

HASS AVOCADO BOARD

2003 Annual Report





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CHARLEY WOLK
BOARD CHAIRMAN

CHAIRMAN'S MESSAGE

The appointment of the Hass Avocado Board (HAB) on February 12, 2003 marked a watershed event for the avocado industry. The 12-member board serves as a voice for 20,000 Hass avocado growers in five different countries. All of which share one common goal...to achieve continued success in the U.S. avocado market.

The aggregate volume of Hass avocados in the U.S. market is moving inexorably toward one billion pounds. The strong market demand that has generated years of steady value for growers must be further developed and strengthened in order to provide continued value for the increased market supply. The only way to accomplish this goal is to work together under one unified vision and one strategic plan. The HAB is committed to making that vision a reality for the betterment of the entire industry. We will continue to reach out to all Hass avocado sellers/producers, and we encourage grower involvement and collaboration.

During this initial launch year, the HAB laid the important foundation necessary to support the industry's future success. We will utilize decades of market data and expertise to build market demand, along with state-of-the art technology to provide real time production, shipping and distribution information that will enable Hass avocado producers to make sound decisions about the marketplace. To augment the important industry communications, we will run consumer public relations campaigns to keep avocados top of mind with consumers throughout the year, especially during key time periods when volume is high and increased sales are key.

This is a critical time for our industry. One that will test our resolve and challenge our capabilities, but we are prepared to face the challenge. The more united we become, the more powerful our impact will be.

Charley Wolk

Board Chairman



BOARD OF DIRECTORS

	MEMBER	TERM	ALTERNATE	TERM
<i>Chairman</i> Domestic	Charley Wolk, Jr.	03-07	Giovanni P. Cavaletto	03-07
<i>Vice Chairman</i> Domestic	Scott A. McIntyre	03-07	Don W. Reeder	03-07
Domestic	Mark C. Borchard	03-06	Robert J. Flack	03-06
Domestic	H. Leonard Francis	03-06	Paul Foley	03-06
<i>Secretary</i> Domestic	Alva V. Snider	03-06	Thomas P. Markle	03-06
Domestic	George H. Barnes	03-05	Ralph R. De Leon	03-05
<i>Treasurer</i> Domestic	Robert Bednar	03-05	Robert J. Perry	03-05
Domestic	James P. Finch	03-05	Donna Singmaster	03-05
Importer	Ed Figueroa	03-07	Michael A. Browne	03-07
Importer	James M. De Malo	03-06	Luke G. Sears	03-06
Importer	Eric R. Crawford	03-05	Daniel McGrath	03-05

EX-OFFICIO Jerome Stehly, CAC Chairman



BOARD OF DIRECTORS

MEMBERS

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WOLK



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CAC CHAIRMAN
JEROME STEHLY
EX-OFFICIO

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BORCHARD



FRANCIS

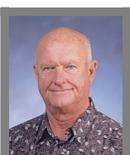


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BARNES



BEDNAR



FINCH



CRAWFORD

OFFICERS



BEDNAR
Treasurer

SNIDER
Secretary

WOLK
Chairman

MCINTYRE
Vice Chairman

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SINGMASTER



MCGRATH



KEY ISSUES IN 2003

- The “Hass Avocado Board” (HAB) was approved as the official name of the Board.
- An Administrative Services Agreement with the California Avocado Commission (CAC) was signed through October 31, 2004.
- A Domestic Marketing and Promotion Plan with the California Avocado Commission (CAC) was signed through October 31, 2004.
- Reimbursement to CAC for costs (\$60,000) associated with the HAB startup was approved along with repayment to USDA of \$340,072 for overhead and Agricultural Marketing Service (AMS) charges (does not include litigation costs). HAB will pay \$9,500 per month, over the next three years, beginning November 2003 to retire the USDA debt.
- The CAC Chairperson was made an Ex-Officio member of the HAB. The CAC reciprocated.
- Conrad & Associates, specialists in government entities, was selected as HAB's Auditor through October 31, 2004.
- USDA published a Proposed Rule terminating the definition of “substantial activity” as it pertains to importer board members. The Order currently states that an importer, to be eligible to sit on the board, must have over 50% of his business in imports (into the U.S.). This limits the number of importers available to serve on the board. Results are due in early 2004.
- The Lamb Hass variety will be assessed in the 2003-04 season.
- HAB's Marketing Agency Roster was announced as follows:

◆ **CONSUMER COMMUNICATIONS**

Fleishman-Hillard Public Relations

Account Leaders: Richard Klein, Janet Greenlee

Staff Liaison: Jan DeLyser, Michelle Spelman



KEY ISSUES IN 2003, continued

◆ **TRADE COMMUNICATIONS: RETAIL**

Fusion Marketing

Account Leader: Steven Muro

Staff Liaison: Jan DeLyser

◆ **TRADE COMMUNICATIONS: FOODSERVICE**

MMM Marketing

Account Leader: Peggy McCormick

Staff Liaison: Michelle Spelman

◆ **INDUSTRY COMMUNICATIONS**

Integrated MarketingWorks

Account Leader: Kari Bretschger

Staff Liaison: Mark Affleck

◆ **INFORMATION TECHNOLOGY**

Inter@ctivate Marketing

Account Leader: Jack Abbott

Staff Liaison: Tom Bellamore

◆ **BRANDING**

Colby & Partners

Account Leader: Paul Izenstark

Staff Liaison: Mark Affleck

QUALITY: GRADES & STANDARDS

Hass Quality surfaced in the HAB's 2003 Strategic Planning Process as a key issue now and for the future. Several board members expressed serious concern over fruit quality in the marketplace now that multiple producers are selling Hass avocados throughout the year...all with varying oil content and quality profiles. Pretext for the discussion included uniformity, maturity (oil content), and so-called "cosmetic" considerations.



KEY ISSUES IN 2003, continued

Board consensus seemed to be that quality was a key issue that must be addressed. However, after that point the discussion stalled when next steps and action plans were considered. It was clear at this stage of the discussion that unifying all producing industries selling Hass avocados in the U.S. market on a common Quality Goal & Strategy would be a Herculean task. Chief among the concerns mentioned were seasonal and geographical variations in oil content, by producing country.

Despite those roadblocks, the board did agree to do what it could on the quality issue right now, even while plans to develop formal, uniform standards were debated. To that end, two immediate action steps were developed and taken in 2003. They were:

1. QUALITY BRAINSTORMING CONFERENCE

- *The HAB approved at its August 2003 Board Meeting \$25,000 to pay for travel costs associated with bringing panelists to the October 2003 "Avocado Brainstorming Conference" in Ventura, California. Recognizing that one full day of the conference has been devoted to a discussion of quality issues, the Board felt supporting this type of program would demonstrate HAB's commitment to improving quality for the benefit of all global avocado growers and sellers.*

2. HAB INFOTECH: NETWORK MARKETING CENTER (NMC)

- *Though it's clearly not a 100% quality project, the "Strategic Intelligence" generated by this program should enable avocado marketers to share information essential to orderly marketing throughout the full 12-month season and ameliorate seasonal transition points and concomitant market instability between sources.*
- *Naturally, this project will illuminate the fruit quality issue for all players in the U.S. deal and, ideally, raise awareness on the need to focus on delivering a consistently good piece of fruit to the market year round. Indeed, this initiative is designed to help ALL sellers in the U.S. market develop a much-needed framework to ensure orderly flow of fruit with uniform quality.*
- *The benefits from such an end state would inure to consumers, supermarket retailers and those suppliers selling Hass avocados in the U.S.*
- *Information produced by the IT System will be synthesized, analyzed and disseminated to all players in a clear, actionable format that aids them in making strategic decisions in the marketplace. Dissemination will take place via a worldwide intranet tying together all suppliers. The primary infrastructure for the intranet—the Network Marketing Center (NMC)—will be housed at the HAB headquarters in Irvine, California.*



KEY ISSUES IN 2003, continued

Even with these two programs--Brainstorming Conference & InfoTech--in place, they fall short of the formal Quality Program envisioned by those advocating such a move during 2003. Cognizant of that fact, HAB Staff offered the following options:

1. *No action*
2. *Amend the Florida Avocado Marketing Order to include Hass avocados*
3. *Pursue establishment of a Federal Marketing Order creating grade standards for Hass avocados, as authorized under the Agricultural Marketing Agreement Act of 1937*

With respect to establishing a Federal Marketing Order for Hass Avocados, the degree of industry consensus in supporting the establishment of an order would play a critical role in USDA's decision-making process in determining whether to proceed with the implementation process. In 2003, industry consensus on maturity and grade standards is by no means certain. Yet even with those concerns, it is the best option of the three and for that reason was carried into 2004 by the HAB which approved at its August 2003 Board Meeting an Exploratory Analysis on "*Creating a Federal Hass Quality Standard,*" including these steps:

- *Outline the implementation process*
- *Prepare an implementation timetable*
- *Review existing California and Florida standards*
- *Develop "rough draft" standard for initial discussion*
- *Estimate costs to establish an Order*

Findings will be presented in early 2004.

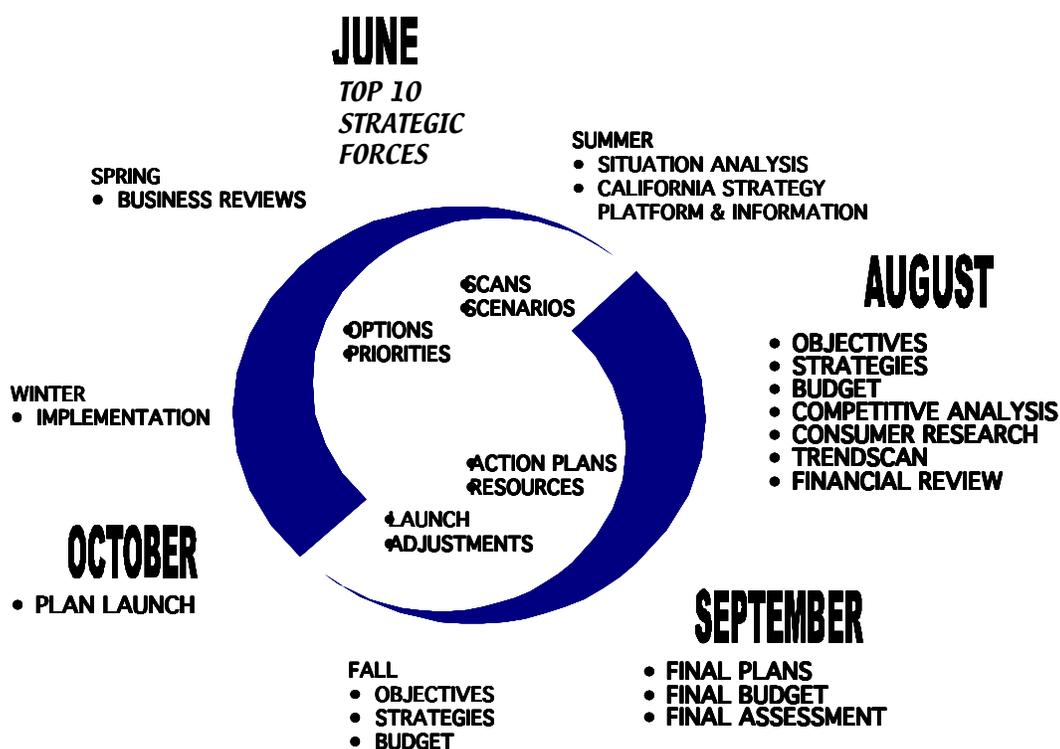


STRATEGIC PLATFORM

In Spring 2003 the HAB implemented a recursive Strategic Planning System to:

- Scan the Industry's External & Internal Environment
- Identify Strategic Impact Forces
- Develop Objectives, Strategies & Tactics
- Conduct Financial Reviews & Resource Analyses
- Establish Final Business Plans & Budgets
- Implement Business Reviews & Evaluations

Below is the Planning Model used by the HAB:





STRATEGIC PLATFORM, continued

From information generated in that first Strategic Planning Cycle, HAB identified the following Forces & Challenges impacting the Hass avocado industry's future:

FRAGMENTATION:

The formation of importer associations which receive a refund (85%) of assessments paid by their members significantly reduces the amount of "pooled" resources in the HAB budget, thereby crippling critical mass and making a large, national consumer advertising campaign (\$15 Million to be effective) impossible.

CHALLENGE: *How to leverage remaining resources of approximately \$3 million for maximum impact.*

YEAR-ROUND MARKETING IMPERATIVE:

HAB Marketing Programs must eschew "seasonal campaigns" supporting individual suppliers and instead embrace a seamless, coordinated 12-month program that accounts for each supplier's volume and timing.

CHALLENGE: *How to unite individual suppliers behind a single, cohesive strategy designed to promote orderly marketing and stability—year round.*

PRIORITIES & COORDINATION:

Funds which remain with the HAB must be prioritized, allocated, and apportioned for the benefit of all suppliers with fairness, efficiency and strategic focus.

CHALLENGE: *How to develop a broad strategic platform that receives consensus buy-in among internal stakeholders, with limited resources (relative to optimum).*

BRAND IDENTITY:

There are now several Hass avocado "Brands" in the U.S. market--California, Chile, Mexico--each with different relevance/resonance for the consumer and trade.

CHALLENGE: *How to create a clear strategy that allows an evolution from competing brands to multiple brands coexisting under a generic Hass rubric with consistent and uniform quality.*

AGGREGATE HASS VOLUME:

Total U.S. supply is expected to reach a record 800-900 million pounds in the next three years.

CHALLENGE: *How to create sufficient demand before the market's foundation cracks and negatively impacts consumers, retailers and growers/importers.*



STRATEGIC PLATFORM, continued

CHANGING RETAIL LANDSCAPE:

Consolidation of ownership/control in the retail sector empowers operators, enabling them to demand more from suppliers and “leverage the chaos,” disrupting an orderly flow of fruit into and out of the supermarket.

CHALLENGE: *How to adjust to this new retail landscape with programs designed to deliver value to retailers while managing seasonal transitions and fruit flow to market.*

MAINTAINING MARKET STABILITY:

Create and sustain demand and velocity in core markets where demand is strongest--the West & Pacific Regions--through continued consumer advertising (via CAC 85% spending) and trade promotion/category management.

CHALLENGE: *How to generate sufficient assessment revenue to fund existing marketing efforts in core markets while addressing new, demand-generation needs created by the increase in aggregate avocado volume.*

BUILD NEW MARKETS:

Build demand outside core markets by creating new users in underdeveloped regions in the U.S.

CHALLENGE: *How to overcome resource limitations and confusion in the marketplace caused by fragmented marketing efforts by multiple associations, and get the demand-building job done.*

TWO-PLANK STRATEGY ADOPTED

Board analysis of those **Forces & Challenges** produced the following Two-Plank Strategy:

- 1. Information Technology (INFOTECH)**
- 2. Marketing Communications (MARCOM)**

BROAD INFOTECH GOAL

The primary goal behind the **INFOTECH** plank of HAB's Strategy is to develop “Strategic Intelligence” that will enable avocado marketers to share information essential to orderly



STRATEGIC PLATFORM, continued

marketing throughout the full 12-month season and ameliorate seasonal transition points and concomitant market instability between sources. This initiative is designed to help ALL sellers in the U.S. market develop a much-needed framework to ensure orderly flow of fruit and market stability. The benefits from such an end state would inure to consumers, supermarket retailers and those suppliers selling Hass avocados in the U.S.

BROAD MARCOM GOAL

The primary goal behind the **MARKETING COMMUNICATIONS** plank of HAB's Strategy is to increase awareness and demand for Hass avocados in targeted markets during high-volume time periods to accelerate fruit movement and create an orderly and stable marketing environment. Programs under this umbrella would prompt consumers to increase their purchase frequency of Hass avocados.

On the trade side, the **MARCOM** strategy would work to establish confidence in the HAB Program to create and maintain an orderly market environment for them and the consumers they serve. Activities in this program would develop promotion opportunities made possible by the increase in Hass volume now spread across a 12-month period.

On the internal front, the **MARCOM** program would seek to build confidence among industry leaders--Importers, Handlers and Growers—in HAB's ability to positively impact the Hass avocado marketing program in the U.S. market.

What follows in the next section are summaries of both planks.



INFORMATION TECHNOLOGY

Below are the **THREE COMPONENTS** in the **INFORMATION TECHNOLOGY** Program:

1. INFORMATION
2. COMMUNICATION
3. INFRASTRUCTURE

COMPONENT # 1: INFORMATION

OBJECTIVE

Develop "Strategic Intelligence," covering key "Marketing Impact Areas" that determine success in selling fresh avocados in the U.S. Market

STRATEGY

Focus on Information/Content covering these three areas:

1. GROWING
2. SHIPPING / DISTRIBUTION
3. MARKETING

TACTICS

- Utilize data on shipping, inventory and supply collected via the Avocado Market Research and Information Center (AMRIC) to provide a graphical representation of the total U.S. avocado market
- Utilize existing data on weather, shipping manifests, marketing programs and industry background information to complement primary statistical data compiled from AMRIC
- Utilize retail data on pricing by market and product size to provide an understanding of consumer purchase behavior. Target top 20 markets for initial review

COMPONENT # 2: COMMUNICATION

OBJECTIVE

- Establish clear, integrated communication channels with key players in the HAB ECOSYSTEM marketing Hass Avocados in the U.S. Market. Initially, the primary communication targets will be Hass avocado packers and importers

STRATEGY

- Develop a Network Marketing Center (NMC) to connect key players in the HAB ECOSYSTEM and enable the exchange of information on Marketing Strategy to achieve an orderly flow of fruit to market



INFORMATION TECHNOLOGY, continued

TACTICS

- Populate the Network Marketing Center with content sufficient to generate communication messages and prompt discussion by industry participants
- Develop an email communication program to advise all industry participants of relevant news and information
- Develop bulletin boards and communication forums to assist industry participants in communicating with the board and each other

COMPONENT # 3: INFRASTRUCTURE

OBJECTIVE

- Allow all industry participants to access information and communicate amongst themselves in real time, via a web-based wide area network

STRATEGY

- Develop scalable infrastructure platform to accommodate future growth

TACTICS

- Construct central data/information repository and communication center utilizing hardware that can accommodate future growth
- Utilize software that meets both the current and future information and communication needs



MARKETING COMMUNICATIONS (MARCOM)

Below are the **THREE COMPONENTS** in the **MARKETING COMMUNICATIONS (MARCOM) PLAN**:

1. CONSUMER COMMUNICATIONS
2. TRADE COMMUNICATIONS
3. INDUSTRY COMMUNICATIONS

COMPONENT # 1: CONSUMER COMMUNICATIONS

OBJECTIVE

- Increase awareness and demand for Hass avocados in targeted markets during high-volume time periods to accelerate fruit movement and create an orderly and stable marketing environment

STRATEGY

- Establish a consistent, repeatable generic marketing communications program in selected markets with a national overlay
- Utilize call-to-action consumer programs/events that create an urgency to purchase Hass avocados

TACTICS

- Super Bowl XXXVIII
 - ◆ Work with Houston Host Committee on possible sponsorship opportunities for Super Bowl. Investigate appropriate chefs and begin recipe concepts. Provide partial sponsorship funding. Contact and pitch Al Roker's Holiday entertaining book effort for avocado inclusion.
- Conduct activities to further refine the overall Consumer Communications plan as per the HAB Board submission on August 20, 2003 providing detailed project frames and line item budgets.

COMPONENT # 2: TRADE COMMUNICATIONS

OBJECTIVE

- Establish trade confidence in the HAB Program to create and maintain an orderly market environment
- Identify/develop new promotion opportunities for Hass avocados made possible by the increase in volume now spread across a 12-month period



MARKETING COMMUNICATIONS (MARCOM), continued

STRATEGY

- Educate trade partners about the positive impact HAB Strategies and Programs will have on the U.S. avocado market
- Leverage existing relationships with key retailers and foodservice operators to develop program tie-ins and support activities
- Utilize Category Management Business Reviews to obtain ad support and identify business-building opportunities for retailers
- Outreach to key retailers at major industry trade show

RETAIL TACTICS

- Retail Communications: Prepare materials as per the plan that can be used in telling the HAB story to retail. Contact editors for retail and produce trade publications to set the stage for the program. Timing: Execute program late October 2003
- Conduct activities to further refine the overall Trade Communications plan as per the strategic frame approved by the HAB Board on August 20, 2003, providing detailed project frames and line item budgets
- Produce Marketing Association Outreach Effort (Orlando, October 2003)
 - ◆ *Develop the HAB Pitch & Strategy Planner for one-on-one Business Reviews at PMA*
 - ◆ *Provide additional collateral and Power Point materials to execute at PMA*
 - ◆ *Develop press release and provide presence in the press room*
 - ◆ *Provide demos of the intranet program*

FOODSERVICE TACTICS

- Develop new HAB press kit/brochure including promotional calendar
- Plan editor delivery of Hass avocado gift basket
- Co-manage outside consulting firm and contact high-volume foodservice chains using fresh Hass avocados
- Create distributor program for fresh Hass avocados



MARKETING COMMUNICATIONS (MARCOM), continued

COMPONENT # 3: INDUSTRY COMMUNICATIONS

OBJECTIVE

- Build confidence among industry leaders--Importers, Handlers and Growers—in HAB's ability to positively impact the Hass avocado marketing program in the U.S. market

STRATEGY

- Educate key industry targets with strategic and understandable information on key elements behind an orderly market—fruit flow and seasonal supplier transitions

TACTICS

- HAB Introductory Communications:
 - ◆ *Execute media outreach including press release and photographs announcing HAB Board/Officers*
 - ◆ *Develop new HAB industry logo and stationery package for professional communications*
- New HAB Program Launch:
 - ◆ *Provide Project Management Services during start-up phase to make sure HAB Launch is effective and efficient*
 - ◆ *Develop target list for dissemination to grower media/associations in target global markets*
 - ◆ *Assess accessibility to avocado grower email/mail addresses*



HISTORICAL PERSPECTIVE

The total U.S. market for avocados is approaching 800 million pounds annually. For decades, U.S. production of avocados was sufficient to meet domestic demand. Annual production of Hass avocados in California—the only state where this variety is grown—has historically ranged from 250 to 570 million pounds, on commercial plantings of nearly 65,000 acres.

Prior to 2002, marketing of Hass avocados in the U.S. was the exclusive domain of the California Avocado Commission (Commission) and a small number of companies that primarily focused on developing retail relationships. The Commission's annual marketing investment has averaged approximately \$7 million since 1978. Key indicators of the Commission's success over time have been steadily rising crop value, which reached a record \$358 million in 2002, and reaffirmation three times through industry referenda with support levels in the 85-95% range.

In the late 1990s, the U.S. market for avocados began to change dramatically; the high-value return being received by U.S. growers attracted international attention, prompting new plantings of Hass avocados worldwide. Based on those strong returns and anticipated further growth in U.S. avocado consumption, foreign producers set their sights on the U.S. as their primary export target. By 2001, the aggregate volume of Hass avocados in the U.S. market—both domestic and imported—was edging closer to the Supply/Demand "Tipping Point."

Market entries during this period by Chile, Mexico, New Zealand, and the Dominican Republic resulted in an increased share of market for imported fruit and, for the first time, the real possibility of oversupply of Hass avocados in the U.S. market. To meet this marketing challenge, the California avocado industry pursued federal legislation designed to generate incremental resources and equitably distribute the cost of market development across all market participants to keep up with the growing supply of Hass avocados.



Historical Perspective, continued

The result of that effort was the Hass Avocado Promotion, Research, and Information Act of 2000 (Act), 7 U.S.C. 7801-7813, signed into law on October 23, 2000. The Act authorizes the U.S. Department of Agriculture (USDA) to establish a Hass Avocado Research, Promotion and Information Program. The primary purpose of the industry-funded program is to increase consumption of Hass avocados in the United States.

The Hass Avocado Board (HAB or Board) was established in February 2002 pursuant to the provisions of Hass Avocado Promotion, Research and Information Order (Order), 7 CFR Part 1219. The Order became effective September 9, 2002, after it was approved in a national referendum by producers and importers of Hass avocados.

The HAB is authorized to conduct promotion, information and related research programs designed to maintain and expand domestic markets for Hass avocados. A 12-member Board administers the program under USDA supervision. Approximately 6,000 producers and 100 importers are covered by the program which covers fresh domestic and imported Hass avocados. Exports of domestic Hass avocados are exempt from assessments.

Pursuant to the Order, the initial assessment rate was set at 2.5 cents per pound. On August 20, 2003, the Board voted to retain this rate for fiscal year 2003-04. The Board is required to refund 85 percent of domestic assessments to the Commission and 85 percent of importer assessments to importer associations. These funds returned to such associations must be used for the marketing of Hass avocados in the U.S.

The Board is required to contract with the Commission for program implementation under the national program, and must reimburse the federal government for the cost of administration.