

The role of strategy in organizational performance: a case study of an avocado producer organization

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ABSTRACT

Objective: to conduct an internal and external diagnosis of groups of avocado producers—which for reasons of confidentiality are hereinafter referred to collectively as The Organization—in order to identify problems and opportunities through a problem tree, to determine their type of strategy designed, its implementation and its consequences on organizational performance.

Design/methodology/approach: problems were identified through 25 semi-structured interviews with the actors involved in the value network and the analysis of the environment was performed. The prevailing strategy type was determined and an ERRC matrix [Eliminate-Reduce-Raise-Create] was created to reformulate a new strategy.

Results: a value network analysis of The Organization highlighted the relevance of non-partner suppliers, almost as relevant as partners. We found The Organization has two sales channels of similar importance for avocado sales, the fresh market and processed avocado; the latter has registered an eight-fold growth plus in the period 2013-2022. Despite this, a vision prevails that bets on the first channel despite lacking the capabilities to position that market with an advantage, in addition to the intense competition that exists among 97 packing houses. In order to leave a red ocean, The Organization should leverage through their experience and strengths by designing a value-added product for Mexico's national market.

Limitations/implications of the study: the implementation of a new line of business with a differentiated product would allow The Organization to participate in a blue ocean.

Findings/conclusions: the people who lead The Organization do not systematically implement the analysis of their environment in order to formulate a strategy that considers internal opportunities and capabilities.

Keywords: strategy, processed avocado, added value.

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INTRODUCTION

Strategy is a concept widely used in various disciplines, but when it is used excessively, its meaning can be lost. Pérez and Massoni (2009) proposed a new strategic theory from communication to be applied in the different areas of human activity. This theory is human-centered and based on the qualities that come from our strategic and relational capacities, as well as on the recognition of our differential plurality, both cultural and experimental.



The theory is proactive, it seeks to make better decisions in the face of uncertainty. That is, in the face of the conflicts and opportunities of a changing environment, as a legacy of the scientific revolution of the 20th century.

Freedman (2016) agreed with this proposal when he stated that using strategy means “to have the ability to observe the world and analyze it in the short term, also the ability to foresee the long-term consequences and, most importantly, to identify the causes rather than the symptoms.” In addition, he stated that people are not natural strategists, it takes a deliberate and thoughtful effort to achieve strategy. Porter (2011) mentioned that the challenge, either to develop a strategy or to reconstruct it clearly, is organizational and depends on leadership. It is essential to have leaders capable of making decisions, because strategy is the essence of general management. Defining and communicating the company’s unique position through key activities, such as choosing what not to do (trade-offs), is just as important as choosing what will be done; in addition to integrating value-creating activities.

In this regard, Kim & Mauborgne (2005) stated that when a company decides to compete in an existing market space, in order to try to beat the competition, it opts for a red ocean strategy. Whereas, if you choose to create a space by making the competition lose relevance, you opt for a blue ocean strategy. With this in mind, the issue raised was addressed with a case study of a 70-year-old avocado producer organization located in Michoacán, a Mexican state which is global leader in avocado production. According to Statista (2022), the value of this industry in 2021 was 13.97 billion USD dollars and is projected to reach 26.04 (billion USD) by 2030.

Mexico is the center of origin of avocados and the leading producer in the world, 2.9 million tons (Megagrams, Mg) obtained in 2023 (SIAP, 2024). It is also the leading exporter with 1.3 million Mg shipped to the United States (US), which is the most important trading partner, 89% of its avocado imports came from Mexico in 2023 according to Hass Avocado Board (HAB, n/d.). Also, according to the Bank of Mexico, the value of Mexican exports was 3.153 billion dollars that year.

In this case study, The Organization analyzed faces the challenge of aging and loss of its corporate base. The objective of the research was to carry out an internal diagnosis, through the value network, and external, through the analysis of the environment, to identify the central problem, its effects and causes, to determine the type of strategy (design and implementation) and the consequences on organizational performance.

MATERIALS AND METHODS

The information was collected between 2023 and 2024. Interviews with 25 key actors in the value network were conducted through semi-structured questionnaires. Databases on avocado deliveries were analyzed with descriptive statistics in MicrosoftTM Excel[®]. The analysis of those involved was done under the value network approach (Nalebuff & Brandenburger, 1996) to know the weaknesses and strengths of The Organization. The analysis of the environment, proposed by Osterwalder & Pigneur (2011), was performed to have an external diagnosis of The Organization, that is, to identify its opportunities and threats. To this end, databases from FAO (2024), Agronomics (2024) and HAB (n/d.)

were consulted to assess Mexico's position in the production and marketing of avocados worldwide, and in a trade relationship with the US.

The determination of the core problems of The Organization was accomplished by design-thinking (Brown, 2008) *i.e.* the appreciative inquiry of perceived problems (Cooperrider *et al.*, 2008). Also, through the problem tree (Muñoz Rodríguez, 2010), that explores the perceptions regarding problems of the actors involved, by performing an analysis of the environment. Finally, the situation of the strategy in The Organization was determined by creating an ERRC matrix [Eliminate-Reduce-Raise-Create] (Kim & Mauborgne, 2005).

RESULTS AND DISCUSSION

Value network of The Organization

The Organization is made up of 188 members; it is dedicated to the collection and sales of avocados to the national and international markets, as well as the processing of the fruit and its marketing to the Netherlands. Total supply area is 530 ha with a 10 Mg ha⁻¹ average yield in the orchards.

In 2022 the organization recollected 5477 Mg of avocado; 52% from 145 members and 48% from 81 non-members (business associates). Of the total collected, 80% was Hass variety avocado for fresh sale, the rest included Hass for processing, organic Hass and creole Hass. Half of the total sales (260 million MXN) corresponded to the fresh market and the other half to the processed market. In the fresh avocado line, 85% was sold to Mexico's domestic market and 15% to the international market; whereas in the processing channel, practically everything was sent to the client and complement associate to the Netherlands (Figure 1).

That latter client has shared multiple benefits with The Organization, including training in the development of products with high added value, flexible and stable payments, favorable commercial agreements and the promotion of obtaining certifications. In addition, the volume of avocado processed to that customer grew considerably, from 160 Mg in 2013 to 1580 Mg in 2022.



Figure 1. The value network of The Organization (Nalebuff & Brandenburger, 1996). Data source: SENASICA (2024) and The Organization. ^zASIAMP – Association of Avocado Industrializers of Mexico A.C.; ^y Miscellaneous Certifications include SMETA, Kosher, Halal, BRCGS, PrimusGFS, Metrocert, GLOBALG.A.P. GRASP, and SRRC. ^xFIRA – Trusts Instituted in Relation to Agriculture.

Defining the Problem/Opportunity

To better understanding each of the problems perceived by the actors and located at the level of effects in the problem tree, a description of each one is included.

- i) There is a perception about “*the members sell the good fruit to outsiders and the bad fruit to The Organization*”;
- ii) Overprotection of partners, by paying for quality not produced nor delivered. From August 2021 to April 2022, it was estimated that the leakage of avocado produced by the partners and not delivered to The Organization reached 46% of what was produced. Considering that the price paid for fresh avocado to non-members was 36% higher compared to the price paid to members, it is then presumed that partners delivered the best quality fruit to other companies. Likewise, 52% of this fruit acquired from partners was finally reclassified and processed, however, they were paid MXN\$ 2 per kg more than the established price. This is evidence of preferential treatment to the partner by the Organization, which complies to demands for a higher price, due to fear of losing more members;
- iii) Purchase prices are not attractive for members with fruit that has US-exportation quality; although the estimated harvest of US-certified fruit in the period described above was 731 Mg, only 68 Mg were exported, thus only 9.3% of the avocado with that quality was used for what was intended. This means that The Organization stops serving the market with the most lucrative prices, MXN\$ 68 per kg in 2022, versus the client with the second-best price (MXN\$ 58 per kg);
- iv) Wasted high-value assets; just the membership paid to the Association of Avocado Producers and Packers Exporters of Mexico – APEAM to export fruit to the United States did cost 7 MMXN (millions of Mexican pesos). Moreover, a maximum of 57% of the installed capacity of the packaging is used, plus the 67% of the processor unit;
- v) Perception of immobility in the leading managers; it was documented that, in approximately 30 years, almost half of The Organization’s span, only two families have held the position of presidents of the board in The Organization.

All the above translates into the decrease and aging of the Organization’s corporate base, with a decrease of 52% in 33 years (1990-2022). From the detailed analysis done for the period 2015-2022, it was found that 75% of the separations of members were due to voluntary resignation or expulsion, with a net loss of 53 members in just eight years. This decline has resulted in the aging of the current membership in the face of little generational renewal. Thus, according to INEGI (2019), generational change does not occur in Mexican agriculture, since 46% of the heads of rural economic units in Mexico are over 61 years-old. In The Organization under study, this situation is even more serious, with 59% of members over 61 years-old.

The causal reasons for the perceived problems, located at the root level in the problem tree, are described below.

- i) Dominance of a vision according to which the present and future of The Organization is in the fresh market, which is increasingly competitive. According to FAO (2024) world avocado production was 716 353 Mg in 1965, compared to 8.6 million Mg in 2020, which represents an increase of 1112% in 55 years. Although Mexico also experienced significant growth, its share of trade in the Americas has declined from 45% to 28%, and in the world from 49% to 40% during the same period (Figure 2).

This reduction is linked to strong competition with other producing countries. In the third quarter in 2020, 79% of US imports came from Mexico; but, in the same quarter in 2022, US imports from Mexico were only 69%. Peru increased its share from 18% to 27% (HAB, n/d.). Also, Imbert (2021) noted the trend of a production larger than the demand for the fruit; he projected a gap of 100 000 Mg in 2021, which could widen to 150 000 Mg in 2024. It should be observed, however, that at the end of 2023 this scenario had not occurred. Since in the US, prices by origin ranged between USD 2 and USD 4 from 2014 to 2023 (Agronomics, 2024).

- ii) Mexico's national market for fresh avocado is poorly institutionalized; Sales operations in cash are dominant, with verbal dealings, consequent conflicts, and delay in commercial trials; all of which means high receivables. For example, from 2001 to 2013, 5 MMXN of receivables were accumulated that reached 8 MMXN in 2022. On the contrary, with the Dutch customer, these types of accounts are null (non-existent).
- iii) A deficient management system for internal information to assess the attractiveness of markets and channels, and deficient capacities for prospecting and managing the fresh market channel (Table 1).

Thus, it can be seen that the main channels that The Organization has are processed avocado and fresh avocado for the city of Torreon (Coahuila) Mexico, although they have the smallest margin. On the other hand, the most attractive channels are the United States and Monterrey (Nuevo Leon) Mexico.

Although the latter are the most lucrative markets, they represent a red ocean strategy, as these involve competing for suppliers and customers with the 97 packing houses authorized to send product to the US, in addition to Mexico's national market (SENASICA, 2024).

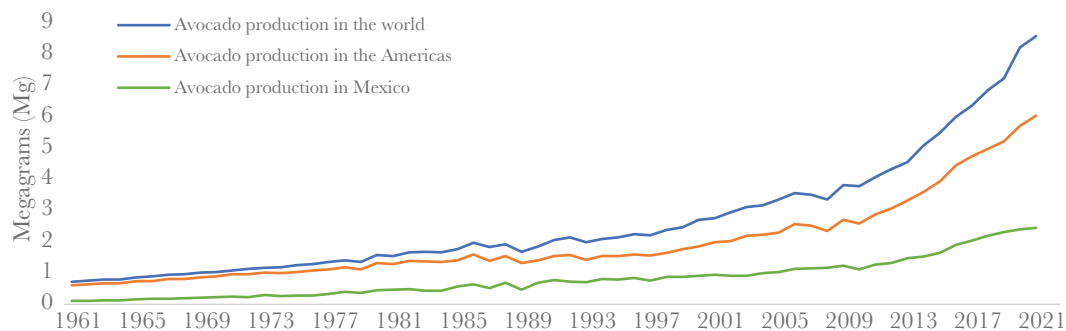


Figure 2. Mexico's participation in avocado production in the Americas and in the world. Source: (FAO, 2024).

Table 1. Margin by sales channel in 2022.

Destination of the fruit by sales channel	Volume per sales channel (%)	Margin (MXN\$) per kilogram
Processed	34 (1) ^y	6.65 (4) ^x
USA	1 (5)	27.21 (1)
Spain FOB ^z	8 (4)	12.46 (3)
Monterrey	14 (3)	20.48 (2)
Torreon	25 (2)	4.79 (5)
Others ^w	18	

^z FOB – free on board (“Free Associate”). ^y The number in parentheses indicates the percentage from highest (1) to lowest (5). ^x The number in parentheses reports the gross margin from highest (1) to lowest (5). ^w CDMX: 4%, Estado de México: 3%, local: 2%, maquila: 4%, Puebla: 4%. Source: data from The Organization for this study.

The sum of these three causal reasons explains why The Organization has decided to prioritize the processed product line, which grew 834% between 2013 and 2022. On the contrary, the avocado line destined for fresh market decreased by 35% in the same period (Figure 3).

Therefore, it is considered that the experience in the industrialization of avocado and the HPP technology (high-pressure cold pasteurization) they have, both represent a strength that the Organization should take advantage of with greater emphasis. Since these products could be sold as premium quality, all-natural and with high added value. Such characteristics would increase the chances for The Organization to differentiating from other companies, and to participate in a blue ocean strategy (Tonello-Carole *et al.*, 2017). Then, in terms of the problem-tree analysis, it was concluded that the organization has a problem in this lack of capabilities, but also an opportunity for further positioning a value-added product (Figure 4).

Definition of the strategy

According to the different scholars of the strategy, The Organization under study does not have a strategy that fully takes advantage of its capabilities. Although it has managed to survive for 70 years, it has done so at the cost of losing more than half of its corporate base, with the consequent aging of the members that remain.

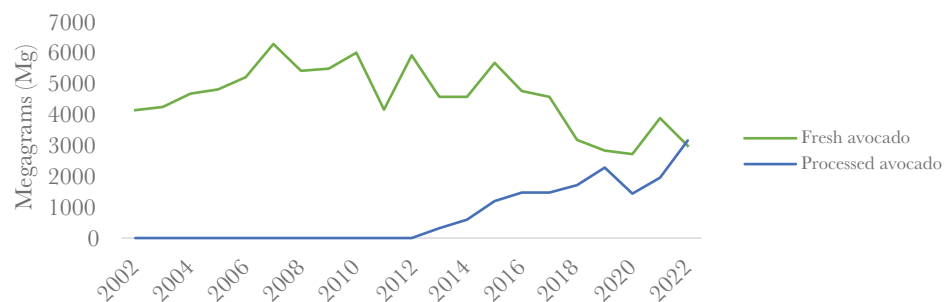


Figure 3. Destination of avocados by business line (2002-2022). Source: data from The Organization.

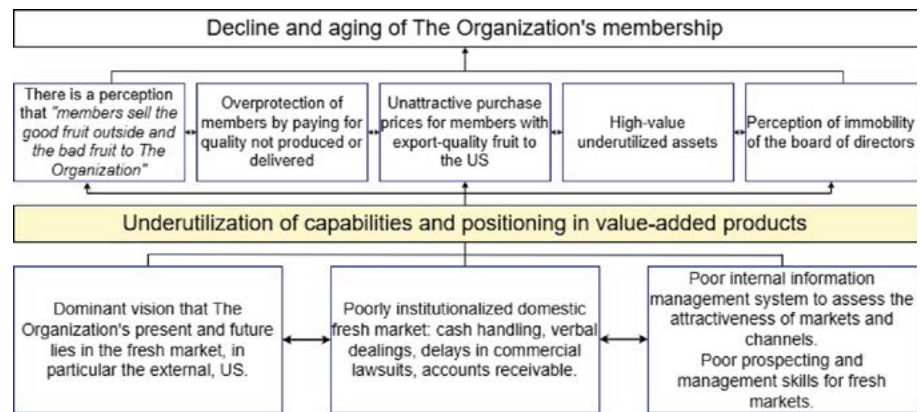


Figure 4. Problem-tree of The Organization of avocado producers; based on Muñoz Rodríguez (2010).

In order to endure, according to Muñoz Rodríguez *et al.* (2010), a company must be fully aware of the competition that operates in the environment in which it operates, as well as of the changes in the needs of partners and customers to maintain the ability to differentiate their products continuously. Kim & Mauborgne (2005) stated that a blue ocean strategy is characterized by creating and capturing new demand; building spaces without competition in the market, and breaking with the dilemma of differentiation and low price.

Therefore, using the ERRC matrix as a strategic analysis tool, the proposal is to eliminate the ambiguity in the commercial mix of volume of fresh produce from the city of Torreón (Coahuila), Mexico.

This sales line generates a lower margin than processed avocado. Furthermore, the company seeks to create a processed product for the Mexican domestic market, initially destined for retailers and subsequently for the HORECA channel (hotels, restaurants, and cafes). Finally, the company seeks to reduce partner losses by giving them the flexibility to deliver export fruit to the highest bidder and by giving the organization the flexibility to deliver quality fruit suitable for processing. The company also seeks to increase the number of avocado suppliers for this new market (Figure 5).

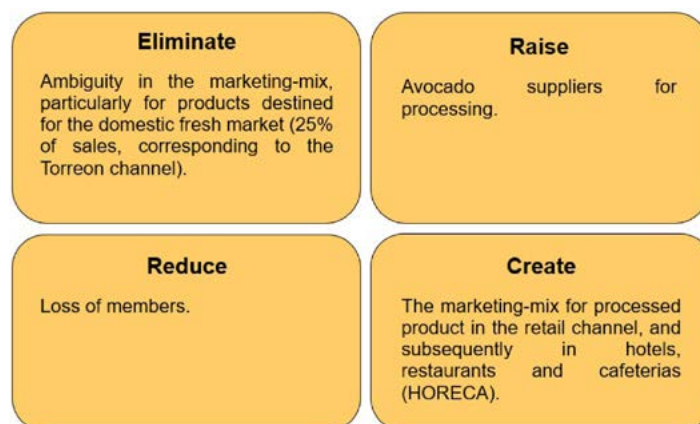


Figure 5. ERRC [Eliminate-Reduce-Raise-Create] Matrix of The Organization; based on Kim & Mauborgne (2005).

CONCLUSIONS

The case analyzed represents a good example of how the people who lead an organization do not deploy their abilities to observe the world and analyze it. That is, they do not identify the causes other than the symptoms of the problems, in order to formulate a strategy that considers the opportunities and inherent capabilities of the Organization.

Because of this, they allow themselves to sail against the current in a red ocean of intense competition, which ends up compromising the performance of the Organization, and even their very existence.

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