

The Economist's View

Measuring success for commodity boards like the California Avocado Commission (CAC) is not straightforward like that of a typical business organization involved in the avocado industry. The Commission promotes California avocados without direct involvement in the commercial transaction. Packers buy the fruit from growers, and their sales force negotiates with trade customers and follows through on the sale. Profit or loss is the paramount measure of the packer's efforts. There is considerable interaction, of course, between packers' sales teams and CAC's marketing staff, but control of the deal is not in Commission hands. So how do we know CAC's programs are working?

An array of key performance indicators is often relied upon to gauge effectiveness. These are regularly tracked as programs are implemented while the season progresses. Consumer media impressions are a standard means of evaluating the impact of conventional print or broadcast advertising, as well as online and social media campaigns. The number of impressions also lends meaning to the effectiveness of consumer and trade public relations outreach efforts. Online, the number of web site visits and an ever-increasing amount of data from web analytics paint an accurate picture—in almost embarrassing detail—of who is accessing the information the Commis-

sion disseminates via digital means.

Then there are the measures that growers most often notice, the ones that seem to carry the greatest weight. In this category are f.o.b. lug prices, by size and grade, information that growers receive at or soon after the time of first sale of their product to a handler. Growers are quick to spot, too, avocado prices at retail. I cannot tell you how many times growers have contacted the

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Commission office to convey their own observations of fruit price or quality at retail, or to relay a similar report from a family member or friend in a distant city. Prices command attention, whether high or low.

The selling price for avocados, however, often requires context. Our immediate, emotional reaction to a low-priced piece of fruit is that it is inherently worth more than the retailer is willing to ask, and oftentimes that may be true. The fact that we are not alone



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in the marketplace complicates things immensely. As the aggregate supply of avocados swells, varying by source and quality from week to week, prices fluctuate. Trying to account for these variables while thinking about whether marketing programs are working is enough to spoil anyone's day. We willingly surrender such a daunting undertaking to those best equipped to separate the relevant from the background noise—agricultural economists.

Recently, Dr. Richard Sexton, distinguished professor of agricultural and resource economics, UC Davis, and his colleagues conducted an evaluation of the economic impacts of the Commission's advertising and promotion programs spanning the five-year period encompassing 2013-17. In November, he reported the team's findings to the Commission board. Many people would hesitate to call economics riveting, but Dr. Sexton made a compelling case for the success of CAC's programs and the return on investment growers have realized based upon his econometric modeling. Depending upon the model specification, Dr. Sexton's analysis produced benefit-cost ratios for California avocado grow-



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To contact a CAC representative, please visit:
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ers ranging from \$1.64 to \$3.62. Put another way, if we take the midpoint of the range, a dollar invested by growers promoting California avocados returned \$2.63 in additional profits. The report also noted: "Results from estimation of the models showed that CAC promotions had a highly statistically significant (at the 99 percent level of confidence) positive impact on per capita consumption. The estimated elasticity of per capita consumption with respect to promotional expenditures was highly robust to model specification at around 0.015, meaning, for example, that a 10 percent increase in promotion expenditures in a market area would be associated with a 0.15 percent increase in per capita consumption."

About two weeks prior to the November board meeting, and four months after supplying Dr. Sexton with the raw data on CAC's promotional expenditures needed to conduct the investigation, Jan DeLyser asked me if I had heard from the economist. I said no, adding that if I did not hear from him until the day of the meeting that would be okay. Let the results speak for themselves, I thought, and so they have.

Several other things in the report also warrant mention. Dr. Sexton and his colleagues acknowledged how distinct and remarkable the avocado market in the U.S. has been. We know this, of course, but per capita consumption of avocados increased 344 percent from 1.6 pounds in the 1990s to an average of 7.1 pounds for 2014-16, while the fresh fruit category grew by only 9.4 percent over the same period. Under almost any circumstance, the rapid growth in imported supply could be expected to bury the domestic industry. That did not happen. Dr. Sexton showed the board a graph depicting per capita production and producer prices (which, not surprisingly, are highly volatile) over 15 years, explaining how, on aver-

age, the real (deflated) producer price has remained steady or even increased over this period. This shows "quite conclusively that the expansion of sales in the U.S. market has been achieved primarily through rising demand—rising consumption and constant or rising real prices at the same time can only be achieved through demand expansion." The steady building of that demand has come at the hands of the Commission, Avocados from Mexico, and other avocado marketing organizations.

Dr. Sexton also observed that in the face of the enormous growth in supply, "CAC has focused heavily on key Western U.S. markets and timed promotions to the peak availability of California avocados from late spring through Labor Day. Whether marketing direct to consumers, key influencers, or the trade, the CAC has sought to position California avocados as a premium product and to create loyalty for California avocados relative to avocados of other origins. This, in our view [Dr. Sexton states] is a very sensible strategy emphasizing: (i) natural advantages of California production in the market place, (ii) marketing most heavily in the U.S. West, where those natural advantages are strongest, (iii) promoting the California avocado as the premium avocado product, and (iv) turning its emerging status as a niche product into a marketing advantage."

It may be a bit immodest to admit that it was gratifying to hear a distinguished economist validate the board's strategic direction for California avocados, but there it is. The full report is available online at www.californiaavocadogrowers.com/commission/accountability-reports/marketing-economic-impact-reports, and it is a worthwhile read if you are interested in the efficacy of your assessment dollars when it comes to marketing the California brand. 🥑