

INDUSTRY STRUCTURE AND THE MARKETING OF CALIFORNIA AVOCADOS

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Abstract

Avocado Production in every growing area around the globe has its own cultural challenges based factors such as soil types, weather conditions and production costs. The marketing of the crop is also influenced by the local industry structure and prevailing political, economic and social environment. This paper focuses on the basic structure of the California avocado industry and how it influences grower returns.

1. Introduction

The California avocado industry is a mature industry and a study of this industry might help newer avocado industries make their choices as they grow and mature. Total acreage and total number of producers, number of packing houses and number of marketers all influence the level of success that a commodity industry will have in the market place.

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The scope of this paper does not cover the development of the avocado industry in California from its early roots in the previous century. This would certainly be an interesting examination that might help us understand the current situation. This paper will discuss the California avocado industry of 1995 and how grower returns are impacted by that structure.

2. Methods

In this paper, three key elements that make up the California avocado industry are considered prime factors in the direction of its future:

2.1 Growers

The California avocado industry of 1995 is a result of growth that took place in the in 1970's and 1980's. Producing acreage increased from 20,000 in 1970 to and estimated 78,000 by 1980. Current Acreage is now 63,000. The growing community is almost as diverse as the society in general. The following are the key divisions of the grower community:

2.1.1. Location: South and North

Approximately 68% of the acreage is located south of Los Angeles. The remainder is north of Los Angeles and in the San Joaquin Valley. The southern districts have a high percent of 1) small groves; 2) absentee growers; 3) large farm management companies; 4) business professionals new to farming; 5) retired professionals; 6) high production costs/lower yields; 7) Harvest is during the peak weeks of the season.

North of Los Angeles lies approximately 35% of the avocado trees. While some of the growers fit into the southern description, this area has mainly first or more generation farm families. Most of the largest groves are located in this area. Production costs are lower than the south and yield are higher. Harvest can be stretched out to the end of the season.

2.1.2. Grove Size

The average avocado grove size in California is just 10 acres- and the majority are less than 5 acres. Groves can be identified as follows:

Level One Groves:	Over 40 Acres	4,355	6.7%
Level Two Groves:	20 to 39 Acres	3,250	5.0%
Level Three Groves:	10 to 19 Acres	6,760	10.4%
Level Four Groves:	5 to 9 Acres	8,775	13.5%
Level Five Groves:	Less than 4 Acres	41,925	64.5%

2.1.3. Production Costs

Low Cost Producers: Less than \$2,000/Acre
Med Cost Producers: \$2,000 to \$2,999/Acre
High Cost Producers: \$3,000 or more/Acre

2.1.4. Affiliation

Approximately 40% of the growers and volume are members of cooperative organizations. These are basically share holders who are under contract to provide the cooperative with 100% of their fruit. The remainder of the fruit is in the hand of independent growers who, typically, do not have a contract with their marketer and have the option to choose one or more marketers for their product.

2.2. The Market

2.2. 1. Packing House/Marketing Organizations

There are currently 13 marketing organizations in California. Except for Chiquita, all are California based companies that have been in business for up to 75 years. Two of these organizations are cooperatives, the remainder are private companies. I have estimated the following market share comparison:

	<u>Market Share</u>	<u># Houses</u>	<u>Total Market Share</u>
Major Market Share:	Over 12%	2	45%
Medium Market Share:	6% to 11.9%	4	31.0%
Minor Market Share:	1% to 5.9%	7	8.0%
Limited Market Share:	Less than 1%	50	6.0%
Grower Ownership			2
Private Ownership			10
Stockholder Ownership			1

In addition, there are approximately 50 other marketers of minimal volume. Almost all of these marketers supplement their California volume with imports from Chile either directly or through brokers.

2.2.2 The Buyers

The era of down-sizing in the United States has been tremendous consolidation of the retail supermarket chains. Margins have decreased and the need to make a profit from every sale has intensified. In the Southern California market, the place that 46% of the domestic avocado volume is sold, this situation has been intense. The major retail chains are in battle for their existence daily. From the end of World War II until the late 1980's, these chains benefited from the great growth in the State of California. If you were able to monitor your cash flow, it was easy to make money in this growing market. New consumers were entering California daily. However, huge club stores and other retailers have reduced their ability to grow in the 90's. With fewer buyers competing for fruit, the leverage has transferred from the grower and the marketer to the buyer.

2.3. Outside Factors

There are a number of factors that influence the present and future viability of individual growers and the industry in general.

2.3.1 Production Cost

The largest factors impacting growers is the increasing cost of irrigation water. It has become over 50% of all cultural inputs, including man hours, in avocado production in many of the southern groves. In addition, federal and state regulations in regard to pesticides, workers compensation, tax reporting and many other regulatory requirements have resulted in a huge increase in the cost of doing business in California, in general, and in agriculture in particular. Growers' margins are being limited with every new demand.

2.3.2. Imports

Currently imports are a factor in the United States domestic market. The major player is Chile. However, due to production, packing and freight cost, imports from Chile will only arrive when the domestic market is short on California fruit. The main concern is imports from Mexico. Current USDA proposals, if approved, would provide Mexico with limited market access for a period from November to February. While, this should not have a major impact on the domestic annual price, the highest cost producers will be impacted. In addition, the fear of Mexican imports, real or supposed, has greatly impacted the entire California avocado industry.

2.3.4. Urbanization

Most of California's avocado acreage is located in the climate that is also the one that attracts people. Unlike other agriculture crops, most of the avocados in California are grown within 120 miles of downtown Los Angeles. Indeed, the growth of the industry in the 1980's was due to, in part, the potential for land inflation. The current situation for California real estate is not good and it is unlikely we will see new plantings based on potential land value inflation. We will see, however, increase urbanization of groves closest to the cities of Vista, Escondido, Fallbrook and Valley Center.

2.4. Summary of Elements

The net impact of these elements are summarized below:

1. A fragmented grower community that is unable to organize for their own benefit.
2. A fragmented marketing community that is trying to maintain its share of the margins during a period of decreased grower margins and increased retail margins.
3. Decreased acreage due to 1) Increased input costs- especially irrigation- that will impact the economic viability of growers in the southern districts first; 2) increased imports; 3) urbanization and 4) increased regulatory costs.

3. Results

The economic pressures on the California avocado grower are increasing daily. This high margin industry is going through a stage of retraction. There is not enough total revenue to support the 6,000 growers, producing yields from 65,000 acres and the 13 packing houses marketing the crop.

3.1 Market Developments:

Market development has been at a standstill for a number of years. Due to their severe cash flow problems, growers have no allegiance to their marketer and the industry norm is to send fruit to the highest bidder at any given time. Even the largest cooperative has recently lost its largest member. The marketers with the large volume are the ones that have the ability to increase demand and distribution. However, uneven supply limits the marketer's capability of expanding markets for their product. The small players, for the most part, are able to pay higher returns on spot markets. The result is that very little market expansion is taking place- current users are using more avocados, but few new users are becoming primary users. The short term gains growers are receiving are actually limiting their ability to see higher and consistent returns in the future from an expanding market. The current market must expand or growers' returns will decrease.

3.2 Acreage Attrition:

In the pursuit of short term gains, growers will see their margins decrease over the next several years. High cost producers will be unable to compete in this environment. Increased imports will accelerate this attrition. Medium to low cost producers will survive but will be unable to survive this period.

3.3 Marketer Attrition:

Consolidation is not an option for most of the packing houses/marketing organizations. It is projected that marketers with medium to minor market share might be forced out of business. This will be the result of a decrease grower/acreage base and decreased ability to maintain the high profit margin avocado packing/marketing has been able to return over the past three decades.

References

- California Avocado Commission, various publication including annual reports.
- University of California, "Economics of the California Avocado Industry" 1990.