

CUTTING Edge

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Structures, Relationships and Issues



The Cutting Edge is a regular article written by Dr Jonathan Cutting for the New Zealand avocado industry magazine, AvoScene.

Background

I was invited to give a presentation on industry challenges for the future at the Joint Australian and New Zealand Avocado Growers Conference in June this year. I had a great deal of fun and enjoyment thinking about and writing the paper. The issues identified are wide and complex and it is essential that our industry prepare well for the future. We are never going to be the biggest but it is entirely realistic to believe that we can be the best. To be the best we urgently need to develop an industry “incubator” for ideas on how to resolve and plan for the issues and challenges that will face us in the future. More and more we need to be less and less engrossed with “mutual admiration” and squarely and honestly face the future.

This paper is just one version and opinion of the future. It requires critical and thorough evaluation. It is offered to all New Zealand avocado growers as a catalyst to get debate flowing about these important issues. This will be important as the industry prepares for a strategy meeting later this year. A strategy meeting that will hopefully be bolder, more forward thinking and more challenging than past strategy meetings. We need real challenges and real goals and they should not be easy to achieve. In reality we are delicately poised between success and

failure as our industry is equally influenced by positive and negatives forces. We all need to understand that the future is not “a sure thing”. Enjoy the read!

Introduction

Grower organizations exist primarily to promote grower interests and to ensure adequate grower participation and representation in the management of their sector. A more recent development has been the development of a negotiation “interface” with government or government agencies. Historically grower organizations were not concerned about market issues other than local market promotion and export market development as government provided reasonable levels of protection to the local industry through phytosanitary or tariff barriers. Most fruit industries around the world were highly subsidized in terms of research and development and export certification.

The early 1990’s started to bring about change, particularly economic change, as the world “shrunk” and became a global trading village. Globalization and WTO negotiations started to reduce trade barriers and the national issue of food security became less important politically. The way that fruit was traded and finally sold also changed as fruit volumes grew through the 1990’s. The multiples became larger, increasingly influential and fewer and this impacted on grower profitability. Government became less sympathetic with primary industry, introduced “user pays” and generally moved rapidly to remove research and development subsidies.

Grower organizations were forced to respond. The primary goals of nurturing the sector changed to something more professional, businesslike and more akin

to the new world. Growers began to perceive a world that had become more economically hostile and competitive and expected their representative organization to assist them through this time of change. The organizations generally were poorly prepared to achieve this. The duality of maintaining the status quo (grower socialism, regional parochialism, market access, academic sharing and profitability) and embracing the new world (globalization, immediacy, technology advancements, intellectual property, vertical integration and disintermediation*) required steady and profound changes to grower politics, structures and attitudes.

2020

Change over the next two decades will be swift. Consider the rate of change over the past 20 years. In 1980 there were almost no PC's, food safety was not really an issue and anyway who had even heard of cell phones, bankcards, DOS, Microsoft or Bill Gates? What will be the issues for the next two decades and how do grower organizations go about addressing them.

Globalization

The impact of globalization will be profound. The biggest impact will be on the market place. Consumers will be the winners as competition improves fruit quality and at the same time drives price down. Phytosanitary barriers will be aggressively tackled, particularly if they protect high priced, and therefore profitable, markets. Domestic producers will look for opportunities to load additional costs onto imported fruit. There are many examples of this already, export certification requirements, promotion orders, food safety requirements, phytosanitary requirements and imported trade tariffs.

Trade, particularly supply chain issues, will move away from growers to fruit handlers and exporters. Vertical integration will result in larger, capital expensive and more efficient service

providers such as pack houses and exporters. More importantly, growers and grower organizations will less and less influence this shift or the outcome. Commercial relationships between commercial partners will play an increasingly important and dominant role and provide both stability and supply continuity.

What will be the role of grower organizations? There are three important tasks to achieve.

- Grower organizations must play an important part in **nurturing the industry environment** and ensure that the commercial trade incurs the lowest possible cost to growers. There are many ways as to how this can be achieved and include: strong focused strategy and business plans, setting appropriate industry standards, facilitating clear and deliberate communication between the organization and growers (crop estimates, growth projections, off shore market conditions) and between growers and other industry stakeholders and finally ensuring a clear mandate through democratic and robust industry structures.
- Globalization is still about competition and it is important to do it better and smarter than anyone else. Grower organizations should focus strongly on **ensuring a continuing competitive advantage** for their growers. This can be achieved in many ways from tariff barrier and phytosanitary barrier removal to developing grower education tools that improve national orchard performance. Producing more fruit at a lower unit cost that the competitors' still provides a measure of competitive advantage. It is equally important to identify at an early stage issues that reduce competitive advantage, for example, legislative changes,

* Disintermediation = elimination of non-value adding middlemen.

increases in compliance costs, introduction of new requirements such as new food safety requirements or the introduction of differentiated tariffs across different countries.

- The grower organization's relationship with Government will become increasingly important. This is important **to ensure that grower interests are not traded away politically** as politicians scramble to implement "best national interest" programmes and set up global trading blocks fully compliant with WTO principles. It is very important that the playing field is level and that grower stakeholders are not unnecessarily put in a position of unfair competition. Compliance costs for growers are continually increasing as government shifts the cost from itself onto growers. Examples of such cost shifts included work place health and safety, employment compliance, taxation collection, worker insurance, food safety programmes etc. Subsidies from government to primary industry will decline and traditional fully or partially funded activity such as near market research and development is less likely to be considered attractive "government investment priority". Governments are increasingly looking to develop "knowledge economies" and primary industry is not a good fit with that vision. The biggest political change will be demographically driven as cities and towns (urbanization) become increasingly important politically and politicians respond by approving legislation that appeals to urbanites (often with no links to rural communities). Examples are typically greening legislation such as the Resource Management Act in New Zealand

Immediacy

The information age, particularly speed of information and decision making, will make all participants more promiscuous and dynamic. **Grower organizations need to provide stability and discipline** in an increasingly busy, exciting and less faithful world. Access to people and organizations will become easier and the speed of both human and organizational turnover will increase. This will place new pressures on traditional relationships both within organizations and between organizations.

Information "gate keepers" will be consigned to the scrap heap. The Internet and computer based on-line search engines will ensure that the latest information is available at the click of a mouse. There will be increased pressure to make information available particularly through Web pages or their equivalent. The challenge will be to separate out useful from useless information. It is also likely that the volume of misinformation will increase and make business more difficult (the information equivalent of an electronic virus). Business that rely on or create value by with holding or managing information flow will be increasingly at risk. It is expected that the level of transparency in business, particularly fruit trading and marketing will increase. An example is the avocado price in any week in California available on the California Avocado Commission web page. The intrigue and mischief making potential of any supply chain will be minimized and the business focus will move more strongly to performance in the market.

Technology and Intellectual Property

Technology will play an ever more important part in the future. The technology flow on will affect every aspect of the avocado business from production through the postharvest chain and even the product finally offered to the consumer.

Technology will improve orchard performance and therefore squeeze orchard margins. More importantly it will be essential to adopt new technology

rapidly to ensure profitability. The margin for production error will be small. Inefficient growers, reliant on orchard income, will cease production. This will impact on land values as an increasingly portion of the land value becomes locked into the production system. It is likely that as production systems become “smarter” there will be issues associated with intellectual property (IP) ownership. Should external organizations own the IP growers would become intellectual peasants totally captured by intellectual fiefdoms (technology companies). **The challenge for grower organizations is to management technology development investment to ensure that growers share in the technology rewards of the future.** There is real risk of polarization within a sector should one party or business within a sector gain exclusive IP protected technology which discriminates against other growers. Intellectual property ownership will become a key issue for all growers and grower organizations.

Vertical integration and disintermediation
“The future is about fewer middlemen”. This is a bold statement but immediacy, technology and globalization will ensure that fewer middlemen (brokers) “clip the ticket”. There will always be middlemen but they will have to add value to the transaction and ultimately not cost the grower money.

Vertical integration will drive all aspects of the business into more effective and efficient participants. In some cases (but not all) this will result in fewer larger businesses. That will put stress and tension on grower organizations as most individual grower businesses (orchards) will not have grown at the same proportional rate and most growth will be through an increasing number of new entrants.

The World Avocado Scene in 2020

Growers and avocado orcharding

This is well covered in other papers and presentations at the Joint Conference. However, the culture behind producing

avocados will change. There will be a shift from the present “science and art” mix that currently constitutes knowledge to a more “technology and science” mix as newer technologies and particularly high-speed diagnostic tools become more evident and influential in decision-making. **Increasingly fruit will be grown to order** (market driven) in contrast to the present model of “how to we market all the fruit we grow” (supply push). For example:

- portable and instantaneous nutrient and dry matter diagnostic tools
- GPS based harvesting, infrared controlled individual tree irrigation systems
- smart fertigation
- real time, climate driven, reliable computer based support systems
- high speed, programmable robotic harvesters which select fruit to be harvested on maturity, size and blemish criteria
- the use of very smart pest control strategies including new generation pesticides and sophisticated bio-control
- accurate and reliable long term climate forecasting and weather prediction.

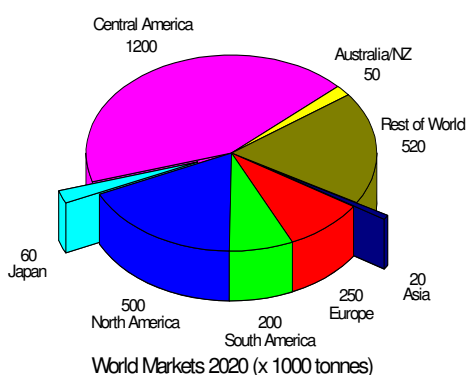
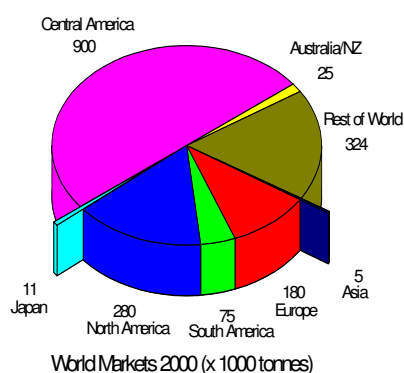
The new production systems will be technology hungry, expensive, efficient, profitable and labour unfriendly.

Postharvest supply chains

The supply chain will be much shorter with fewer distinct businesses handling transactions. Vertical integration and disintermediation effects will be most strongly felt in this area as the supply chains move to reduce transaction costs and eliminate or reduce unnecessary commissions. Market requirements will become stronger drivers and influencers and demand and supply management will be essential to ensure profitable pricing. Profit margins will become progressively squeezed and transaction transparency will become more obvious. The partnerships between growers and grower groups and supply chains will become closer, formal and more robust.

International competition

The international supply situation will change rapidly and dramatically. Nowhere will this be more evident than in the world production dynamic. The traditional larger producers such as Israel, California and South Africa will experience new competition challenges from countries such as Chile, Mexico, New Zealand, Kenya, The Dominican Republic and Peru. Production skills and capital will be mobile and some of the traditional suppliers will become less important, may contract substantively or may even become domestic supplier only. The world market will grow from about 1.8 million tons to about 2.8 million tons annually.



Grower Organizations in 2020

Avocado grower organizational structures will be influenced by the strategies the sector adopts. The primary roles will be:

- the broker of industry information

- managing collective grower politics
- the vehicle for defining and achieving the industry vision, strategies and long term profitability.

There will be a requirement to achieve **separation of grower politics and industry management**. This will be a bigger issue in grower organizations where the supply chains are part of the grower organization and commercial advantage can be garnered from political confusion and misdirected activity.

Grower organizations will need to **be more professional**. This will be difficult as the "grass roots" growers assuming a certain image conflict with the requirements to interact successfully with corporate business and government. The involvement of impartial and dispassionate directors will become a requirement as both necessary skills and wider influence are brought into the governance role within grower organizations.

The industry strategies and decision-making processes will need to **be more transparent**. This will be most evident in the management of the business and the requirement for fiscal discipline.

All industry stakeholders and participants will become increasingly dependent of **good quality, reliable and complete information and information flow**. This will become a common and key activity of all grower organizations. There are several aspects to information flow:

- Data gathering
- Data capture into a suitable database
- Data interpretation
- Information development
- Information flow

Outcomes include crop estimation and crop forecasts, season progress, industry size, pricing trends, packing trends, seasonal trends, competitor situations, fruit outturns and fruit quality assessments etc. All stakeholders will use independent and reliable information to maximize long-term income and prevent pricing collapse.

Grower organizations will need an **absolute focus on the “core business”**. Core business will vary greatly between different avocado grower organizations and it is likely the current similarity between most avocado grower organizations will change and they will become quite diverse. For example some grower organizations will take on a stronger technical and intellectual property focus, particularly if they are largely export focused whereas grower organizations that are more domestic market focused will be more interested in promotion, market growth and market price protection as core business. Quite different strategies and therefore structures and skills will be required.

In summary growers organizations have already started to move from a largely supply push orchard focus position to smarter, opportunity creating, market led environment-influencing businesses. This evolution will continue into the future. The challenge will be how to maintain a grower identity and collectively retain grower confidence while embracing a dynamic, opportunity filled, hostile, profit driven and promiscuous future. **The future will still be about growers making a dollar from their fruit, anything else will mean industry contraction and even collapse.** It will be a case of shape up or ship out !

Acknowledgements

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