

BUSINESS PLAN
BC APPLE MARKETING ASSOCIATION

Prepared for the

BC FRUIT GROWERS ASSOCIATION

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by

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EXECUTIVE SUMMARY

BC Apple Marketing Association

The objective of this report is to develop a business plan and associated budget for the formation and operation of an association of apple packers/marketers to be known as the BC Apple Marketing Association.

The Association would be a group of apple packers, eventually encompassing all packers, that would be established under the regulations of the BC Societies Act. This Act does not provide for any mandatory powers, the implementation of policies would be voluntary. There would be no grower membership.

The objectives of the Association would be:

- The collection, validation and dissemination of market data.
- The development and implementation of an industry wide generic promotion campaign.

Staff would be required to carry out the objectives. Other than a general manager, staff to cover market analysis and promotion could be added as required. Currently the BC Ministry of Agriculture and Food provide the data analysis. If their service continues this would save costs to the Association. This plan suggests a slow steady implementation of activities as membership and budget commitments grow.

Revenue is based on a contribution from members of \$0.005 per pound of apples marketed plus a membership fee of \$1,000 per year. A phased in approach on the number of members is suggested in the budget. Expenses will include the number of staff required and the cost of promotion. For example, year two revenue is estimated at \$759,000 and expenses at \$725,000 assuming 15 members and a promotion expense of \$300,000.

The differences between an association and a commission are significant. Membership in the association would be voluntary as would the funding of any programs. The association would not deal with any quality issues and would not have grower members. A Commission would have the powers to implement mandatory regulations dealing with funding, data collection, promotion programs, product quality and other apple industry issues of importance to both growers and packers. The board of a commission could be growers with packer participation in an advisory capacity.

The success of a voluntary association of apple packers will depend upon the collaboration of the majority of individual packers, not just the majority of marketed volume. The scope and value of the association may be limited in comparison to the level of activity required to be of immediate assistance to the BC apple industry. This plan is for a slow, staged growth of the association as it tries to engage most of the packers. With the dire situation of the industry the implementation over time of a voluntary association of packers, that does not include growers, may not help in solving the apple industry's immediate problems.

BC APPLE MARKETING ASSOCIATION BUSINESS PLAN

1. Background

The objective of this report is to develop a business plan and associated budget for the formation and operation of an association of apple packers/marketers to be known as the BC Apple Marketing Association. As it is an association of “marketers” the appropriate name would be the Apple Marketers’ Association. This report will enable the comparison of a voluntary association of packers with that of a grower-based entity, an Apple Marketing Commission.

An Apple Marketing Association would be a voluntary group of packer/marketers, as is formed under the Tree Fruit Industry Stabilization (TFISP). Through the services of the BC Ministry of Agriculture and Food (BCMAF) the TFISP Marketing Group has collected apple marketing data on a timely basis and supplied consolidated information to those in the participating group of packers. The TFISP Marketing Group is currently working on a long-term marketing strategy. The Group attempted to have voluntary grade standards but were not successful.

This report outlines a plan for a potential BC Apple Marketing Association. How it could be successfully implemented will depend on the willingness of packers to work together to achieve the objectives.

2. Legislation-the BC Societies Act

The BC Apple Marketing Association would be established as a society under the regulations of the *BC Societies Act*. This act sets out the establishment and operation of associations (societies) in the British Columbia including: bylaws, duties and obligations of directors, meetings, annual reporting and other issues of organization. How this applies to the Apple Marketing Association is explored further in section 5 Structure. Unlike a commission established under the *Natural Products Marketing (BC) Act* the *BC Societies Act* confers no regulatory powers to an association.

3. Other Agriculture Marketing Associations in BC

Although there are over 27 agriculture associations, councils of groups in BC very few actually promote their products to consumers or have any direct relationship with the retail grocery industry. Most of the associations advocate for the interests and welfare of their members, conduct research, provide education and act as the voice and face for their respective sectors. All agriculture associations represent the interests of primary agriculture meaning growers and producers, but rarely beyond the farm gate such as packers or processors.

The BC Blueberry Council represents all of the 600 blueberry growers in BC. The Council addresses grower education, research, advocacy and blueberry promotion. Promotion consists of messaging on social and paid media (TV, radio) and a brand campaign that focusses on differentiating BC blueberries from imports.

The BC Cherry Association membership includes growers, packers, researchers and horticulturists. The Association is primarily concerned with market access (international and domestic promotion), encouraging superior quality production, grower education, new varieties and research. Funding of the Association is from membership fees, a voluntary per carton contribution and contributions from sponsors. The annual budget is approximately \$400,000. Although membership is voluntary, non-member packers and shippers have to pay a significant fee in order to access export markets including China, South Korea and Japan.

The BC Dairy Association funds fluid milk advertising and promotion in BC in cooperation with the western provinces and shares in the funding of national dairy advertising through the Dairy Farmers of Canada. The local and national advertising and promotion for turkey, chicken and eggs is supported through their respective marketing boards. The BC Vegetable Marketing Commission passed promotional responsibilities to the approved sales agencies.

4. Objectives of the BC Apple Marketing Association

The BC Apple Marketing Association will have two objectives:

1. The collection, validation and dissemination of market data
2. The development and implementation of an industry wide generic promotion campaign.

Collection, validation and dissemination of market data

Individual growers and packers need to have accurate and timely market information in order to make informed decisions. The grower survey conducted by Ference revealed that growers ranked receiving full information related to marketing as very important. Timely, valid information including price by variety, sales volume, grade, size of the apples, quantities in storage (and type) is essential to coordinating a diverse industry like apples. Currently this information is collected weekly by the BC Ministry of Agriculture and Food (BCMAF) on a voluntary basis from six packers representing over 70% of the industry. BCMAF consolidates the information and reports it to packers weekly. The information is kept confidential. Prices are reported as highest, lowest, median and weighted average.

The collection and dissemination of market information could be done through an Apple Marketing Association if all packers were supportive and committed to contributing accurate information on a timely basis. The Association would not have any means to make the contribution of market information mandatory. As membership in the Association would be voluntary there is the possibility not all packers would be members and data would be incomplete. As it is currently, the packers contributing market information represent over 70% of the volume of apples marketed but the remaining packers' information could affect the consolidated results if their price data was significantly different to that of the 70%. The consolidated market information would be made available to all growers and packers on a timely basis. Having more complete, timely and transparent information will help growers and packers to make better informed decisions about marketing and operations.

Market Promotion Program

An objective of the Apple Marketing Association would be to implement a market promotion program to defend against imported products, to expand the market for BC apples and to secure a better return for their members (packers). It is assumed that individual packers currently do their best to promote their individual brand to the specific customers that they serve. For a voluntary industry association composed of individual packers those companies would have to accept the value of an industry wide generic advertising and promotion campaign that would add to the value of their individual efforts.

Generic advertising refers to the advertising of a commodity (apples, milk, eggs) as opposed to individual brands. Examples of this are the successful promotional campaigns of the Dairy Farmers of Canada and the Egg Farmers of Canada. In this Province the BC Dairy Foundation conducted successful advertising and promotion campaigns to increase milk consumption. In these examples the programs were funded by producers with no financial input from processor/marketers.

The key to the success of the promotion campaigns for dairy and eggs, for example, was to use the professional services of a competent advertising agency. In the case of BC apples, the key will be to determine what are the unique characteristics or "selling proposition" that set those apples apart from the competitors' apples and then how to present that message to consumers. As stated in the Globalwise report, the message will require repetition and continuity. Promotion is a long-term commitment.

The promotion program may entail the development of a brand or logo that identifies high quality BC product and differentiates it from competitors so consumers can readily identify local apples. The BC wine industry has done this with their Vintners Quality Assurance (VQA) designation. An overall industry promotion should enhance, not replace, any individual packer promotion efforts. Individual variety promotion may still be done under the umbrella of an industry wide generic promotion.

An example of a successful generic apple promotion program is that of the Washington apple Commission. Analysis showed that the campaign increased grower revenue in 2002 (last year of operation) by \$212 million. The average return to growers was \$13.50 for each dollar spent on advertising.

A generic promotion campaign run by the Apple Marketing Association would require consensus among the members on purpose, approach, timing, and specific markets. Funding could be shared on the basis of volume sold but, again, contribution would not be mandatory. Packers who are members of the association may not appreciate non-members gaining benefits from promotion that they did not contribute to.

Other potential activities

Access to New Varieties: An Apple Marketing Association could be a “program authority” for its members, creating a larger group that would have more bargaining power to access new apple varieties for planting on BC farms. Currently, however, a TFISP project management committee (administered by the NVDC) has taken the lead on new variety access for apples.

An Extension Service: An Association could be an “extension delivery agent”. Currently, however, a TFISP project management committee (administered by the SIR) has taken the lead on the coordination of extension services.

Quality Standards: An Association could establish voluntary quality standards for apples but would not have authority to enforce those standards.

5. Structure of the BC Apple Marketing Association

The BC Apple Marketing Association would be established as a society under the regulations of the *BC Societies Act*. It would be a self-governing group. This Act sets out the establishment and operation of associations (societies) in the province including: bylaws, duties and obligations of directors, meetings, annual reporting and other issues of organization. In order to incorporate the Association, the founding members would reserve the name and submit the Association’s constitution to the Registrar. A model set of bylaws can be found on the Government of BC website.

The bylaws would include:

- Definitions and interpretation of terms
- Purpose – defining the objectives and scope of the association
- Membership - definition, who can and cannot be a member
- Directors - number, how elected or appointed, terms, duties
- General meeting – quorum, voting (in person, electronic, proxy)
- Restrictions – activities, powers

Some other regulations in the Societies Act to consider include:

- Directors receive no remuneration
- Minutes must be kept of all meetings (directors, general)
- The annual financial statements are presented at the annual general meeting
- The annual report is filed at the annual general meeting
- The president, vice president, secretary and treasurer must be directors

Members and Directors

The concept of the Association is that it would be open to membership by any and all companies selling graded apples (packers and grower/packers). The founding members would establish membership criteria in the initial constitution which, for example, could include a minimum annual amount of volume packed. Membership would be voluntary, however ideally all packers would be members. The Board of Directors would annually set the membership fee.

The minimum number of directors, according to the Act, is three but this number can be established in the constitution at the outset. The president and other officers would be elected from among the directors. The directors will not be paid for their services. They will be compensated by their member organizations.

Organization

At its outset the Association will consist of the founding members, hopefully with the potential to grow in membership as other packers recognize the value of the organization. The ability to carry out the mandate of (a) data collection, analysis and distribution of results and (b) implementation of a promotion program will require both cooperation among packers and the hiring of staff. This will require sufficient financial contribution from members to implement programs. This is explored in more detail in Section 7 Pro Forma Budget.

Committees

When the Association has grown to represent a major number of packers it is recommended that three committees be established to provide the Board with in depth analysis of the Association's activities. These committees could have a mix of directors and other members. These committees would be:

- Market promotion
- Market Data
- Finance and Audit

Staff

The Board of Directors would hire the General Manager who, in turn, would hire and be responsible for all other staff. The General Manager is the only staff member reporting directly to the Board.

Although the founding members will be committed to the objectives of the Association it should not be expected that they would contribute sufficient funds to implement all of the necessary programs (with appropriate staffing) to support the total apple industry. It will take time to illustrate the value of the Association and to attract the majority of packers as members and financial contributors.

The staffing plan, outlined below, is a modest approach to the start-up and growth of the Association.

Year One:

- Hire a general manager with experience in food product promotion
- Duties to work with members to develop and implement a promotion program
- Duties to set up the office and association organization
- Continue to use the services of the BC Ministry of Agriculture and Food to collect and analyse the market data
- General manager would distribute the market analysis to the industry (packers, growers) on a timely basis
- With the Association Board of Directors, the general manager would communicate with potential members within the packer community
- Administrative assistance may be hired on a temporary basis

Year Two

- The general manager would retain a professional promotion/advertising firm to assist in developing and implementing a promotion program
- Continue to work with the packer community to increase membership
- Hire a Market Analysis and Communications Officer to collect, analyse and distribute industry marketing data to the industry (if this service is no longer provided by BCMAF)

Year Three

- Hire a Market Promotions Officer, if the promotion program has successfully expanded to require a dedicated person on staff

Membership Fees and Contribution to Promotion Programs

The membership fee will be a nominal amount set by the Board of Directors. The balance of the funds necessary to operate the Association, conduct the data collection and communication and to implement a promotion campaign could be collected from packer members based on their volume graded and sold. As contribution by members will be voluntary it may be a problem to reach consensus on the budget. The effectiveness of the promotion program will be dependent on sufficient and consistent funding over time. This subject is explored further in Section 7, Budget.

6. Governance

Every organization requires good governance. Good governance is a framework composed of structures, processes, rules, and practises from which the Board operates and is directed. Effective board governance involves competent board leadership, efficient management

processes and strategies to attain the goals of the Association. Good governance will help the Apple Marketing Association to effectively meet their mandate, goals and objectives.

Good governance practices dictate that the Apple Marketing Association should develop a Board Governance Manual that will assist all directors in carrying out their duties in an orderly manner. The Manual may include the following headings, much of which could be included in the founding constitution:

1. Role of the Board

- Develop and maintain the strategic plan containing the vision, mission, values, goals and objectives (naming responsible party and timelines)
- Hire and conduct annual evaluation of the general manager
- Recognize that the role of the board is to direct not to manage staff, that is the role of the general manager
- Develop and approve the budget and financial information
- Establish necessary committees
- Establish policies

2. Job descriptions

- A job description for the board directors will be helpful setting out expectations and in guiding their performance
- The board should approve the job description of the general manager

3. Confidentiality

- All matters discussed by the board should be held in confidence.

4. Code of Conduct and ethics

- Rules for conduct at meetings
- Solidarity of board decisions, when a decision has been made by the board, even if it is not unanimous, all directors must publicly support it
- Consequences for behaviour unacceptable to the board e.g., breaking confidentiality or a criminal charge

5. Conflict of interest

- A section that describes what would be considered a conflict of interest
- Have a signed affidavit from each director that declares any potential conflicts of interest

6. Meetings

- List of meetings that a director is expected to attend
- Penalty for non-attendance

7. Committees

- Naming of permanent committees: finance, other
- Duties of committee e.g., finance: review financial statements, report to board periodically, work with the auditors

8. Director orientation

- Establish a formal new director orientation process
- Understand the strategic plan
- Current issues
- Financial status
- Role of the board versus staff

7. **Pro Forma Budget**

The budget is based on the modest approach to the staffing plan in Section 5 and on the assumption that the founding members will represent only a portion of the industry. Conservatively we have assumed that membership in year one will represent 70% of apples sold and will increase annually by 10% thus year two, 80% and year three 90%.

Table 1 illustrates the budget for years one through 3.

Expenses

Office rent: During the first two years the requirement for office space is minimal and can be achieved through the rental of “packaged” offices in Kelowna for \$1,200 to \$1,500 per month. Administrative and secretarial services may be added as required. When the staff complement exceeds two it may be appropriate to lease a dedicated office for the Association which could cost approximately \$50,000 per year.

Salaries/benefits: In year one the only employee will be the general manager who will be a competent individual with marketing experience. An allowance of \$200,000 is allotted for this position. The addition of a Market Analyst in year two adds a further \$125,000 and in year three a further \$125,000 for the Market Promotions officer (if the work load requires these positions).

For purpose of budgeting, it is assumed that the BC Ministry of Agriculture and Food will continue to provide data collection and IT services for apple price and quantity monitoring. If, at some time, the industry has to assume these functions then it will have to add a market analyst and a substantial cost for IT services (up to additional \$50,000). The market data analysis could be contracted out rather than adding salaried staff.

Meetings: Annual meeting \$5,000

Legal: Year one setting up the association \$10,000, thereafter \$5,000

Accounting: Years one and two \$5,000 increasing to \$10,000 in year three with more members, revenue and promotion expenses.

Telephone/internet: \$10,000 annually

Office supplies/services: Year one \$10,000 increasing yearly by \$5,000 as staff added

Travel: Includes accommodation, participation in market and trade meetings, year one \$10,000 increasing to \$15,000 in year two. Further travel related to promotion would be included in that budget.

Insurance/miscellaneous: Director liability insurance and other operating expenses \$10,000

Utilities: Most of this is covered in the rental office contract. In year three if a market promotion officer is added then the association could move to their own leased space and utilities will be \$10,000.

Promotion program: This is a variable expense that can become as large as the Board believes useful. In the start-up year one the promotion program will be developing so \$100,000 has been allotted, growing to \$300,000 in year two and \$300,000 in year three, for example.

Revenue

The revenue could come from two sources, a fee for membership and a separate fee based on the quantity of apples sold by each member. The membership fee is a nominal amount decided on by the Board of Directors. For this analysis a membership fee of \$1,000 is used. With a membership of year one 8, year two 15 year three 25.

The separate charge based on the volume of apples sold by each member can be adjusted to cover the annual expenses, including the promotion campaigns. In this example the volume charge is \$0.005 per pound (half a cent per pound).

The following is the basis for this revenue calculation:

<u>Total apple Production lb</u>	<u>Member % apple sales</u>	<u>Pounds sold</u>	<u>\$ Revenue at \$0.005/lb</u>
186,000,000	70%	130,200,000	\$651,000
186,000,000	80%	148,800,000	\$744,000
186,000,000	90%	167,400,000	\$837,000
186,000,000	100%	186,000,000	\$930,000

Year one start-up costs

Setting up the Association's office and running the organization during the start-up period will require money for capital expenditures and for operating capital until the cash flow is positive. As the recommendation is to rent a furnished "packaged" office for the first two years the main capital expense will computer hardware and software estimated at a maximum of \$10,000.

At the commencement of operation of the Association there will be no revenue to cover costs. These costs could be covered by a "special" contribution from members who would, in turn, deduct that amount from their annual assessment. It is recommended that the Association use a professional search firm to find the general manager for a one-time cost of up to \$50,000. The association will require sufficient operating capital to cover expenses for six months which is \$140,000 or half of the first years budgeted expenses.

In summary, at the start of year one the Association will require \$200,000:

Capital cost	\$10,000
Search	\$50,000
Operating capital	<u>\$140,000</u>
Total	\$200,000

TABLE 1 PROFORMA BUDGET

	Year 1	Year 2	Year 3
Per lb contribution	\$651,000	\$744,000	\$837,000
Membership	\$8,000	\$15,000	\$25,000
Revenue			
Total revenue	\$659,000	\$759,000	\$862,000
Expenses		a	
Salaries and benefits	\$200,000	\$325,000	\$450,000
Office rent	\$20,000	\$40,000	aa
Meetings	\$5,000	\$5,000	\$5,000
Legal	\$10,000	\$5,000	\$5,000
Accounting	\$5,000	\$5,000	\$10,000
Travel	\$10,000	\$10,000	\$15,000
Telephone/internet	\$10,000	\$10,000	\$10,000
Office supplies/sevices	\$10,000	\$15,000	\$20,000
Insurance/miscellaneous	\$10,000	\$10,000	\$10,000
Utilities			\$10,000
Promotion	\$100,000	\$300,000	\$300,000
Total expenses	\$380,000	\$725,000	\$885,000
Excess revenue over expenses	\$279,000	\$34,000	(\$23,000)

8. Conclusion

The success of a voluntary association of apple packers will depend upon the collaboration of the majority of individual packers, not just the majority of marketed volume. Current experience indicates that only limited collaborative efforts and investment of resources is likely for the proposed association. If the founding members pay for the generic advertising and information collection there will be little incentive for non-members to join or contribute as they will receive benefits for no cost. The scope and value of the association may be limited in comparison to the level of activity required to be of immediate assistance to the BC apple industry. The plan proposed herein is for a slow, staged growth of the association as it tries to engage most of the packers. With the dire situation of the industry the implementation over time of a voluntary association of packers, that does not include growers, may not help in solving the apple industry' immediate problems.