributing reasons, the first of which is critical mass. The volume of California fruit harvested during January and February represents only two percent of the total volume of Hass avocados available to the trade during that period. Less than 20 million pounds of California fruit came onto the market in that eight week timeframe, and less than a million pounds a week trickled in through January 17. This is *not* promotable volume, and getting the attention of major retailers with those numbers is all but impossible. Consider that one mid-sized, regional supermarket chain based in California sells, on average, over 100,000 pounds of avocados per week, year round. Corporate chains barely take notice of the sup-



Tom Bellamore

ply we put into the market in January, because our quantity is insufficient to meet their demand. Quality helps set us apart, but it alone cannot carry the banner, there must be volume to back it up. In some instances, innovative packers were able to match California fruit with certain specialty retailers in January and February to achieve a better price for growers, but the imported volume still hung like a heavy cloud over the market.

Some growers chastised the Commission for allowing (really?) Avocados from Mexico (AFM) to own the Super Bowl. After all, guacamole on game day was a California creation back before imported fruit first landed on U.S. shores. Where had our nationalism gone?, they asked. We watched the Super Bowl commercials, too, and thought that AFM's \$6 million spend for 30 seconds raised avocado awareness without making a strong brand play. By the way, that's the equivalent of CAC's entire consumer advertising budget for the year. AFM, with close to \$50 million at their disposal, could easily have taken a hard-hitting approach aimed at flattening California, but they didn't. They chose a relatively generic message instead. Raising awareness of avocados with only a passing mention of brand is called a category strategy, and it is fundamental when attempting to expand the market at 10 percent annu-

ally, growth which far outpaces that of most other produce items. As for our nationalism, we'll save it for Memorial Day, Fourth of July, and Labor Day, thank you, when California avocados can patriotically claim to be the local favorite in good supply. The bulk of CAC's promotional spending will occur in this window.

The next contributing factor that kept downward pressure on prices was sizing. Sizing is always a challenge and it doesn't seem that long ago we were swimming in 60s and 70s at the front of the California season. Thus far this year, the size profile of imported fruit has been askew—it has tended to run larger. Consequently, the field price of smaller fruit equaled or outperformed that of larger fruit for many weeks. The inverted prices have been maddening to growers and marketers alike, and 40s, on the tree now, seem to be getting bigger and less valuable, pound for pound. When 60 million pounds of avocados arrive in a week with a size profile that doesn't easily match the demands of trade customers, every sales desk is scrambling. Price suffers.

Perhaps the biggest part of the price equation that makes achieving a premium for California fruit elusive has to do with people, and the fact that no one party has control of "the deal." Growers are quick to point to CAC and say that not enough has been done to shore up field prices. Similarly, there is much finger-pointing at packers who handle substantial volumes of imported fruit. And more than one stone has been tossed at retailers, who are often cast as opportunists who manipulate margins, at will, to further their bottom line. The simple truth is that the U.S. avocado "deal" is remarkably complex and it performs, thankfully, like no other produce deal in the world. The Commission uses its

limited marketing resources to *influence* consumers and trade customers who are predisposed to the attributes embodied in California avocados. If we had sole (or any) control of the seller-buyer transaction, we would be pitching the premium nature of our product until the cows came home. But we do not. We can only inform the conversation and set the stage for the wrangling that occurs when the trade customer calls the packer's sales desk.

Then there is the salesperson. When inventories mount and demand is weak for those sizes that are readily available, every lug becomes a challenge. Big box retailers and corporate buyers put the squeeze on the packers, and play one off against another. If the sales call terminates without a sale, there is always another phone number to ring. Despite all of this, there is a growing appreciation for the unique characteristics of the Cal-

ifornia portion of the "deal." With market share hovering around 15 percent, California avocados are not only fresh and local, they are scarce, and marketing journals are filled with case studies of consumers paying more for items that are in short supply or difficult to acquire. The key is to discourage substitution, and you must do so by differentiating California avocados from imported fruit based on real and perceived quality.

Next come the retailers. Each one has a different corporate strategy: low price leaders, specialty stores, fresh is best, discount wholesalers, and high-end, quality-oriented trendsetters, each with something different in mind when it comes to the avocados they stock. Increasingly, retailers are catering to their customers' needs in social media because they are aware that millennials, for example, may be making last minute decisions about meal preparation. This is



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CaliforniaAvocadoGrowers.com/Commission/your-representatives

one reason why the Commission has shifted more attention to the digital realm and online promotion, where marketing resources generally go further. More importantly, these differences are at the heart of the Commission's tiered account approach with retail and foodservice customers. Our ability to secure a "premium" price for California avocados rests, in large part, on prioritizing accounts and customizing promotions with those who are most loyal to California. The ideal account is one with a customer base able and willing to pay for fresh, local, high-quality avocados from California, and we must focus our attention here. There is room for profitability on both sides of the equation—buying and selling—if we align our product with these ideal accounts.

There is at least one more player in the deal, the grower. Growers often comment about how they are price-takers with little or any clout when it comes to selling their fruit. At the Commission, we know from experience that this is not true. There are many growers who actively engage with one or more packinghouses to devise a solid harvest strategy and maximize their returns. These individuals generally remain quiet

about their successes and they are not all large acreage growers. Those who have returns consistently above the industry average invest considerable time with packinghouse personnel, from the field to the sales desk, to make it happen. Not everyone may have the time or will power to operate this way, and that is understandable. What all growers have in common, however, is substantial investment, a stake in California, a desirable product that consumers want, and, oftentimes, more bargaining power than you might think.

Making our industry strong takes all of us pulling together in the same direction. The Commission will continue its leadership role, but maximizing returns will elude us unless there is industry alignment behind our premium positioning strategy. Among growers and packers, there must be a commitment to quality, solidarity behind the California brand, and an unwavering belief that our avocados have no equal. Each of us must be unwilling to compromise when the pressure mounts to undersell our product, because we inherently know it is worth more. That responsibility is shared, falling equally on every shoulder in the industry. 🥑

Growers Affirm Continuation of Commission Operations

The California Avocado Commission (CAC) received notification from the California Department of Food and Agriculture that the recently completed 2015-16 referendum of California avocado growers has confirmed continuation of Commission operations. By law, for CAC operations to continue a vote is required every five years and a majority of producers voting must vote in favor of continuation. The voting results showed that 84 percent of voting producers support continuation of CAC for another five years, well above the simple majority requirement.

The Commission remains at the forefront of developing marketing programs to build demand for the California avocado brand, advocating for the California avocado industry and funding research to ensure a sustainable future for the industry.

"The California avocado industry has supported the Commission for nearly four decades," said Tom Bellamore, CAC president. "With this referendum vote we re-dedicate our commitment to foster a vibrant industry through the premium California avocado brand, innovative marketing and continual industry advances." 🥑