California Avocado Society 1948 Yearbook 33:124-130

Can We Afford to Grow Avocados?

Kenneth Smoyer
Assistant Farm Advisor, Los Angeles County

Talk delivered at Annual Meeting at Bonsall, June 5, 1948.

There are a few things that I want to emphasize today that I think have already been indicated by a number of people on this program. You have heard several folks today tell about progress in the avocado industry. You have also heard that the Avocado Society Variety Committee is looking for new varieties, so you can grow more avocados where only a few are grown today. You heard about the avocados that are grown in Santa Barbara County and how they are going to plant more there and run all you people right out of business. That planting situation goes farther than just Santa Barbara County. Today I sat beside a citrus grower from the Whittier District. A few years ago he interplanted a lemon orchard with avocados. Last year he pulled out all the rest of the lemon trees. Today he has planted another eight acres of avocados in among old lemon trees. I point that out for this reason—growers of other crops are interested in your industry. They like the looks of it. You are in a good position today, and every farmer likes to be so situated. Of course newcomers don't know that a few years back your industry was not quite so healthy as it is now. Today your business looks profitable and other people are viewing it with a great deal of interest. We have many other people in the citrus industry who want to grow avocados just like this grower I mentioned. We have a large area of citrus in the State today that definitely is going out of production because of diseases. Since they cannot profitably grow citrus in that same ground again, and they believe they can grow .avocados in it, they are looking to avocados as a replacement program. Furthermore, when you growers make a little money from your fruit, you attract new capital to your industry. Such trends force you into competition with these new people for the market.

Today I want to talk about this competition and what it might mean to you in the future. I also want to suggest some ideas as to what you might have to do to meet such competition. I have here two charts which I want to explain. They deal with the effect of efficiency of production and of yield on income. I am going to start with the figures of 1947 because they are fresh in your minds. We are using the figures from the Agricultural Extension Service cost of production studies conducted by Mr. Joe Coony in San Diego County and by Mr. Harold Wahlberg and Mr. Richard Puffer in Orange County.

We are dealing with the averages here. I don't know how good averages are. I like to think of averages as being somewhat like duck hunting. If the first shot is a foot ahead of the duck and the second shot is a foot behind him, and you take an average of the

two, you hit him. We may not get ducks with averages, but we must have a starting place. In Chart No. I we have four levels of production using the 1947 averages from the cost studies. We have one man who produces 25 forty-pound field boxes of avocados per acre. That may seem rather small but there are many orchards in the State that don't even produce that much. Then we are also using productions of 50, 100, and 200 field boxes per acre for comparison.

We find that the most efficient grower, that is, the grower with the lowest cost per acre, had a cost of about $115 per acre based on the cost of producing the fruit on the tree. We must remember that that does not take into consideration the cost of harvesting. We must delete that cost from our averages because the man with the largest production has the largest cost for harvesting. To make everything fairer, we take it as an on tree basis. I might point out here that the cost of harvesting for the high on tree cost orchard was $1.15 a hundredweight; while that of the low cost orchard was 69 cents a hundredweight. You can see that there are differences in harvesting cost which may vary according to the particular set up of the orchard, skill of the picker, size of tree, etc. We find that when the man with 25 boxes last year was an efficient producer, that is, his on tree costs were $115 per acre, he made a profit of $58.99. This would be subject to a deduction for the cost of harvesting and would leave no net. If this 25-box grower were the average producer in the studies with $222 an acre cost, he lost $48.50 per acre. If, because of inefficient management or poor orchard setup, he had the high cost of $381 an acre, that unfortunate gentleman went to the bank and signed a note for $208 an acre. He will not be in business very long at that rate. This 25-box case is interesting because the actual average crop for the low producers in these studies was only 28 boxes per acre, so our chart of averages is not far off from fact.

Now let us take a look at the average individual who had a better orchard and a better location. He produced 50 boxes of fruit and it can readily be seen that if he had the lowest cost he made a profit of about $232 an acre; if he were the average cost man, his returns would be reduced to $124 an acre; and if he were the high cost producer, he would lose $34 an acre plus, of course, his harvesting costs.

The 100-box per acre orchard emphasizes the relationship between cost and production. Here the good orchard made money even though it may have had the highest cost. Even with the highest cost it was able to earn $312 an acre. The fourth bar in Chart I, the 200-box orchard is the one which is attracting the interest of other growers to your business.

Anytime there is an attractive business that is making money, whether it be pee-wee golf course or growing avocados, new capital is going to get in it. Take the case of pee-wee golf courses. They all made money for awhile. When too many were started, nobody made any money. Now they are back on a sound basis with only enough to supply the demand. These same trends affect all businesses and has even been exhibited in avocados by the low returns of the thirties.

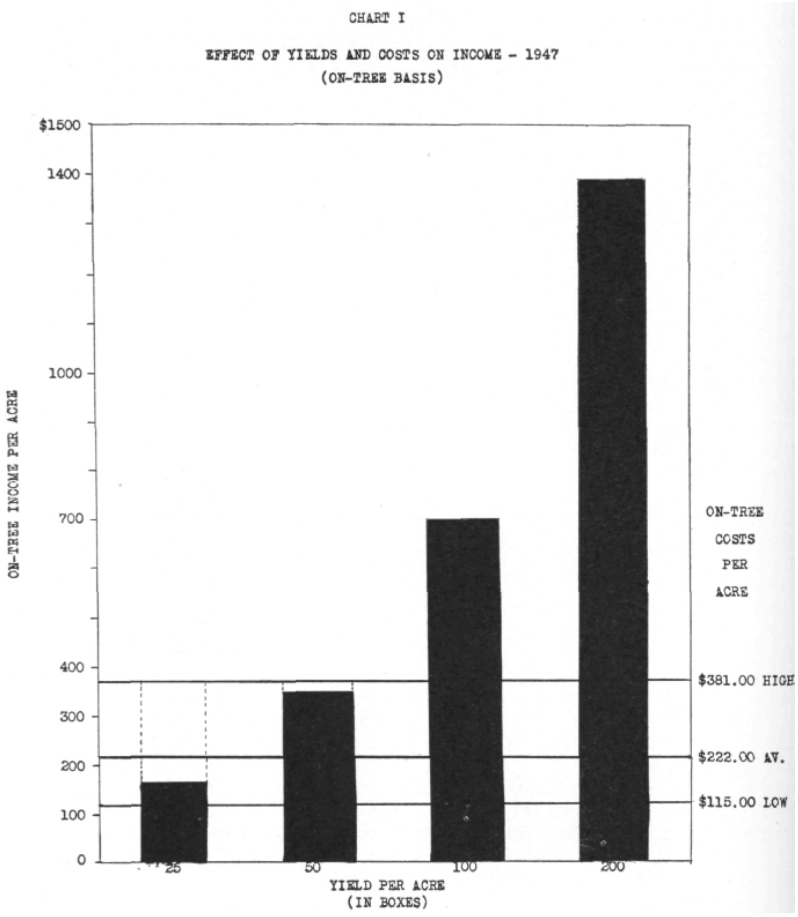
Chart I has shown the relationship between the efficiency and the yield of orchards. What can be done about improving the efficiency of operation and the yield of an orchard? The first thing is try to farm as well as you know how. Many of you know some farmers who do not farm even half as well as they know how. When returns are good,

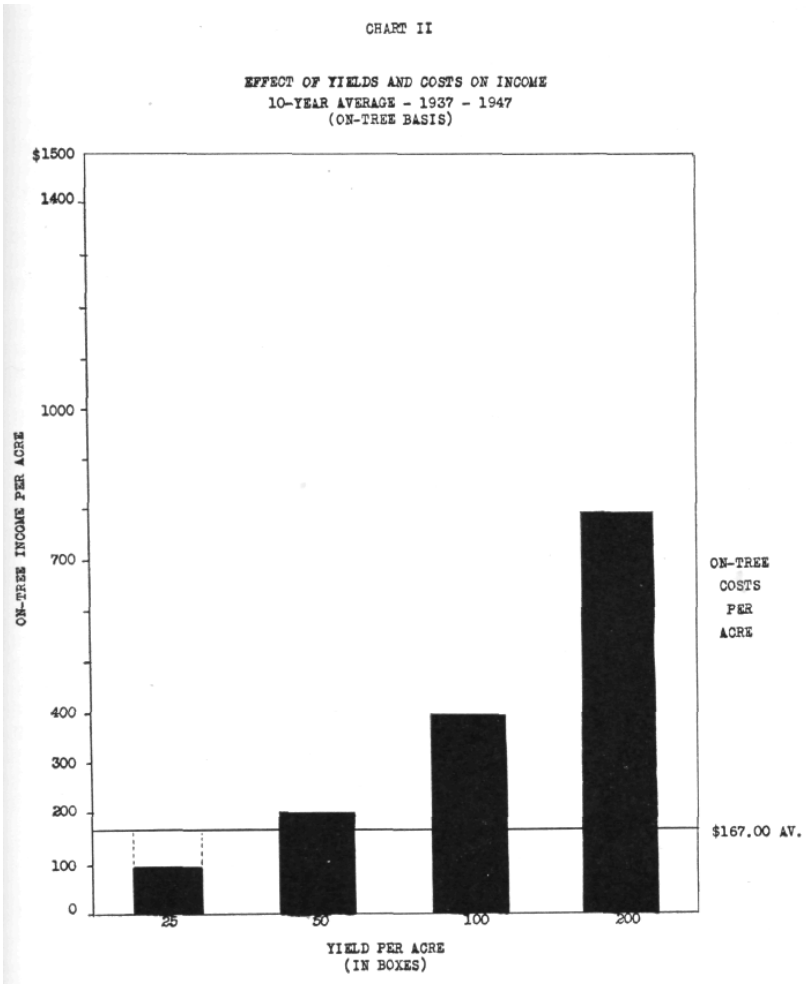
perhaps it doesn't make too much difference how efficient you are. But when returns are low, efficiency can be very important.

In regard to yield, there are only two things that can be done to increase it. The first is to do a good and efficient job of farming. The other alternative is to topwork the orchard to proven varieties that have produced the best yields in your district.

Low producing orchards must be operated at the peak of efficiency if they are to remain economical units. It is well to remember that depriving an orchard of needed care is not efficient. Oftentimes increased costs may result in increased returns.

In Chart I we have been looking at 1947 returns. We all recognize that we had very good prices for our fruit in that year. Now so that you won't feel too prosperous, we want to point out another aspect that must be considered. In Chart II we have from the avocado cost studies of San Diego and Orange counties a 1937-1947 ten-year average return per acre, not just a one-year average. The black bars aren't as tall as they were in Chart I, are they? Moreover, in this 10-year average we had five good years and five not so good years. Chart II shows production still on the basis of 25, 50, 100 and 200 boxes to the acre.





In Chart II we used the ten-year average cost which is $167 as compared to a $222 average cost in 1947. Increases in cost of labor and materials were responsible for the increase in cost of operation per acre. In the 10-year average of Chart II the 25-box orchard lost $68 an acre plus the cost of harvesting. Where the 50-box orchard with average costs made $124 less picking costs in 1947, on the 10-year average it made only $30 less picking costs. It so happens that the average picking cost per acre for that 10-year period was $47, so actually the 50-box orchard lost $17 per acre. The orchard with the 100-box production did a little better and made $228 per acre less picking. The high producing 200-box orchard earned $623 per acre.

Costs were not the cause of these changes for they were not materially different. The main difference was in price received. The 1947 on tree field-box price was $6.95. The average price returned to the grower per box for the 10 years was only $3.95. Notice that increase of about 76% in price for the fruit although production costs were only 33% higher. It can readily be seen that the price for fruit is very important in figuring profits.

There are some growers who believe that even though they produce only 25 boxes of fruit per acre that their marketing organization should get them enough money for their fruit to pay costs. This, of course, is a short sighted view. If a profit is made on a low

producing orchard, the profit from high producing groves is so good that it attracts new capital to the industry and over-production results in low prices until new markets can be built to absorb the increased quantity of fruit.

The problem that faces us today is "Can we afford to grow avocados in the future?" In my opinion we will have a strong avocado industry in the future and there will always be a place for a good orchard. We do not have any place today in the economic structure of our avocado industry for the low producing orchard. Under long time averages, marginal orchards simply don't meet the prerequisites of profits. Of course, you know that a marginal orchard is always the other fellow's orchard. It is difficult to define a marginal orchard. Any definition I believe, should be based on long time averages. I like to think of a marginal orchard as one that cannot pay the entire cost of production plus 5 per cent interest on a reasonable investment. I don't mean the 5, 6, 7, and 8 thousand dollar acres of today. I mean a reasonable investment of $2,000-$3,000 per acre for land and trees, not homes. I think that 5 percent is really too low for the hazards involved in the avocado industry. A grower should be entitled to at least 10 percent on his investment. I doubt if any industrial business with as many hazards as the farming business would find anybody to put money into it for less than 10 percent. So if you can't make cost of production, plus 10 percent, you are a marginal producer. Only through the production of good yields at low costs will we be able to face the future.

In my opinion, the avocado industry has the finest future of any fruit that we have in the State of California. Why? For one or two reasons. We have some marvelous cooperative marketing organizations. You have only to compare them with other such organizations throughout the country to see the fine job they are doing despite the criticism they sometimes receive. Even with the good job they are doing they cannot be expected to return a profit to low producing orchards. True, it may be done for a while but only until new orchards are brought into production in more favorable locations.

We also believe that there is a limited area in which avocados can be produced. We think that we have an exclusive little industry sitting right in our own backyard and that the many other fellows can't get into it. In this regard, we must be cautious. New varieties may bring competition from land not now considered adaptable to avocado culture.

We know the industry is constantly searching locally and abroad for new varieties to get more production. We do need to increase production on much of our acreage. That is a fine goal provided that we can find people who will buy our product after we grow it. So far we have done this. We know that we haven't yet scratched the possibilities of marketing our fruit in this country. Each day more people are coming to like our fruit. One thing of which we must be careful is not to develop our industry so fast that the marketing agencies just can't convince people to eat our fruit fast enough or to pay a price for it that will keep you in business. We have a hazard there and we must watch it.

We have a challenge today in protecting our industry. That challenge is to try to discourage people from planting avocados on land that is not suitable for avocados. We must discourage them from planting our present varieties in districts that are not suitable for them. I know that the Agricultural Extension Service is trying to do that. I think it is the honest job of every one of us to try to guide these people who look at our

industry favorably and who try to expand it into areas which cannot be profitable for them. It is well known that while many areas may not be profitable, they still produce avocados. As long as they produce avocados, those fruits are on the market in competition with fruit from better orchards. With large production, fruit can be sold cheaper. With cheaper fruit, more markets can be found and more consumers satisfied. Cheap fruit cannot support marginal acreages.

We have many acres of avocados in our State on which growers cannot make a living. This situation is going to be hard to change because in this country everybody still has a right to do as he pleases. We also have three types of growers. We have the fellow who is trying to make a living from his avocados to support his family. He has no other income. We have the grower who has a job in town that he wants to keep and who also grows avocados. He wants to add to the income he is earning in town. He wants to earn as much as he can but is able to absorb some loss. Primarily he wants a nice orchard in which to live. Then there is the third kind of grower who grows avocados for the sake of having a place to live which is not right up against his neighbors. He has an independent income sufficient to support the family in the manner to which he thinks it should be accustomed. He is willing to break even on his avocado orchard and does not mind occasional losses. Among the last two groups who are not entirely dependent upon their avocado groves and do not necessarily have to make them into a strong economic enterprise are found most of the owners of marginal groves. I know people who are living on avocado orchards who have all the money that they need to live on but still want to do a good job of farming and make a good economic unit out of their orchards. They are good farmers. The stiff competition comes from the people who do not necessarily have to make a profit.

These groves are tough competition for the man who has to get all of his living from his orchard. While they have a right to do as they please with their land, their fruit is in competition with the fruit of the man who has to earn his entire income from his orchard. I'm afraid that we will always have a considerable acreage of marginal orchards because avocados are grown in nice places to live. Oftentimes "view" land is not the best avocado land. Orchards are more interesting than grass for landscaping effects even though they only pay cost of maintenance. Unless new varieties of avocados that will produce more are found, these orchards are going to remain marginal orchards to a large extent.

There is a good future for the avocado industry. It is based on production—production per acre. It doesn't make much difference what variety you have. The grower doesn't care how hard he makes his marketing agency work to sell the fruit. He is interested in his returns per acre. Reasonably acceptable varieties that produce a large tonnage will always be a good investment.

What can you do about getting production? First of all you can work for efficient management in your cultural operations. Every grower should keep a yearly production record for each tree. If a tree is not producing enough fruit to pay its way, it should be removed or topworked. If you get rid of that type of tree, your production will be improved. Look at all the Pueblas growing around the country. The growers say that Pueblas haven't really borne in ten years. They make good shade trees but they are never located where you can use them for shade. We must replace that type of tree to

increase production.

Another thing to do if you are going to try to exist on your orchard and are still making a small profit per acre is to get more acreage. I know that in the future our acreage holdings must become larger. That has been true of every farm industry in the past. I can recall when twenty acres of deciduous fruits was considered to be a suitable size for an average family income. Today it is forty acres. As progress takes place in a particular industry, it requires more and more acres to make a living. Therefore the average size of holding must be increased.

Avocados do have a future in California if we maintain a progressive outlook and if our marketing agencies continue to strive for new markets. Growers will have to be efficient in production and get good yields through proper selection of varieties and suitable location of orchards. Planting of marginal land or marginal varieties will have to be discouraged. Size of holdings will have to be increased. If we have these, we will not need to be concerned about the low fruit prices which will come again in the future.