

Commission Pursues Grower Profitability Study

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In the spring issue of *From the Grove*, California Avocado Commission President Tom Bellamore, in his “Coffee Shop Talk” article, discussed the ongoing conversation and speculation surrounding the financial health of the California avocado industry. Specifically, what does the spectrum of grower profitability look like? Are most growers in the black over a five-year average, or are many growers operating at a loss? And what is the correlation to the number of growers on either end of that continuum and their respective percentage of the industry’s aggregate volume?

While the Commission tracks annual industry aggregate volume, total acres, average pricing and average per acre yield, we are unable to drill deeper into the existing data to better understand the spectrum of profitability for the industry. Without statistically sound data on the profitability of our industry, our ability to effect changes, to some degree, is diminished. Obviously, there are a myriad of factors contributing to a farmer’s profitability. Some are universal: farm-gate pricing; labor costs and availability; along with water costs and quality. Others, however, are more individual to each grower’s operation: fertilizer use, production yields, size curves and land-debt costs, just to name a few. While there may be some common expenses on the ledger, no two farming operations are the same.

The Commission hears firsthand from growers who are operating at a loss and understandably looking for answers. We also believe there are growers who are making a profit, although we do not typically hear from them directly.

You have likely heard of the “Pareto principle,” better known as the 80/20 Rule. It is based on the work of Italian economist Vilfredo Pareto, who showed in 1896 that approximately 80% of the land in Italy was owned by 20% of the population. In business it has been said that “80% of sales come from 20% of clients.”

Does this principal apply to the profitability of the California avocado industry? Without more factual data, the Commission’s board and staff can only make assumptions, based on anecdotal evidence, as to the fiscal health of our industry. Are 50% of growers operating at a loss, representing 50% of the volume? Or are 25% of growers operating at a loss, representing 10% of the volume? Or...? We just do not know.

As Bellamore stated in his article, “What would be conclusive is the collective information from the ledgers of every

commercial avocado grower in California, aggregated in such a way as to paint an accurate picture of bottom-line profit or loss for the totality of the industry.”

While we realize that is not possible, the Commission’s board has directed the Production Research Committee to oversee a grower profitability study. The purpose of the study is to determine the spectrum of profitability for California avocado farmers. If successful, a next step would be to identify the key drivers of profitability for California avocado farmers, and then determine if new opportunities exist for the Commission to provide help.

This is an ambitious goal for the Commission, and one that is completely dependent upon grower participation. A very short profitability questionnaire for growers is being developed and will likely be mailed to all commercial growers in August. For those of you who choose to participate, the questionnaire will be returned anonymously to an economist. If there is sufficient data, the economist will then be able to provide us with a more accurate picture of bottom-line profit or loss for the totality of the industry.

The success of this study will be determined by the breadth of the participating sample. The economist will use a stratified random sample, which involves the division of a population into smaller sub-groups known as strata. The strata are formed based on members’ shared attributes or characteristics. For the California avocado industry, strata could include source of water, growing region and scale of operation, for example.

Your participation is critical for this project to successfully result in objective findings on the profitability of California’s commercial avocado farming industry. Once the Commission has objectively determined the financial wellbeing of farmers, cause and effect can then be studied. Ultimately, with a comprehensive knowledge and understanding of profitability, or lack thereof, strategies that will target individual limitations, where possible, can be pursued. Each commercial California avocado grower enterprise is unique, therefore remedies to improve financial strength cannot be successful with a one-size-fits-all approach.

Regardless of where you are on the profitability spectrum, your participation is crucial to ensuring the true financial health of our industry is reflected in this study. Keep an eye out in August for the questionnaire, and please consider participating. 🍷