

# What it Will Take to Survive in Today's World Apple Market

## A. Desmond O'Rourke

Belrose, Inc and Professor Emeritus of Agricultural Economics  
Washington State University  
Pullman, Washington

There has been a spate of books recently on the general topic of the millionaire next door. As I prepared this talk a review of one of these books, *The Millionaire Mind*, by Dr. Thomas J. Stanley, arrived in my mail. Dr. Stanley surveyed 700 millionaires to see how they made their money. He found that few inherited wealth; few were shining academics or class leaders in their youth. They were not workaholics, but led balanced lives. They believed in working smarter, not harder. They avoided debt. They were accumulators, not spenders. They saw discipline and hard work as the keys to financial success. They did not depend on luck, but had a plan, patience, and self-discipline.

If you just want to survive in the world apple market, or if you want to make a million in the next few years, many of these same lessons are applicable to your fruit business. The United States apple industry each year generates \$1.5 billion in sales at the grower level, 4 to 5 times that at the retail level. That market will not go away. Your challenge is how to get your fair share of that \$1.5 billion.

### Start with Your Objectives

First of all, you have to have clear objectives. I firmly believe that there will be many ways to make money in the apple business in the next decade. No one model will fit all growers or packers or processors. Your most important decision will be choosing what business model you want to follow.

Each operator needs an income objective and an asset objective. Your income objective may be couched either in terms of dollars or as a proportion of your family income. A full-time orchardist might have a net income goal of \$50,000 per year. A part-time orchardist might

have a goal of deriving a specific proportion of total net income from the orchard.

Equally important is to have an asset objective. In addition to seeking a specific current return on each asset employed in the business, an orchardist needs to have a target value for each asset. In many cases, the orchard, facilities, and equipment are the orchardist's accumulated nest egg, insurance, and/or retirement source. It is critical that the value of those assets are maintained or enhanced.

### Have a Business Plan

Very few millionaires, or part millionaires can reach their objectives without a clear plan. In contrast, few farmers that I know have a business plan. They ride the ups and downs of the market, hoping that the good years compensate for the bad years. For most commodities, the long-term price trend has been downward so the troughs go lower and the recovery peaks are smaller. Riding the market is less likely to be an effective strategy in the future.

A good business plan must be based on the three factors identified by Nigel Poole (2000):

1. The grower's resource set. This includes the quantity and quality of land, labor, and capital available, the price and availability of inputs, natural and climatic conditions, and production systems.
2. The external environment. This includes research and extension support, product flexibility, government regulation, and industry organizations and associations, and
3. Personal attitudes, aptitudes, and attributes. This includes personal wealth, level of management skills, cooperative tendencies, accumulated knowledge, and

If you want to survive in the world apple market today you must have clear objectives. You must understand your resources and the external environment you face. You must make realistic plans to achieve your objectives. Keep your ears perked for new ideas and work smarter, not harder. Contribute to the common good of other producers so that you will become more informed and build a stronger industry that will benefit you in return.

ability to learn.

A realistic self-assessment is an absolute necessity for developing a feasible plan to carry out your objectives. You have to decide whether you want to be a passive operator, an active, but isolated, operator, or an active, group-oriented operator. You also have to be able to honestly answer the question, "Can I meet my objectives with the current hand I have been dealt?" If the answer is no, you can achieve or you must adapt your plans in ways that will generate more revenue. Adapting your plans will require extra cost, time, and expertise. If these are not available, your smartest strategy may be to retreat with as much of your assets as you still have intact.

### Critical Points in Your Operation

Both in the short-run and in the long-run, the most critical aspects of your operation, and the ones needing your greatest attention will be the productivity of your current variety and crop mix, the market demand for what you produce, and the amount of debt, both current and long-term, that your business carries. If your acreage does not generate above av

erage yields of marketable fruit, your product mix does not generate above average prices, or debt repayments are eating up a substantial part of your revenue per acre, you probably will have difficulty surviving a continued shakeout in the industry.

The successful orchardists in the next decade will be able to increase the output per acre of marketable fruit. That means having an increasing share of the packout in the most desirable grades and sizes. The successful orchardists will also find ways to earn above average returns for the products produced, either by creating their own market niche with organic consumers, community-based activists, restaurants, or direct marketing outlets, or by participating in successful market alliances, like the Pink Lady® Alliance, that can deliver price premiums.

Unfortunately, gains made in either productivity or market price may require a temporary increase in borrowing, so the debt burden may rise in the short-run. The hope is that progressive investments will eventually increase net profits and permit a reduction in the debt burden. However, during the adaptation phase, the orchardist will have to take on greater risk that the added investments will not pay off and that profit or asset objectives will be missed. Again, realistic self-assessment will be a vital ingredient in minimizing that risk.

### Critical External Factors

Among the external factors that will affect each orchardist differently are the increasing regulatory burdens associated with chemicals, labor, water, food safety, etc. Each orchardist will need to assess how much his resource set will be affected by changing regulations. For example, an orchard that is subject to specific insect pressures may be hurt more by the cancellation of a popular insecticide.

A second key external factor will be the availability of alternative market out-

lets for your products. In the most obvious case, if you are dependent on one local processor to take your product, the closure of that processor could be devastating. Given the consolidation that is going on in every sector of the food distribution system, producers need to have a realistic assessment of the potential longevity of their main market outlets and have contingency plans in place should those outlets disappear.

A third key external factor is the provision of support services such as research, extension, inspection, marketing research, and promotion to producers in the region. There is little doubt that these collective services are under attack from many quarters. However, there is also little doubt that they will continue to be crucial to keeping United States growers competitive in a world where many international suppliers have an advantage in lower costs of land and labor. You need to build a core group of knowledgeable bankers, accountants, extension agents, industry executives, and others on whose wisdom you can draw.

Most of the successful growers that I know are very group-oriented. They are willing to work with neighbors informally. They are willing to participate in area IPM programs or educational programs. And, when called upon, they are willing to serve and support industry organizations. The astute grower can learn so much from listening to others. He or she does not have to make all the same mistakes to learn from them, or try each new idea himself to find out what worked. In addition, participating in broader district, state or national organizations opens up new ideas and new opportunities that none of us alone could uncover. Even if you do not have time to attend regional or national meetings, you can learn so much about what is going on in the apple world by surfing the internet for key industry sites. Almost all the major state and national fruit or-

ganizations now have excellent, informative sites.

### The Successful Apple Grower Next Door

Being a successful apple grower requires the same skills as being the millionaire next door. You have clear objectives. You understand your resources and the external environment you face. You make realistic plans to achieve your objectives. You keep your ears perked for new ideas from whatever source they come. You avoid the flashy solutions, or those that promise too much. You rely on working smarter, not harder. And, by contributing to the common good of other producers, you become more informed and build a stronger industry that helps you in return.

As the margin for error in the apple industry shrinks, the successful growers will be those that continually improve every aspect of their operations while allowing themselves some breathing room to experiment with new ideas. The formula is not glamorous. However, it has worked for the millionaire next door, it can work for you.

### References

Poole, Nigel D. 2000. Production and marketing strategies of Spanish citrus farmers. *Journal of Agricultural Economics*, 51:2, 210-223.

Stanley, Thomas J. 2000. *The Millionaire Mind*. Andrews McMeel Publishing.

---

*A. Desmond O'Rourke is president of Belrose, Inc., world market analysts, and publisher of the World Apple Report. He is emeritus professor of agricultural economics at Washington State University. This paper was presented at the New York Extension Fruit School, Rochester, New York, January 17, 2001.*

## ERRATA: Merwin article, New York Fruit Quarterly, Volume 9, Number 1 (SPRING 2001 Issue)

Corrections for the previous article by Merwin et al. on "Integrated Diagnosis and Control of Apple Replant Problems": The farm identification abbreviations in Figures 3-B, 3-C and 4-A were mistakenly altered in printing, and should have been as follows:

Figure 3-B: (from left to right) CV-2, ON-4, HV-3, LI-1, HV-4, and ON-6.

Figure 3-C: (left to right) CV-3, HV-5, ON-8, and ON-9.

Figure 4-A: (left to right) CV-2, ON-4, HV-3, LI-1, ON-5, and ON-6.

We regret any confusion this may have caused our readers.