Session Five
Competing in a global world: a series of presentations by AMAPWG member delegates

New Zealand and Australia Avocado Grower’s Conference’05
20-22 September 2005
Tauranga, New Zealand
The Avocado Industry in South Africa

Competing in a global market
Introduction

- ±150 000 avocado trees planted annually in SA
- SA export volumes have fluctuated between 32 000 & 44 000 tons per annum
- Domestic market & processing industry have absorbed some of the volume growth
The commercial environment

• Buying power has been concentrated – takeovers and integration of supermarkets

• Supplier power has been diluted – deregulation
The Tesco Strategy
Price Virtuous Circle

Lower Prices → Lower costs

Internal Efficiency → Higher Volume

Tesco
Sainsbury’s Corporate Strategy

- Recapture our quality and innovation heritage
- Differentiated offer
- First to Market for Brands and Own Label products

- To improve ease and enjoyment of shopping at Sainsbury’s
- £200m/yr more expensive to run as a business than Tescos in 2000
- Reduce costs

Increasing shareholder returns
Cost analysis of export fruit

Rand / carton (4kg equivalent)

<table>
<thead>
<tr>
<th></th>
<th>Fixed</th>
<th>Variable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10-91</td>
<td>22-58</td>
<td>33-49</td>
</tr>
</tbody>
</table>
Cost Structures

- Commission Local, 1.94%
- Commission Overseas, 10.36%
- Transport, 8.87%
- SAAGA, 1.91%
- Picking, 2.62%
- R & D, 3.19%
- Packing Costs, 12.57%
- Seafreight, 22.15%
- Packhouse Overheads, 3.28%
- Production Overheads, 2.87%
- Production Costs, 23.25%
- Overseas Cost, 6.99%
Currency Fluctuations

• Strength of Rand - negative impact on returns

• Breakeven price : R33-49

• Impact on the SA grower

<table>
<thead>
<tr>
<th>Exchange Rate</th>
<th>G</th>
<th>S</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>R8-00  €1-00</td>
<td>€4-19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R9-00  €1-00</td>
<td>€3-72</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R10-00 €1-00</td>
<td>€3-35</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exchange rates monthly average since January 1998

[Graph showing exchange rates monthly average from January 1998 to January 2006 with lines for RAND/USD, Rands/POUND, and RAND/EURO]
• Currency issues are likely to have a large impact on the European avocado market.
• Depreciation of the US Dollar has made European markets more attractive to Central and South American exporters.
Production – cost efficiency / productivity
Rootstocks

• Breeding and field testing of new Phytophthora cinnamomi tolerant rootstocks
• Resulted in a new generation of rootstocks
• Brought a new dimension to rootstock tolerance and productivity.
Cultivars

• Trend to plant more Hass continues

• Result of market preference in specific EU countries.
Growth manipulation

- Planting in hedgerows
- Pruning to maintain tree size
- Increased mechanization
Composting

• An integrated root rot control procedure will include practices that promote root health.
• Adding organic matter to the soil is becoming a more general activity on many farms.
Logistical efficiency
Shipping

• Controlled atmosphere (CA) - most common post harvest treatment for SA shipments
• 1-MCP (Smartfresh™) technology is starting to play a more important role as an alternative
• Advanced Fresh Air Management (AFAM plus) might also be a consideration for the future.
• Breakbulk shipping
Avocado exports from SA

- Consolidation within the industry
- Grower driven export companies playing a more important role in avocado exports
- More than 75% of the avocado exports from SA are handled by 4 companies.
- This trend has brought more stability to the industry.
International interaction

Some of these exporters have been active in developing relationships with suppliers from other avocado producing countries to meet customer needs over a longer period.
Supplier / customer interaction

- More direct involvement in the market by grower driven export companies
- Is another dimension which brings the grower closer to the customer
- Or the customer closer to the supply base.
Avocado processing

• Value adding creates a fair value for factory grade fruit for SA producers

• SA producers can be more selective in what they export or sell in local market
Growth of value added products in SA
Avocado puree production

- Yield = 45% of fresh fruit
- Total volume used in 2003 = 4290 tons
- Total volume used in 2004 = 6160 tons
Avocado oil production

- Total fruit used in 2003 = ±10 000 tons
- Total fruit used in 2004 = ±12 000 tons
** Factory grade fruit used for puree & oil
  - 2003 = 14 290 tons
  - 2004 = 18 160 tons
Impact of avocado processing on local market price structures

GROSS SELLING PRICE

Period

Rand/Ton

'91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04

R 0

R 1,000

R 2,000

R 3,000

R 4,000

R 5,000

R 6,000
Market development

• Selling more in existing markets – The UK story
  - Create bigger awareness for avocados as a health product
  - Availability of Ripe & Ready to eat avocados

• Develop new markets
  - Israel efforts in East Block countries
Market Access

Research on fruit-fly and false codling moth by
  – Citrus Research International
  – University of KwaZulu Natal
  – Agricultural Research Council

Created the technical base for possible market access to new markets in the future.

This research is a high priority in the industry.
Volume management

- Growers lost money over a number of years due to inability to balance supply & demand.
South African Avocado Industry Exports - 2000
South African Avocado Prices – 2000

BOF (Rand)

Vessel number

Fuerte

Hass

BOF (Rand)

Vessel number
South African Avocado Industry Exports - 2002

Successful Volume Management

Cartons

Weeks
South African Avocado Prices - 2002

Diagram showing BOF (Rand) for different vessels labeled as Fuerte and Hass.
International Avocado Marketing and Promotions Working Group (AMAPWG)

• The interaction between representatives from countries supplying the European market played an important role in bringing at least some stability to the European avocado market.

Israel, Spain, South Africa, Kenya, Peru, Mexico, Chile, Australia, New Zealand and Argentina are part of this working group.
Historic Overview

Volumes / Prices
2005
Price projection - Fuerte

<table>
<thead>
<tr>
<th>Green Skins</th>
<th>Week</th>
<th>Benchmark</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average to date</td>
<td>1 to 33</td>
<td>€ 5.00</td>
<td>€ 5.04</td>
</tr>
<tr>
<td>Previous week</td>
<td>33</td>
<td>€ 7.00</td>
<td>€ 6.82</td>
</tr>
<tr>
<td>Current Week</td>
<td>34</td>
<td>*</td>
<td>€ 5.92</td>
</tr>
<tr>
<td>Next week</td>
<td>35</td>
<td>*</td>
<td>€ 5.09</td>
</tr>
<tr>
<td>4 Weeks time</td>
<td>37</td>
<td>*</td>
<td>€ 4.67</td>
</tr>
<tr>
<td>Season Ave</td>
<td>12 to 33</td>
<td>*</td>
<td>€ 4.95</td>
</tr>
</tbody>
</table>
# Price projection - Hass

<table>
<thead>
<tr>
<th>Hass</th>
<th>Week</th>
<th>Benchmark</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average to date</td>
<td>1 to 33</td>
<td>7.10</td>
<td>7.07</td>
</tr>
<tr>
<td>Previous week</td>
<td>33</td>
<td>€ 8.25</td>
<td>€ 8.42</td>
</tr>
<tr>
<td>Current Week</td>
<td>34</td>
<td>*</td>
<td>€ 7.80</td>
</tr>
<tr>
<td>Next week</td>
<td>35</td>
<td>*</td>
<td>€ 6.54</td>
</tr>
<tr>
<td>4 Weeks time</td>
<td>37</td>
<td>*</td>
<td>€ 6.08</td>
</tr>
<tr>
<td>Season Ave</td>
<td>18 to 38</td>
<td>*</td>
<td>€ 6.83</td>
</tr>
</tbody>
</table>

## Gross Selling Price

![Gross Selling Price Chart](chart.png)
Supply 2005 – All countries

Total EU Avocado supply (updated 19/8/2005)

Bars to left of arrow represent actual shipments from South Africa, but also include estimates from other origins. Bars to right of arrow represent estimates.

Week on market

Weeks 1 to 51

Bars represent:
- Israel green
- Israel Hass
- Spain Green
- Spain Hass
- Mexico Green
- Mexico Hass
- Kenya Green
- Kenya Hass
- Argentina Green
- Argentina Hass
- Peru Green
- Peru Hass
- Chile Hass
- RSA Green
- RSA Hass

4 kg Cartons ('000)
SUMMARY

- Very competitive commercial environment
- Avocados an exciting commodity
- Tremendous opportunities compared to more mature industries
- Avocados still in its infancy - market expansion to the health conscious consumer
- Lends itself to value adding
- Opportunities to offer convenience – Ripe & Ready

- A challenge - Match supply and demand – market info (timely, accurate and reliable)