What's an Apple Worth?

Dennis Courtier

Pepin Heights Orchard Inc., Lake City, MN

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> *—Peter Drucker*

This little "rant" about pricing started forming in my head about a year and a half ago at the Produce Marketing Association (PMA) show in Philadelphia when one of your board members and I and a relatively insignificant apple broker from Washington State were standing around the Washington Apple Commission booth swapping lies. After all, that's what meetings like the PMA are mostly for. Well, when Mr. I-always-take-my-cut-but-never-take-a-risk-broker found out I was from Minnesota, the subject of HoneyCrisp came up, as it often does.

"Great apple," says Mr. Broker, "and I hear you're getting really big money for 'em right now, too. Of course it can't stay that way."

Without meaning to, or knowing he had done so, this parasite had really hit my crazy bone. My blood pressure was going up, the muscles in the back of my neck were getting tight and my face was turning red. But I controlled myself and asked him, "Oh, why's that?"

His answer, "Well, no apple is worth 50 bucks a box."

At this point, I was really throttling my urge to strangle him on the spot. "Okay," I said, "let me get this straight. Consumers love 'em enough to pay 2 or 3 dollars a pound for 'em without batting an eye. Retailers have never made so much money on an apple because they work on margin and 40% or 50% of $2.49 is a lot more money than 40% or 50% of 79 cents. God knows that growers have been taking a beating long enough. I don't think they'll complain a whole lot if the price stays around half a C note."

I couldn't help myself; I was on a roll. "You're probably right," I said. "Eventually the price will erode. But it won't be because consumers are no longer willing to pay the price, and it won't be because retailers will have manipulated the market. It'll be because we've let too many fast buck artists like you kill the Golden Goose one more time!"

Actually I wasn't that harsh, that isn't exactly what I said, but it sure is what I was thinking. And I don't mean to pick on just this one guy. He's really no worse that a lot of other peddlers hanging around the apple industry.

So, what's the point of re-telling this story? I truly believe that the generally accepted way we in the apple industry look at pricing dynamics is ultimately very self-defeating. We continue to think only in terms of a traditional supply/demand commodity market model. With demand being relatively fixed, prices drop as supplies increase. This, regrettably, is how most apples enter the wholesale marketplace, and it certainly presents a couple of major problems.

Problem #1: Increase supply enough and you get what in the Midwest we call "Cornonomics." That is when you lose a little on every bushel but try to make it up on the volume.

At this point I want to borrow something from a talk that Des O'Rourke gave at last year's World Apple and Pear Conference: "MOVEMENT DOESN'T HELP—IT'S THE PRICE THAT COUNTS!"

There is, in fact, no amount of bushels per acre and no level of expertise at cost control that can keep your business healthy in the commodity-based model. If whoever is selling your fruit can't see past this model, when the market gets crowded that will simply lower the price in hopes of elbowing their way to the buyer's purchase order. This approach basically ends up with you and your neighbors fighting over the life vests on a sinking ship. Lower prices at the wholesale trading level do not increase movement. In fact, lower retail prices even have much less impact on consumption than you might expect.

Problem #2—this is the BIG one: The traditional commodity market model has absolutely nothing to do with people who eat apples. It in fact consistently places the desires of our trading partners, the middlemen, in a position of higher priority than those of our consumers who are in fact our REAL CUSTOMERS and the only people who can ever actually increase demand.

Now I want to quote another previous speaker from one of these meetings. The year was 1979, and the speaker was me. First I read a paragraph from a book called *Management* by one of my favorite business guru authors, Peter Drucker. "There is only one valid definition of a business's purpose: to create a customer. Because its purpose is to create a customer, the business's management has two basic functions—marketing and innovation. Marketing and innovation produce results. All the rest of your business is merely overhead."

Then I went on to say, "Historically, our industry has responded beautifully to the call for innovative production procedures. This organization is living proof of that. However, when it comes to marketing, we've got a long way to go to catch up with Coca-Cola and Frito-Lay."

Yup, the more things change, the more they remain the same.

Since 1979, all of our production innovations have only caused more oversupply and dramatically lower prices (inflation adjusted) while per capita consumption is flat to declining. Coca-Cola and Frito-Lay are still kicking our butts while we're wasting our time arguing about what an absolutely delightful eating experience consumers can have with a 15-month-old Red Delicious! Do any of you really disagree with me when I say that, as an industry, we've still got an awful lot of catching up to do when it comes to marketing?

The definition of insanity is when you keep doing the same thing over and over and expect different results.

It is really time for some collective new thinking.

We need to stop banging around inside that commodity model frame of mind and start thinking (and behaving) like consumer goods marketers.