

Media release

Time for the macadamia nut industry to break the cycle of price crashes

A bumper year in 2015/2016 should provide the momentum for an increase in professionalism that can stabilise revenue streams

The South African macadamia nut industry has evolved to the point at which a more professional approach to management and marketing is needed to provide sustainability.

So says Alex Whyte, marketing manager of Green and Gold Nuts, the world's largest macadamia nut marketer and responsible for sales for Green Farms Nut Company (GFNC), South Africa's oldest and one of the world's largest processors and marketers of macadamias. "The industry has enjoyed good prices this year along with an exchange rate that has favoured exports. Even with more than 50% of the crop going to China, where the crackdown on grey imports and the shift in emphasis to nut in shell slashed 10 to 10% off prices, the industry is still in positive territory and the market is showing signs of recovery.

"At the same time, the industry is evolving rapidly from a majority of farms and downstream facilities being family owned to a more commercially focused value chain. And, most of our processing facilities are now world class. These are extremely positive developments as they create confidence in macadamia supply and quality, encouraging more food manufacturers to consider using macadamias as an ingredient.

"So, it's an ideal time to reposition the way we operate in order to prevent the five year price crash cycle that has bedeviled the industry and to achieve the stability that is essential for growth."

Reframing the industry is all the more urgent because the number of trees currently in the ground coupled with the volumes of new trees being planted will see the crop being doubled by 2020. There is, therefore, a need to ensure that the additional input will be absorbed by the market.

Whyte points out that macadamias constitute only 1.5% of the tree nut market, with almonds, cashews, and hazel nuts far outstripping them in terms of production – and market demand.

"We can find a profitable home for our higher input simply by increasing our share of the existing market. For this to happen, however, exporters need to be more proactive in market development. They can't abdicate this responsibility to importers and traders, as they have in the past.

“In addition, we can create new markets for macadamias by exporting to countries into which we have not yet ventured – and we can sell the kernel as an ingredient in products such as bread, biscuits, ice cream, and chocolate rather than simply as a snack.”

By limiting itself to the snack market, the industry exposes itself unnecessarily to price elasticity from farm gate to consumer. The 20% increase in product expected in 2016 should, theoretically, enable farmers to give consumers the benefits of their production economies of scale, bringing prices down and stimulating consumers to buy more.

However, because of the time lapse between processing and packaging and the product finally reaching a shelf in a retail outlet, it can take 18 months for consumers to see a reduction in shelf price and, therefore, to buy in quantity.

With excess stock in their warehouses, processors and traders tend to panic sell, reducing prices in order to get retailers’ business.

“Also, traders are not going to reduce their own margin by taking the time and effort to get a better deal for the farmers or to develop markets,” Whyte says.

“Far easier to sell to one big market like China instead of spreading the risk across multiple established or new markets.”

While established markets offer a relatively safe haven for credible marketers, Whyte believes that education still has to be done. “A survey in the United Kingdom, where consumers are well informed, showed that only 6% of consumers knew about macadamia nuts. So, whether we are selling to our usual snack markets or introducing the kernel to new ones, we need to put effort into informing both consumers and retailers.

“In addition, investing time and money in educating manufacturers about the benefits of using macadamias as ingredients in their products will pay significant dividends.

“For instance, if the price of macadamias goes up in the snack market, where the product is the kernel, it’s relatively easy for packagers simply to replace the macadamias with cheaper nuts.

“By contrast manufacturers’ investment in plant and equipment, research and development, retailer shelf space, and meeting stringent food safety requirements makes it too costly for them to change at short notice the comparatively small percentage of their ingredient mix that the macadamias would represent. So, macadamia suppliers would be assured of consistent offtake at good prices.

“We really should be taking a leaf out of the almond industry’s book, and aim for 80% of our product to be sold as an ingredient and only 20% as a snack.

”All the more so, because we finally have the volumes to make entering new markets worthwhile. It’s time for us to be pro-active. Waiting for the next price crash to motivate us just doesn’t make sense.”

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About Green Farms Nut Company:

Green Farms Nut Company (GFNC) was established in 1991 and is South Africa’s leading macadamia nut processing organisation. The first in South Africa to achieve ISO 22000 accreditation and in 2015 awarded the FSSC food safety accreditation, the company’s factories are rated as some of the best in the world.

GFNC has a unique business model in which farmers share in any market or exchange rate benefits and growers are not tied to supply agreements. Through its marketing company, Green & Gold Nuts, GFNC sells the largest volume of macadamia nuts globally. The business works in close collaboration with affiliated macadamia nut processors in key territories around the world as well as research and product development teams from major food manufacturers to share innovation in staying at the forefront of food safety, industry, and market developments.

Website: <http://www.gfnc.co.za/>