



Tom Bellamore

## Living Within Our Means

One year ago, there was considerable diversity of opinion about the size of the 2016 California avocado crop and what its farmgate value would be. Yet it still fell to the California Avocado Commission's (CAC) Board of Directors, as it does every October, to set the parameters necessary to establish a budget for the year. Crop size, expected average price per pound for the season and assessment rate form the basis for the Commission's revenue projection. Before the first avocado was harvested last year, the board forecast having roughly \$15 million available to run the 2016 marketing, industry affairs and research programs of the Commission.

Predicting crop size for the coming year in October is always challenging, and forecasting price, even more so. The one stable part of the equation — for the recent past at least — has been the assessment rate, which management has endeavored to keep stable, so growers have some predictability with respect to that single element of their overall operating costs. In October 2015, the board based its budget on a 360 million pound crop averaging 95 cents per pound across the season, while keeping the assessment rate level at 2.3 percent (of the first wholesale value of the fruit, or the price paid to

the grower by the packer).

As of this writing, the 2016 season is quickly winding down. Remarkably, the final numbers were not far off from the Commission's initial projections and the revenue target was realized, but getting there was a wild ride. Through the first half of the fiscal year (beginning November 1, 2015), the price per pound averaged a meager 66 cents and management began making program adjustments that corresponded with reduced revenue. It's a little like tapping on the brakes in your car when you see traffic slowing down ahead of you. If you are alert, you anticipate the conditions, adjust your speed and prepare to keep moving or brake harder. If you are not paying attention, you have to brake hard and may crash.

Adjusting spending when the season plays out differently than expected requires some careful pedal work, because you do *not* want to undermine marketing programs that strengthen the market when the California harvest is either beginning to build or going strong — you don't want to brake hard or crash. Here is where the Commission's marketing committee helps, and frequent communication between CAC's marketing team and the packers provides essential insights to guide the marketing effort. So the 2016 season, while off

to a terrible start, finished strong, with enough brake-tapping along the way to keep us well positioned for 2017. We're ending with a crop size of around 380 million pounds, at an average price for the year that should be close to the forecasted 95 cents per pound.

Management of the Commission's finances entails operating with a balanced budget, where possible, and living within our means. No one can predict what might happen as a season unfolds — this year we contended with oversupply, atypical sizing, upside-down prices, excessive heat, fruit drop and a host of other problems — but once we have set our plans in place, we can usually make any needed adjustments. By doing so, we not only prudently adjust our spending to match what is happening in the marketplace, but we prepare for what is to come.

Looking ahead, the 2017 crop is expected to be smaller — perhaps 250 million pounds — and the aggregate supply in the United States from all sources (imported and domestic fruit) is projected to be close to 2.8 billion pounds. That would give California avocados a market share of around 9 percent. Expect a smaller harvest window with aggressive pricing by competitors on the front and back ends of the California season.

A reduced crop size generally means less revenue and more focused spending. Instead of \$15 million in revenue, the new crop should bring about \$11.2 million.

Nonetheless, it is imperative that we maintain our visibility with key retail and foodservice accounts and capitalize on our quality and proximity to market, especially in a small crop year, lest we risk becoming lost in a sea of imports. Fortunately, packers of California fruit are increasingly seeing the California season as its own “deal” and countless hours have been spent by CAC Vice President of Marketing Jan DeLyser and marketers at the packinghouses to identify those accounts that *want* California fruit when it is available in promotable volumes and are willing to pay a premium for it.

Some growers think that the crop sells itself when volume is low, but that simply is not the case – unless you are content to accept “commodity” pricing that accompanies the failure to differentiate your product in the eyes of your trade customers. In short, marketing dollars must work even harder in short crop years, and there are fewer dollars to bring to bear on the effort.

Here is where “living within our means” gains some dimension. With lower revenue and a formidable task at hand, belt-tightening is not uniform. Limited funds must shift in favor of marketing to keep programs strong under challenging conditions. Other non-marketing functions may have to defer plans for a year to enable this to happen. And we may have to dip into our reserves. By tapping the pedal in 2016, we were able to return some funds from planned expenditures that were no longer needed back into reserves, giving us some much-needed breathing room for 2017.

Our overall marketing spend in 2017 will be significantly less than 2016, but the dollars will go against a shorter harvest period and will still

account for about 60 percent of the budget. In short, we expect the 2017 programs to deliver good value for growers. All of this can be done with the CAC assessment rate remaining

stable at 2.3 percent, which helps the grower’s bottom line, and without digging too deeply into reserves, which keeps your Commission financially sound. 🥑



## Grower, Packer, Shipper

The picking is done but there is still a lot to do. Let Del Rey Avocado partner with you year round. Our field representatives are happy to help with:

- Leaf analysis
- GAP-Primus field audits
- Crop estimates for 2017
- Early season marketing strategies

**Bob Siemer Jessica Hunter**  
**Gerardo Huerta Wayne Brydon**

760-728-8325 [www.delreyavocado.com](http://www.delreyavocado.com)  
1260 S. Main Street Fallbrook, CA 92028