



LOOKING FOR THE FUTURE

THE CALIFORNIA AVOCADO INDUSTRY'S "FOURTH TURNING"

Mark E. Affleck

President and CEO of the California Avocado Commission based in Santa Ana, California.

Looking for the future? What an odd title for an article about an industry coming off its ninth record year in 10 seasons. What an odd title for an article about an industry that has been part of the American agriculture landscape for nearly a century. What an odd title indeed. What gives?

If you look at everything through a conventional lens, the California avocado industry appears to be in pretty good shape. If you go into the packing houses, you'll see fruit moving off the dock and onto the highways to satisfy avocado aficionados around the U.S. Avocado awareness, household penetration, and retail distribution of California avocados remain at all-time highs. There's more. The all-important consumer perception of value (and willingness to pay accordingly) continues to float in the stratosphere.

Sounds pretty good, doesn't it? But it is illusory to a set of storm clouds forming on the horizon.

Before you start thinking this is another one of those "gloom and doom" articles that scream a warning that the sky is falling, **STOP!** It's *not* anything close to that. Articles like that are easy to write. You just drop a few bombs from the safety of your cockpit and let everyone else sort it out. But that's not leadership, and it doesn't solve the problem. My job is to "see" the future and be prepared for it by acting early to constantly work our business into shape for the game. It's my job to scout out the roads leading into the future and identify the pathways we should take. Unfortunately, that's one tough job in this cauldron of change.

Most people in the California avocado industry are pondering why it's such a tough job with so *many* possible choices and not *one* clear "answer." I wish I had the answer to that question. One thing I do know, however, is that we're moving into a new historical "TURNING" for California avocado growers where geopolitical pressures are a now the dominant part of the game. Where trade dynamics now supersede science. Where competition is about to get "white hot." New rules. New competition. New pressure. New challenges.

Worldwide trade in avocados is becoming increasingly competitive and dynamic-changing quickly from year to year as new players emerge in markets previously dominated by other suppliers. The entire avocado industry around the world is jockeying for position for what promises to be a rocky ride into the 21st Century. Perhaps the best example of this is right here in the U.S. where five players now compete for share in the U.S. market.

Avocado producers around the world are operating in a new era of global markets, free trade agreements, "free trade" that isn't free, multinational partnerships, collaborative marketing, and competition that is increasingly boundary-less. It's a world where the pest protection infrastructure is being dismantled, often through the creative emasculation of legitimate phytosanitary safeguards to mollify neighbors in increasingly striated hemispheric ecosystems.

To say these changes require a rigorous strategic review by the California avocado industry is a huge understatement. We need not only a rigorous review; we need a transformative action response. Why? Compression of the industry's time continuum increases the power and impact of these forces and creates inexorable pressure on the industry. Compounding that dynamic is our own industry's cost-price "discompetitiveness" which is building, though not yet manifest.

I firmly believe that the California avocado industry is entering its FOURTH TURNING, which will determine the future shape, direction, and texture of our business. It is said that to every thing there is a season, and it applies to the economic enterprise. Austrian economist Joseph Schumpeter called it the "Creative Destruction of Capitalism" in 1912 when he argued that every enterprise must go through birth and infancy and move into adulthood and death (or **rebirth**).

The notion of creative destruction should push our industry to view current circumstances through the lens of regeneration and repositioning...*not* fighting on the conventional track and hoping to muster up the strength to prevail. The FOURTH TURNING we face brings the same challenges to every organization and industry in the world. We're all in the same boat. The only difference is that some industries don't know about the sharks in the water circling their boats, or the storms gathering above their mast in the steel gray night.

In the case of the "modern-era" California avocado industry, our FOURTH TURNING comes just under 40 years from the birth of CAC's predecessor, the California Avocado Advisory Board, in 1960. Take a look below.

CALIFORNIA'S AVOCADO MARKETING PROGRAM

1960

MARKETING BEGINS

- Industry disorganized and field price to growers 5 cents per pound
- State Marketing Order established in 1962

1976-80

BOOM...EXPANSION

- Acreage zooms to 80,000 acres...grower count tops 8,000
- "Gold Rush" euphoria turns to market glut and widespread red ink

1980s

Bust...Reorganize

- Oversupply and erratic marketing haunts industry in early 1980s

- CAC reorganizes twice...adopts new strategic orientation in 1988

1997

CHALLENGE & CHANGE

- USDA allows Mexican avocados into 19 Northeastern States
- Competition for California appears for the first time
- Grower costs continue to rise
- Record returns mask underlying concern about the future

THE IMPORTS ARE HERE

The watershed event of the FOURTH TURNING occurred on February 5, 1997, when USDA promulgated a final rule allowing for the importation of Mexican avocados into 19 northeastern states and the District of Columbia from November through February. That was our official welcome to the geopolitical world of the 21st Century where science can be emasculated and trampled in the name of trade.

After four years of fighting on the scientific battlefield leading up to USDA's decision in February 1997, CAC quickly turned its attention to monitoring compliance with the new regulations in 1998. After all, shipments of Mexican avocados were on their way to our markets in a few months. We developed and launched the "Mexican Avocado Security System" (MASS) to safeguard the health of California's avocado groves by...

"Monitoring Mexican avocado import activities to ensure USDA enforcement of rules and regulations to protect the phytosanitary security of the California avocado industry."

Our goals for the MASS program in Year One (1997-98) were:

- Position CAC and the industry to maximize knowledge about the Mexican avocado importation system in the U.S.
- Provide quarantine security for California avocado growers by monitoring the importation of Mexican avocados and responding as necessary to achieve that goal.

MASS IN ACTION

The program we put in place to accomplish those goals included work in Mexico to monitor phytosanitary compliance, field intelligence and technical audits, interface with U.S. and Mexican governmental officials in Mexico, and a network of information contacts in Mexico with industry and government representatives. On the American side of the border, we hired representatives to conduct market surveillance in the 19-state Mexico zone, monitored the border transloading and customs clearance process, and kept an eye on FDA's pesticide residue inspections.

Upon completion of Year One of the Mexican Import System, CAC conducted a full audit of all activities in both Mexico and the U.S. to determine the level of compliance with the new regulations and to identify gaps in the system and its operation. We found that there were no significant breaches that posed a threat to the California avocado industry. Year One of the system worked well.

That isn't to say, however, that it was a perfect season because it clearly was not. Several areas of the system do need improvement, and CAC met with USDA and our own team of specialists after the last shipment of the 1997-98 season landed to perform the audit. Our full report was forwarded to USDA leadership in Washington D.C. for consideration as they contemplate Year Two of the Mexican Avocado Import System.

CAC's Mexican Avocado Security System (MASS) will continue in 1998-99.

A CROWDED FIELD

With Mexico now officially in the U.S. with one year of shipments under its belt, the once-exclusive American market is becoming increasingly crowded. It now features five suppliers-California, Chile, Mexico, Florida, and the Dominican Republic-that have thrown their chips into the game. Greenskin varieties from Florida and the Dominican Republic are predominantly sold along the eastern seaboard, and Mexican Hass avocados are restricted to the NE quadrant. Dominican Republic and Chilean Hass avocados can be sold anywhere in the U.S.

This new competitive paradigm prompted California avocado growers to understand Mexico's low-cost basis and the threat it poses to them. Obviously it is critical for us to know the "price threshold" below which suppliers cannot profitably sell fruit in the U.S. market. But it may be just as important to analyze which suppliers will play outside that dynamic and "buy share" by investment spending (through lower prices in the marketplace).

There should be a healthy dose of caution here, since this type of analysis is nonlinear. California avocado growers would like to isolate the competition's *exact* cost of doing business in order to project the *exact* volume that might come into the U.S. and the *exact* impact it might have on the platform price for California. Unfortunately, it simply can't be done. So much of pricing strategy in produce occurs "on the fly" and is heavily influenced by psychology and perception.

Indeed, many players can get caught up in the sale (even at a loss) and still feel good about what that will do for their business and relationship with the buyer in the future. It's a form of the "I'll make it up in volume" joke, but a very real force nonetheless.

So what should California do in response to the Mexican incursion? If you ask California growers, they'll quickly and forcefully tell you that Hass importers should "pay their fair share and not ride our marketing investment coattails." Though provided without a strategic or contextual basis, that view is no less important. Indeed, their views capture the essence of how the California avocado industry looks at its investment and the competitive storm clouds forming in the sky.

Here's a snapshot of some grower views taken from a 1998 CAC survey:

Primary Concerns For The Future

- Water (70.5%)
- Foreign imports (51%)
- Pest control (42%)

ARE THERE ANY OPTIONS?

One of the industry's response options is to develop a "Federal Marketing Order" with the U.S. government to assess imports for the purpose of domestic promotion. Such an order has both legal and operational precedent, but the key concern is actually on the strategic side of the equation. It is here that the California avocado industry must establish a clear sense of where its business is heading and what implications come into play if a federal promotion order is established. This filter helps frame the issue so the best possible decision can be made.

Another strategic option in response to the competition is to develop a marketing contract to partner with other suppliers in the U.S. market for the purpose of domestic promotion. This so-called "Contract Alliance" would operate *without* the U.S. government's involvement and seek to meet the California avocado industry's twin objectives:

- Make foreign suppliers "pay their fair share" of the marketing investment.
- Work collaboratively with other suppliers to build strategic and cohesive marketing programs to avoid market collapse and maximize value in the domestic market.

Even though most California avocado growers feel the industry should "make the non-California suppliers pay a portion of the promotion costs," we must carefully and thoroughly analyze the strategic implications surrounding such a move. If it was easy and without negative impacts, we would have done it already.

"TRY HARD"

The most common response to a situation like this is to launch a "Strategic Planning Campaign." The unspoken words are, "if we try hard and get all of the information, and analyze it thoroughly, we'll *know* what to do." The problem with the "planning" response is that the mechanized, multi-year (**Study It Hard**) plan is a dinosaur. Why? Because most "plans" take years to form and are quickly rendered impotent in these lightning quick times of change and extreme competition. The basic ingredient of a good strategy is insight into how to create value in the midst of change and crisis-such as we face now with Mexico- and it rarely comes from a planning meeting...no matter how hard you "try."

The old strategic planning model extends the analytically derived "what ifs" and props up the old systems. It is constraining when it should be exploring. If used by us now, instead of reflecting on the forces and trends presented by the new competitive dynamic, it would merely analyze them coldly, dispassionately, and without a bias to

take action. This form of "planning" quickly becomes a seasonal *ritual* and rarely what it should be.. .an exploration of the avocado playing field, how it's changing, and how that should influence and, indeed, dictate the moves California avocado growers make now and in the future.

I've found that most organizations, especially in agriculture, approach strategy as a reductionist exercise based on a series of institutionalized heuristics (rules of thumbs that become normative operating behavior). Using this method, the planners move from today **forward** instead of focusing on the future and **working back**.

Here's the problem. This "planning" approach assumes, most of the time implicitly and quietly, that the future will be more or less like the present. Organizations then respond by developing strategy, on the cusp of the 21st Century, with the *same set of assumptions* they were making years before. The consequence? Bad assumptions infect all of the strategies and tactics that follow.

THIS "PLANNING APPROACH" PIVOTS ON TWO *FLAWED* ASSUMPTIONS:

FIRST...The planners assume that the future can be predicted if they get enough information and "thoroughly analyze it." It's the "try hard" approach. Obviously, there is more good than bad in this attribute that came out of World War II and is now so much a part of the American work ethic, but the problem isn't the "try hard" part. The problem is the assumptive premise that you'll get "the answer" at the end. This is dangerous because information in the information age doesn't mean anything. The key is what "knowledge" you can cull out of the information stack in order to illuminate the different pathways so you can choose one that will produce value. That's what the California avocado industry and every organization and industry wants and needs, right?

SECOND...The planners assume that the past is predictive of the future. This is the most dangerous form of linearity, and it breaks down when the operating environment is chaotic and in flux-like ours right now with new competition and our own high-cost basis (and vulnerability)-that *no amount* of good analysis will allow you to predict the future.

THE FUTURE IS *NOT* AN EXTRAPOLATION OF THE PAST

Another miscue made by the people who think they can "plan and analyze their way out of trouble" is to focus on the "programs and things" they're doing. I call it tactical myopia.

This is where most organizations, and certainly most commodity boards and commissions, seem to play. It's ridiculous because it assumes that the fancy actions are accomplishing what *needs to be done*, and they're usually *not*. The assumption is that laptops and algorithms can forecast the nonlinear discontinuities of the future in a linear systematic manner. It's nonsense. It's not the process that matters. It's the value created. Did avocado pioneer Gil Henry "plan out" our industry's Ripe Program? No way. He spotted a **value pathway** and started moving on it.. .adjusting as they went. That *isn't* planning. That's strategizing.

Tactical myopia is dangerous because it sends organizations into the marketplace without a fully crystallized, well articulated, and charismatically championed end-state

goal. Every industry should keep this in mind as it considers options for the future.

"NOT LIKE THE OLD DAYS"

If you're thinking that it wasn't always like this, you're right. It was easier for all businesses when the world wasn't changing so much and so fast. Now, however, virtually every part of our world is spinning in a cauldron of change. Here's what makes it spin:

INFORMATION...

Information is everywhere and it is available to every player...and that includes Mexico. That includes the Dominican Republic. And that includes Chile. Information levels the playing field and exposes weaknesses previously concealed by the mystique and power of players who have been in business and dominated their territories for a long time.

This one hits close to home for the California avocado industry because we have always assumed that our competitors were behind in terms of organization and operational execution. And, of course, it was true, and perhaps still is in many areas. But the chasm has been bridged by the introduction of information and information technology.

GLOBALIZATION...

The term globalization has become a buzz phrase that really doesn't mean much until it is contextualized by something relevant to you. As a business force, globalization is nothing by itself. It didn't just show up a few years back because it was 1990. Globalization is a force because of the information revolution and the technological engine that spews it around the world in seconds. Events that once took decades to cross oceans are raining down daily and changing the dynamics in virtually every market and every sector of business. Globalization for the California avocado industry is a combination of the government's geopolitical trade agenda **and** the twin tower revolution...**information** and **technology**.

The manifestation of the globalization trend is an increase in the number of players on the field because the barriers to entry have been taken out of play by information and its technology partner. Globalization may be a "catchall cliché," but the California avocado industry is in its **vortex** right now with the crowded playing field in the U.S.

Agricultural commodities are famous for thinking they are immune to global impacts and have "a right" to market exclusivity forever just because they grow the product and have been doing it for decades. We shouldn't even start that intellectual analysis or attempt to rationalize the globalization phenomenon.

The headline is really pretty simple: markets are opening and will soon be open. Competition is coming and will soon be here. Private and protected turfs are going and will soon be gone.

DISLODGED...

One solid truth has emerged as this trend triad- information, technology, and globalization-thrusts us into the 21st Century: market leaders (like the California avocado industry) are becoming comparatively-to the past-easy to dislodge. As traditional industry boundaries erode around us, industries often unexpectedly (although it *shouldn't* be a surprise) find themselves in fierce competition with the most unlikely of rivals. That's what I call "boundary erasure," and the California avocado industry is living through it right now.

The important question for the California avocado industry today is *not* whether the world is changing. The important question is how we should respond. Very few commodity boards have been able to deal with this reality. Why? Primarily because they don't realize that competition in the cauldron of change plays out on a bifurcated plane.

They don't realize that, as a result, strategy has become a positioning game, *not* an ad campaign.

THEY DON'T REALIZE THAT STRATEGY IN THE NEW ECONOMY REVOLVES AROUND TWO AXIOMS...

1. *Making sure you re creating value in your world today. (For us, that has been our plan since 1988-aggressive, strategic, and steady marketing in the western U.S. to maximize grower returns.)*

2. *Watching the radar screen for what's happening in the bigger world of which we are a part, and adapting along the way to arrive alive in the future. (For us, that's been our fight on the pest protection side of the Mexican issue, now evolving to pest protection **and** marketing.)*

The Cauldron of Change hasn't destroyed the need for strategy. We need strategies more than ever before. We shouldn't overreact and throw everything associated with strategy down the drain. One key tenet of early strategic planning models that came from the military remains unchanged and stands firm as a supporting girder-strategy must be focused against precisely defined **Objectives and End States**.

Every successful industry can be destroyed by the conditions around it through no fault of its own. They face danger because the ecosystem they call home is itself imploding. That is happening right now in the California avocado business. But it isn't anybody's fault. The only fault would be if we move into denial about the structural transformations unfolding around us. The only fault would be if we move forward without precisely defined **Objectives and End States**.

HEAD-TO-HEAD COMPETITION...

It's useless to focus on the shifting economic landscape and the blurring, if not crumbling, of traditional industry boundaries. It's also useless to think of our response to that shift in terms of conventional competition. As the competitive cauldron boils, the natural inclination is to fight head-to-head, and if that doesn't work...fight harder. We

have traveled this road ourselves for many years, particularly when it comes to pest protection and USDA's phytosanitary policy. This orientation inevitably pits "us vs. them," with one side eventually winning.

There is a false presumptive in that line of thinking that says there are distinct, immutable businesses within which players scramble for supremacy, and the hardest working (or richest) player prevails. It's simply not true anymore. But if it's not "head-to-head" competition, then what should an organization do? Once again there is no clear answer. The alternative to head-to-head competition is to understand the fundamental building block of good strategy...insight into how to create more value than your competitors...not a **preoccupation with fighting them.**

THE STRATEGIC ALTERNATIVE TO HEAD-TO-HEAD COMPETITION IS...

- ***Organizational repositioning in response to competitive forces***
- ***Creation of a unique and enduring position***
- ***Developing a game plan that differs from the other players on the field***

IF THERE WERE ONLY ONE IDEAL POSITION... THERE WOULD BE NO NEED FOR STRATEGY.

Strategic Positioning is gathering information, analyzing it to develop scenarios, and then making choices and trade offs. Strategic Positioning is choosing what to do...and, in many cases, choosing what not to do. Strategic Positioning is a tricky game that requires caution to avoid overreacting to the information under review. But ultimately you need to choose a path. You still need to take action-*even* if it's a re-validation of the current strategy on the current track. If that's the case, you solidify that plan and modify it according to the new competitive dynamics in your market.

Why is it so hard to choose a path? What stands in the way of deciding what to do in the face of competitive storm clouds like these? In many cases, the organization or industry fails to challenge its most enduring assumptions (conventional and institutionalized ways of viewing the business). As a result, strategy becomes largely extra-polative. An industry's boundaries are taken as a given, and the question is how to position itself within those boundaries rather than how to create a new playing field with new rules.

Famous British writer Edward De Bono says the mind can only see what it is prepared to see. The old world control mechanisms still persist everywhere where intellectual arguments-the cerebral firehose-shoot down the ideas one by one to protect a system. This is one of the biggest problems today with agricultural promotion boards in America.

THEY'RE BLOCKED BY INSTITUTIONAL BIAS AND DON'T KNOW IT

Challenging The Assumption Trail is a process of dual-track thinking:

FIRST...CONVERGENCE

The strategic positioning process in a cauldron of change such as the California

avocado industry faces right now must start with convergent thinking around the integration of data...imbued with meaning and context, or "knowledge" (value).

SECOND...DIVERGENCE

*The strategic positioning process in a cauldron of change must start with convergent thinking and then move to divergent thinking where we search for **more than one answer**.*

STAY PUT: MILK THE COW

Searching for more than one answer is the key. For California avocado growers, one of the obvious "answers" is to stay on the existing strategic track. This approach might be justified if we agree that massive structural change is on the way and it will change our industry dramatically...and *that* will create the next path and direction we should take. The thinking here goes that our cow is strong on the established path-and the industry's structural elements, product costs and pricing, markets, and ROI requirements- mean we can get more out of the current path than we can by jumping to a new one.

It's a classic milk-the-cow strategy.

Pitfalls In Staying Put And Milking The Cow

- Stuck in the middle and losing ground by waiting too long to make a move to secure a new strategic track for the future
- Being overly optimistic about industry's future and waiting for things to get better when they won't

Staying put and milking the cow usually includes some sort of niche and focused strategic positioning. Many players facing a chaotic playing field like ours have moved to turf they can control and "own" in order to avoid straight-on engagement with strong competitors. This is especially true when the competitor has a major advantage that can't be countered with real (value-added) differentiation. In our case that might be the lower price platform of the competing suppliers.

PARALLEL BRIDGE TRACK

The other option is to keep the ball bouncing by staying on the current track, while simultaneously preparing for a new track. In this mode, the choice isn't necessarily to kill the cow or not. It's a straddle strategy. Kodak's recent commitment to digital in the late 1990s, while still protecting its core chemical business, is a classic example. Thomas Brothers Maps is doing the same thing by investing on a parallel track (one quarter billion dollars) on the digital mapping future while still milking its grid-map cash cow.

In the straddle mode, we would consider our relationships in our ecosystem with the other suppliers and start to move "beyond insularity" to some sort of *managed* co-evolution. It's a matter of making small adjustments in order to preserve a spot in the game until the confusion abates and a strategic decision can be made based on how the scenarios played out.

On the surface, this is a "low-risk" move, but it has hidden dangers lurking underneath the strategic skin. In highly chaotic markets like ours is shaping up to be, we would be preserving our current position and industry value, but not doing anything to build new value pathways for the future. Then, when it becomes critical to move and respond to the forces, it might be too late.

CONFUSED?

Confused by all of this? Join the crowd. Ah, the thrill of developing strategy in the chaotic and churning cauldron of change in the 21st Century. As CEO of the California Avocado Commission, I'm trying to analyze all of these strategic issues with my constituency of 6,000 growers in mind. That's a difficult task because they come from such diverse backgrounds and bring myriad goals and needs to the table. Some need \$4.00 per pound or they'll lose their investment. Others can make it on high volume and 50 cents per pound.

In one ear, I hear..."fight, fight, fight to preserve our markets and beat the competitors." In the other ear, I hear..."stop the head-to-head competition and wake up to the reality that we must join forces with the other suppliers."

Confusing, indeed. So what is the "answer"?

To every thing there is a season; and for the California avocado industry, that time is now as we enter our FOURTH TURNING. I'm pulled by those persistent voices tugging independently at each one of my ears. I'm torn by the lack of a clear pathway and the **"RIGHT"** decision. I'm confused by the unknown dangers lurking down each fork of the menacing road to the future. But I'm also inspired by the *opportunities*. That's right, opportunities. It's too easy to be fatalistic and pessimistic about the future. What stunning victory ever emerged from conditions that didn't make the victor tremble? *That* is the way I view this challenge of the FOURTH TURNING.

But the industry doesn't care about any of that. The industry cares about leadership and ideas. The industry cares about decisive action. So that's what I'll do. I'll propose a strategic pathway right now on this day, given what we know about our industry and the patina of a newly sculpted and ferociously competitive playing field. Here it is...

POSITIONING CALIFORNIA AVOCADOS IN THE 4th TURNING...

FOUNDATIONAL GOAL GIRDERS:

- An uncompromising commitment to CALIFORNIA AVOCADOS as a brand (through steady and strong consumer marketing programs).
- A focus on and accountability for GROWER VALUE strength and sustainability (to avoid moves that would put the lifeblood in jeopardy).

STRATEGIC CONTEXT:

- Capture and control our CORE MARKET territory (west of the Mississippi).
- Open up and develop ALLIANCES with other suppliers (to develop markets east of the Mississippi).
- Develop INFO-TECH COMMUNICATIONS LINK *between all avocado producers* (to track harvest/inventory/packing/shipping/arrivals/promotions/prices).

Say hello to the FOURTH TURNING. What do you think we should do?