

Lost in a Valley of Confusion: The State of Today's Wholesale Apple Industry in the Hudson Valley: A Summary of Recent Producer Feedback

A commentary by Dan Donahue, CCE-ENYCHP, Hudson Valley

During our winter fruit conference program in February 2020, just prior to covid shutting down our in-person meetings, Mike Basedow and I devoted the entire second day to the question of "What apple variety should I plant?". After a full day of listening to growers, marketers, nursery producers, and academics tackle the question from different angles, the path towards future success remained fuzzy at best. The question has remained foremost in the minds of our Eastern New York producers and the answer continues to elude us. Today, for the first time in many years, nurseries have trees available for purchase without prior contracts and many producers have slowed or even delayed their replanting plans. With establishment costs heading north of 25K \$\$\$ per acre and faced with the task of top-working young blocks of the last, but now past, new variety star to more reliable options begs the question: "What variety do I plant" or perhaps more telling, "should I be planting anything at all?"

The Hudson Valley supports an industry that from a marketing standpoint is amazingly diverse. Our proximity to the New York City metropolitan fuels a vibrant agrotourism market. Orchards that focus on direct retail marketing including the supply of outside farm markets has also benefited from our favorable geographic position. No surprise here as our location has been the strength of our apple industry since pre-revolutionary times. Back then the Hudson River was our highway, later replaced by trains rolling alongside the great river. Today it's trucks, and internationally, ships, that have helped grow our wholesale markets into the national and international behemoths of immense complication that they are today. Varieties from around the world now compete for shelf space and the consumer sees "apples" as a commodity, not necessarily a product of our local orchards. "Envy", "Opal", where do they come from? Who knows says the consumer, to me, they're just tasty apples.

Every business owner wrestles with the question of what comes next. Changing consumer expectations, competition in the marketplace, competition amongst suppliers to offer the highest quality at the lowest cost, unstable labor markets, a challenging regulatory environment for small business, and more recently supply chain and cost inflation issues are drivers common to all businesses. What makes the apple industry a special case in this economy is how biology sets distinct limits on just how fast a small business can pivot to meet demands that change at an ever-increasing rate. In my view, rapid innovation in the technology sector has been a major factor contributing to the shortening of product development and marketing cycles. As a result, consumers have become conditioned to expect that the "next big thing" is only just around the corner. I call it the "iPhone Syndrome", that is we expect a new and improved product every two years or so. The evolution of cell phones is one example, and the explosion of tech in modern automobiles is another. Perhaps this shortening of the consumer's attention span helps explain the explosion of product branding we see in today's retail stores.

So where does this leave a traditional industry where the speed of change is biologically limited? How do we effectively address these two conflicting realities? Producers for the wholesale market in the Hudson Valley are particularly concerned about their prospects for the future. Since last November, the overarching theme of my discussions with producers invariably focused like a laser on issues of marketing, rising production/packing costs, and increasing government regulation at all levels. The traditional topics of horticulture and pest management have become de-prioritized in today's difficult business environment. I'll break the topics down into these five categories:

The rising cost of production and packaging inputs: The number one issue on the minds of our Hudson Valley wholesale apple producers. To a degree, our current inflationary environment has contributed greatly to this, and there's nothing more visceral than the unit cost of captan fungicide doubling or cardboard costs increasing 30% in just a few months' time. The issues run deeper though. Labor costs have been increasing for years while supply has dwindled. New technology can be exciting, but can also be expensive to implement, and do we really have a clear picture of what technological improvements boost the bottom line versus which simply look good? Orchard establishment costs are up. Sure, increasing tree density is the major factor, and we have good reason to believe that high density orchards offer a better investment return, albeit at a higher risk. Other, maybe less obvious factors are in play as well, such as the increasing cost of trellis structures and the payment of royalties for many new varieties and rootstocks.

Fresh apple marketing: The second major issue. Concerns expressed are low FOB pricing, poor packouts due to ever higher quality standards, and intense competition for retail shelf space. Last but not least, in fact it is foremost in the minds of producers, is the question "what varieties do I plant?". I understand that some consider this a horticultural issue, but it is really all about the marketing. A profitable apple variety has three characteristics: strong consumer demand resulting in high FOB's; excellent and reliable packouts; big yields on an annual basis. Of these three, the first, consumer demand, is the most important, the least understood, and seemingly most difficult to predict. My impression is that as an industry we need to improve the communication between marketers and producers, and gain a better understanding of how retail chains make purchasing and shelf space decisions.

Industry regulation: True, farm labor overtime and the unpredictable pesticide regulatory environment in New York State are hot-button issues today. Such issues have a direct and once again, visceral impact on the bottom line and all business owners see and feel the immediate effects. More often than not these are policy questions driven by the political climate of the day. The role of Cornell Cooperative Extension is to educate, document, and study, but not advocate. Bottom line, if the members of an industry don't support certain policy directions, then they need to put themselves and their organization representatives squarely in the negotiating mix. Effective efforts take dedication, time, and money, there's no two ways around it. I'll point out a more nuanced form of industry regulation as well, the "quality" and "safety" requirements imposed by large retailers that are often unique to individual wholesale buyers. The topics here include multiple GAP protocols and restrictive pesticide policies, among others. Unique purchasing standards increase both marketing and production costs for producers, but do they ultimately increase producer returns? What about the hidden "tax" such standards impose on our university and private research efforts? Is it a reasonable decision to divert scarce research resources to solve problems that are retailer driven? Note that I said retailer, not consumer.

Horticulture: Postharvest issues are at the forefront here, with internal browning the lead challenge. Technology now allows us to practically specify our own custom harvest date for certain varieties, but as an industry we appear to have a problem getting the fruit off the tree at the correct stage of maturity for long-term storage. The warm temperatures of the Hudson Valley can inhibit fruit red color development, reflective materials may help, and producers are interested in learning more. New varieties and rootstocks are entering the marketplace more quickly and in greater diversity these days, with early-adopting commercial producers taking on increased financial risk as they speculate on what is the best combination over the 15–20-year economic life of a modern orchard. What about hi-tech labor-saving technologies? Referring back to points 1, 2, & 3, will we still be growing apples commercially here by the time these technologies mature and become economically viable?

Pest Management: Conversations I've had with producers on this topic leave me conflicted. On the surface, pest management questions are usually the first topic of conversation as many producers seek out multiple opinions. However, in the face of the serious economic questions revolving around costs, marketing, and regulation, producers are noting that by and large they know how to control insects, weeds, and diseases. The real action items here are the invasives, and how do we implement mating disruption technologies. Incremental improvements in sprayer technology and computer modeling that might save a couple hundred dollars/acre in spray material costs in certain years are not nearly enough of a financial boost to offset the profitability challenges posed in points 1, 2, & 3.

My discussion above does not cover every topic, or opinion. In conclusion, I believe we've all received a wakeup call. The leadership of the NYS Horticultural Society, NY Apple Association, and NYS Apple Research and Development Program are tuned in. Cornell Cooperative Extension has taken that call as well. Recent grower "listening sessions" provided valuable grassroots input. Do we need a focused industry lead strategic planning effort to address the challenges discussed above? Our last effort was 22 years ago and it produced tangible results. Premier Apple Cooperative and the shift toward more agrotourism come to mind. I would say now is the time to give it another go.

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