

Boiling in the “Cauldron of Change”

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As the 21st Century opens its doors for business, nearly 6000 growers who have made a \$ 1 billion investment in the California avocado industry are boiling in a cauldron of change. Sounds ominous, doesn't it?

Ominous it is because we're reminded daily that the business rulebook is being rewritten. We're reminded, too, that our industry is no longer immune or insulated from the larger economic context. We can't just grow our crop and assume, as if it's a right, that the market will buy it...and buy it at a price, which includes a profit after we add up all of our costs. It simply doesn't work that way anymore. Not for us. Not for anyone.

Every single business sector and industry—in every nook and cranny of the New Economy Superstore—is boiling in the same pot. Why should the California avocado industry be any different? Indeed, why should the worldwide avocado industry be different? If we don't understand the dangers that come with living in the cauldron of change, the water will surely go from boil to burn.

We must get used to this new environment, and the heat it generates, because we can't climb out and escape its wrath. We must listen and learn from our new surroundings because we have no choice. We must open up and innovate because we must be competitive. We must adapt, because if we don't...we'll die.

After all, this isn't a club. This isn't a hobby. This is a \$1 billion investment that must generate a return and make money. While we boil in the Change Cauldron, that \$1 billion investment still beckons for support.

As a result, growers and other stakeholders who have made this investment must:

- Develop customers in the marketplace with **DEMAND** at a value relative to their investment basis
- Optimize production, maximize efficiency and minimize costs
- Have their handler sell optimally relative to market dynamics
- Be prepared for, and able to respond early to issues, trends and opportunities that emerge and threaten their investment
- Interact with a central, official information source and dissemination system to stay informed and be active in the business

Those needs meld together and form the raisen detre for the California Avocado

Commission. It is why we exist and our never-ending challenge.

SETTING GOALS IN BOILING WATER

Everyone around the world is wondering what they should do as the heat rises in this new environment. In fact, I'm sure all 6000 California avocado growers are in some way contemplating the future and trying to gauge the impacts hurtling toward our industry.. .wondering if the temperature will eventually destroy them.

As CAC assesses the industry's situation and considers response options, one thing is clear—it is **IMPOSSIBLE** to reach consensus on industry goals and strategy across the broad 6000 grower base.

This polarization across industry strata is compounded when it faces big, "era-shift" forces like those we're discussing here.

The differing positions, needs and expectations of those 6000 growers drive CAC to the following organizational construct, represented as the **VISION...VIABILITY...VALUE "GOALTRIAD."**

VISION

- Looking Ahead...Building Scenarios
- Response...Today & Tomorrow

VIABILITY

- Industry Competitiveness

VALUE

- Grower Returns
- Consumer Perception
- Program Performance

To support the **CAC's GOALTRIAD**, we have built a Strategic Foundation that governs our operation and direction.

THE FIRST GIRDER IN THAT FOUNDATION IS VALUES:

- To aid in maximizing grower returns
- The grower is our sole reason for existence
- Everything we do must pass through the "grower filter" of building the business
- Each and every grower is important and must have access and input

- We must foster an open and fair collaborative process to determine proper strategic direction and adjustments for change

THE SECOND GIRDER IN THAT FOUNDATION IS MISSION:

To aid in maximizing grower returns by conducting advertising, promotion and public relations for California avocados and engage in related industry activities that together help create a more profitable market environment.

Forward thinking, strategic and unifying leadership for the California avocado industry to...

- Create a culture of creativity and innovation to develop marketing programs that leverage the industry's collective strength to build value and maximize grower returns
- Build an information/communication process that builds interconnection and trust in a two-way, collaborative process with the industry's stakeholders

THE THIRD GIRDER IN THAT FOUNDATION IS VISION:

- To aid in maximizing grower returns
- Record setting values beyond what people say are possible
- Big victories on the big issues

MARKETING: PUTTING ACTION TO THE GOALS

Marketing is the most important activity in CAC's work to deliver against the organizational context just described. Our marketing philosophy is driven the:

- Assumptive premise that grower value is not automatic
- Immutability of the Supply/Demand relationship in the marketplace
- Relational connection between supply and demand—absent marketing inputs
- Ability to influence the level at which this relationship occurs

Given this set of guiding marketing principles, California avocado marketing programs are designed to continually build consumer demand by generating and maintaining consumer awareness, household penetration and purchase frequency. **THIS IS THE PRIMARY AREA WE CAN CONTROL AND, AS A CONSEQUENCE, IMPACT GROWER RETURNS.**

We know from experience that if the marketing focus is NOT steady, year-in and year-out—over the long term—continuity will not be achieved and dollar value will erode. As a result, we never run programs for a single year or let spending fluctuate wildly based on our cash position or season-to-season crop variations. Instead, we steadily pelt our target consumers with the California avocado

message each year with a long-term plan and direction always in place. All California Avocado Commission marketing programs are cross-functionally integrated year-in and year-out.

WE STRONGLY BELIEVE THAT OUR GROWER VALUE SUCCESS THROUGH THE YEARS IS A DIRECT RESULT OF THIS PHILOSOPHY AND ACTION.

It seems automatic to adopt this marketing philosophy when, as our organizational and philosophical foundation is built around industry value. Since industry value is directly correlative to harvest management/fruit flow, the velocity turn at retail, and perception of value with the consumer. . . our strategic focus naturally drifts to marketplace price/demand.

Marketplace pricing is determined by a number of factors surrounding the supply/demand dynamic. Even in smaller crop years like we've had at the century's turn, high grower returns are not a given, unless demand remains high and constant. Since avocados are more of an impulse item, we need to, more than ever, drive demand when retail prices are high because we are working with a smaller target base of consumers.

The CAC philosophical platform, and the Strategic Frame it supports, work together to build awareness and value over the long run and avoid deviation due to emotion and short-term events.

Maintaining this consumer focus and action, though imperative, isn't enough to build and sustain momentum in the marketplace. The retail trade and our programs in that arena play an integral role in the California avocado industry's marketing program.

At CAC, we begin plans in this area with the crystal clear recognition that the retail trade is focused on moving boxes, not making growers profitable. The retail world will always see the world from the perspective of missed sales, not grower returns. It is because of today's higher retail prices that our consumer advertising must work harder to create a more compelling mindset with consumers so they "crave" avocados.

The strategy of expanding the consumer base through consumer advertising has resulted in a larger pool of consumers willing to buy at today's higher prices. Deviating from that strategy would shrink that pool and impact our importance and consequent leverage with the Retail Trade.

U.S. retailers have said in recent years that "a really hot promotion may be \$1.39." The fact that prices are high does not prevent ads. It limits them. By keeping avocados highly visible through consumer advertising, we compensate, at least in part, for the smaller displays at retail.

The key success in CAC's Retail Trade program is how we changed the referential price point with the consumer. With current market dynamics, we don't need to build volume through ads as much as we need to bring retailers

consumers who crave and demand California avocados, even at the "higher prices."

The focus for CAC's consumer advertising campaign is to build consumers (with cravings), not necessarily to get more retail ads. We are bringing to retailers consumers who will satisfy their craving, at any price. Our consumer advertising campaign builds the customer base and perception of value that translates into higher returns. **NOT RECOGNIZING THIS IMMUTABLE DYNAMIC IS ONE OF THE BIGGEST MISTAKES COMMODITY MARKETERS MAKE IN BUILDING PROGRAMS.**

Retailers have always supported CAC and its unwavering commitment to consumer advertising. They need that strong consumer demand to not only sell avocados, but the "companion products" like lettuce and tomatoes, too. Even with our solid demand position in the market today, we still see opportunity to leverage our consumer advertising to build the market more in the future.

A NEW KIND OF PLANNING

It's a difficult proposition under any circumstance for Commodity Marketers deciding which marketing programs to run, and where to run them. At CAC, we start by reminding ourselves that the most important part of planning in the Cauldron of Change is to realize that you can't "plan ahead" any more! In the past, Strategic Planning has been grounded on a simple construct of *"action against the achievement of the established organizational goals."* This approach, presumptively, centered on studying the situation hard to "find **THE ANSWER.**"

Looking for "the answer" in this dangerous planning method is built on a false premise that the future is a linear extension of the present. All too often, commodity board marketers fall into this trap and use "smart talk" and "sloganeering" to "stand in" for real thinking, real strategy, and real action that **TRANSFORMS** the business.

A more enlightened approach looks at strategy inside the boiling cauldron as any commitment of resources against future expectations. Using this planning approach makes the process more valuable than the "results" since change is less about changing and more about questioning. Using this style puts the focus on options and divergence—**NOT** one answer. There isn't one answer any more and looking for it chases a false beacon in the organization's dream space.

We use this orientation to create a new lens to view the past, the present, and the future. We insist that the industry's culture accepts and embraces the reality of...

- Predatory competition
- The value imperative to create real value for a real customer in a market relative to the competition
- Margin squeeze

- No "right" to market share
- Everyone is at risk

Looking into the marketplace through that lens reveals just how competitive the world is right now and keeps us on the edge at all times. We know that any time the customer has a choice; the competing product or service providers are at risk. And we also know that the more choices people get, the more choices they want. And, finally, we know that choice almost always leads to choosing...and choosing almost always leads to changing. That's what keeps the urgency and importance in our marketing efforts.

Customers don't reward efficiency.. .they reward relevance and value. Since customers have so many choices, we continually ask why we should get the business. Every organization is "competent." Just ask them! The bigger question is what makes a company "distinctive," to a customer, in a market, relative to the competition.

Competition, technology and "choices" are changing customer expectations about products and services—quality, speed, price, service... **THE VALUE BUNDLE.** They want **EVERYTHING!**

All of that leads us to the new marketing play in the Cauldron of Change.. .**CORE DISTINCTION**, which is less of a singular attribute and always broadened.

IT'S LESS IMPORTANT WHAT YOU MAKE OR DO...AND MORE IMPORTANT WHAT YOU CREATE FOR A CUSTOMER IN THE MARKET

It's easy in Commodity Board Marketing to make the mistake of thinking the product's brand or logo is a core distinction. It can never be. BRAND'S are the **EXPRESSION AND PERSONALITY** of an organization's **CORE DISTINCTION**. The way we see it at CAC, products and services can be copied.. **BRANDS**, and all they embody, **CANNOT.**

The KEY is what the brand represents—NOT what it "is" and certainly not what you "say" it is. Brand's can't be created artificially—absent personalized contact and input from a customer in the market. You can't customize if you don't personalize what you sell. As a result, **BRANDING** is more relational than transactional...and always interactive with the customer.

In the end, **CORE DISTINCTION** isn't possible without a solid brand built on **one platform...** with **one promise...**and **one passionate, unrelenting focus.**

TURNING ON THE RADAR

Marketing programs for agricultural products are only as good as the organization's ability to "see" the future in order to develop and execute a strategic response from that contextual frame. Strategy is always inextricably tied to **BRAND.**

How do you "see" the future? For CAC, in that Cauldron of Change pressure cooker, we rely on our sophisticated ***RadarScan Issues Management*** system. Developed in the mid 1990s, ***RadarScan*** formally prioritizes, analyzes and tracks

the key issues in the California avocado industry ecosystem. One of the most important components in the **RadarScan** model is to continually challenge the key assumptions we've made about our organization, the market and the competition. It sounds easy, but it's not because most assumptions are silent. We have to force ourselves during planning to execute this key activity.

Why is challenging key assumptions so important?

BECAUSE IF THE ASSUMPTIONS ARE WRONG, EVERYTHING THAT FOLLOWS IS IN JEOPARDY.

Even though it takes a concerted effort—especially after we've had several years of considerable success with the **RadarScan** system—we make a clear and determined effort to challenge the most basic, and even the most cherished, assumptions about our business. If assumptions aren't challenged, the organization falsely thinks it is safe from catastrophe. That false sense of security automatically throttles back the innovation and action elements of strategy for the business and we want to stay out of that trap.

All of us in Commodity Marketing, to one degree or another, make the mistake of fencing out bad news and other challenges that knock on the door every day. It's common to see commodity boards hide behind "Buzzword Strategy" where all problems and threats are minimized through a series of jargons and "New Economy" bluster. This phenomenon has never been as ubiquitous as it is today with organizations staking the future on a "**DOTCOM SAVIOR**." The thinking here is firmly, and mistakenly, grounded in a belief that putting up a website and developing E Commerce connections will solve every problem and ensure sustained success.

The problem here, of course, is in thinking that presence on the web somehow makes an organization have more value in a market, relative to the competition. It's nonsense. And it's dangerous.

Since it's impossible to actively and deeply address all of the issues in an organization's ecosystem, commodity strategists must fight off the temptation to broaden the radar's field of view. To keep our focus on the radar screen narrow, we have developed a **Probability-Risk Evaluator** that forces us to drill down beneath an issue's surface and analyze its weight and power—relative to the other issues on the radar and against the strategic context of the business.

Most issues management efforts fly quickly through the latest information and focus on the most apparent impacts and risks. Upon closer evaluation, many items thought to be the most troublesome can actually fall subordinate to others. That's why it's critical on **EVERY ISSUE** to go through a methodical and organized effort to assess probability, impact and risk.

It's like a pilot getting ready for his flight by checking his list before **EVERY** flight, just to be sure everything is covered and nothing overlooked. It's the same in issues management.

Our **RadarScan Issues Management** mantra is...

"THERE'S NO SUCH THING AS ON TIME" in business...only early and late. If you wait until all aspects of an issue are manifest, and then respond, it's too late.

That's how CAC survives in the **CAULDRON OF CHANGE**.

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