

Your choice of supply chain partners shapes the way your industry operates

Supply decisions are a vote of confidence in stability or opportunism

Few primary producers realise that their choice of supply chain partners has a direct impact on the nature of the industry in which they operate and, therefore, on the industry's ability to deliver a profitable future for all the links in the value chain.

So says Alex Whyte, who is responsible for sales for Green Farms Nut Company (GFNC), South Africa's oldest and one of the world's biggest processors and marketers of macadamias. He is also the marketing manager of Green and Gold Nuts, the world's leading macadamia nut marketer, with customers in the Americas, Europe, Australia, China, and other countries in the Near and Far East.

"The macadamia nut industry is a very clear case in point. Although South Africa is the world's largest producer of macadamia nuts, when compared to other tree nuts the industry is very small. So, each farmer's choice of processor and marketer, of which there are several, is effectively a vote of confidence in the way the processor performs. That vote can, therefore, skew the way the industry functions.

"By partnering with a marketer who prefers an opportunistic approach, for instance, farmers are choosing a lack of security in terms of pricing. They're saying they're comfortable with an industry that doesn't plan or enhance the way it functions. They're saying they don't mind not having the confidence that they can grow their business."

Producers don't have to go cap in hand

Used to traditional agricultural marketing approaches, inculcated during the co-op era, many farmers look for the theoretical security of lock-in supply contracts, accepting lower prices as a trade off for what appears to be guaranteed off take.

Others focus on selling to processors who are active in spot markets, in the hopes of opportunistically scoring high prices. The downside is that, when the opportunities don't materialise, their product rots away in a warehouse and they lose a year's income.

However, 25% of all South Africa's macadamia producers opt for the GFNC profit sharing model – the only one of its kind in the industry. GFNC offers suppliers 100% of all sales and exchange benefits earned by their crop over and above the offer GFNC makes at the beginning of the season. The company has a well established international marketing arm and is the only processor that refuses to lock its suppliers into contracts.

"When we started out 25 years ago, as the only privately owned macadamia processor and marketer in South Africa, we decided that we would base our success on that of the farmers who supplied us," says Jill Whyte, GFNC CEO. "This meant that we had to deliver

the best possible prices coupled with the best service, to ensure that the top producers would return to us every year. In all those years, we've never turned away a grower because we believe profoundly that we exist to serve them.

"In order to do that, we had to create a marketing plan based on comprehensive intelligence of global markets that would enable us to identify those customers that would not only pay top buck but, by ensuring that their consumers were given only the best quality, would create demand for our product.

"In other words, we focused on building markets for the farmers who supplied us. In the process, we built markets for the entire industry. At the same time, by ensuring that we had a balanced portfolio of markets on multiple continents and were not reliant on one or two countries, we spread our risk and that of our suppliers.

"This also made us extremely agile, in that we can adjust the volumes we sell to any given market based on what our research shows us the buying trends in that market are likely to be.

"As a result of keeping our supplier's options open in these ways, we've consistently delivered superior prices."

Since 2011, GFNC has paid double digit bonuses to its suppliers:

2011	-	12.7%
2012	-	15.0%
2013	-	21.0%
2014	-	11.6%.

For the 2015 season, GFNC has just paid a bumper bonus of 22.3%, amounting to R106 million in total. Certain suppliers will earn up to R7 million over and above the offer made to them by GFNC at the beginning of the season. These prices were achieved in a year in which the Chinese market for macadamias tumbled, trimming some 10% off US Dollar prices.

Jill Whyte explains that despite 2015 delivering GFNC's growers record prices the company's 2016 offer to its suppliers is the highest in the history of the company. This is because of a strategic marketing approach and the benefits of a weaker Rand.

The marketer should protect you

Alex Whyte says that the industry's other marketing methodologies are not capable of delivering such consistent high price performance. "It makes no sense, therefore, for farmers to sacrifice a significant percentage of their price in order to be locked in to a processor contract that is based on a hit and miss approach to sales and where there is no share in the marketer's upside.

“A decision to go the lock-in route can cost you a million rand or more in a single year. There is no security in such an approach.

“In addition, such decisions not only cost individual farmers but the industry as a whole, because it becomes progressively more fragmented. Every farmer and processor is fighting all the others. A fragmented industry cannot act in the best interests of its stakeholders, whether in regulatory matters or as the public face that potential customers can trust.”

All of which said, the local industry is set to double its output as a result of many more trees being planted. While welcome and a sign of the health of the industry, the growth does call for the potential of over supply to be addressed..

Collective responsibility

“Everyone in the industry is going to have to be more pro-active,” Jill Whyte says.

“We’re already doubling our GFNC processing capacity – and we’re working hard at creating new markets among, for instance, food and beverage product developers, all of whom are looking for new ingredients for bakery, confectionary, and ice cream production. By helping them create new markets for themselves, we’re securing off take for our suppliers.

“But, we can’t do this on our own. We may be the largest marketer of macadamias but we’re still only one organisation. Everyone in the industry needs to help lay a foundation for the industry’s sustainability.

“Strong competition is a superb way to get an industry to constantly improve itself. But there comes a point at which we must all think in positive, synergistic terms about the kind of industry we want.”

For Alex Whyte, the situation in which the macadamia industry finds itself demonstrates a basic supply chain principle. “Thinking on behalf of the industry means thinking on behalf of yourself. Yes, the industry is growing and price prospects for 2016 are good. But, we dare not be complacent. Market crashes often happen without warning.

“While we’re in this evolutionary phase, we are in an ideal position to build a secure, stable, profitable industry that can ride market movements. We need to plan now for the long term. Knee jerk, high risk decisions focused on short term profits puts every farmer at risk.

“The rules are the same in every industry: Make sure that the people you choose to sell to aren’t flying by the seat of their pants, that they’ll still be around in 25 years’ time, and that they can always pay you the best prices.”

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