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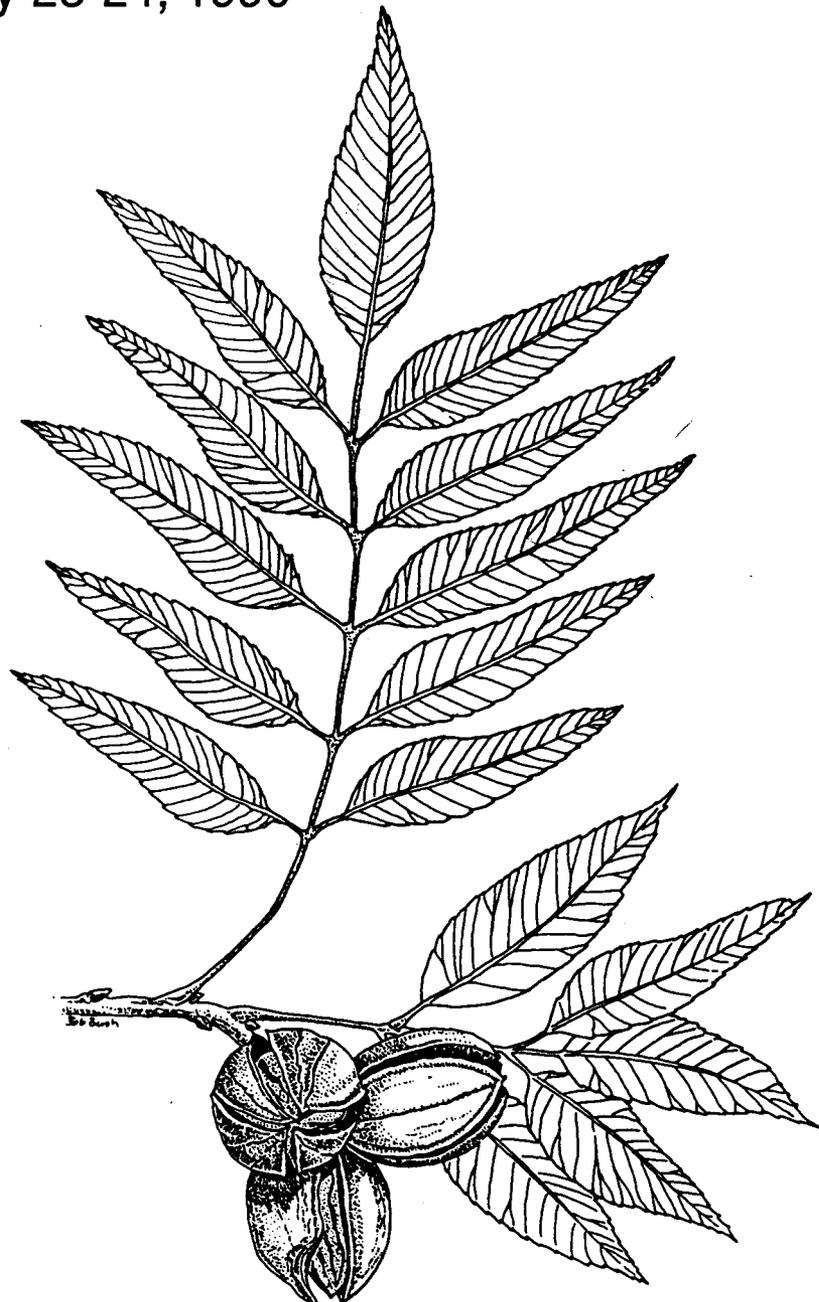
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Pecan Husbandry: Challenges and Opportunities

First National Pecan Workshop Proceedings

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ECONOMICS AND MARKETING

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The American Pecan fortunately enjoys a very fine reputation and is the most versatile American tree nut available to the various ingredient industries in the United States. Pecans do very well on the retail shelf on a seasonal basis and are very popular in mail order departments. Properly grown, processed and marketed, the American pecan industry will enjoy a long and prosperous life.

From a shelling and processing point of view, pecans are an expensive nut to process. Unlike almonds, pecans must be individually cracked. Extensive electronic color and shell separating equipment, sizing, floating, and dryers are used to further perfect the finished product. Finally, and extremely important, proper freezer storage is utilized to retain constant color and flavor of the pecan kernels. The shelling industry continues to become more specialized and automated in efforts to control processing cost and produce a better finished product. One area of tremendous growth potential is with the national ingredient baking, dairy and confectionery companies. Not only is there large volume involved, but very high exposure of pecans as an ingredient. These companies have great marketing clout and the pecan could enter more households through these channels. This added exposure will ultimately increase pecan recognition, desirability and consumption. In order to supply these national accounts, many things must be in place. It behooves the grower to produce the best raw material possible and the sheller to process the product efficiently and effectively. The almond and walnut industries, in particular companies like Blue Diamond Almond and Diamond Walnut, have very modern and sophisticated processing plants and marketing programs. They are very effective in providing national accounts with consistent finished material, both from a color and a shell or foreign material standpoint. Their plants are

very clean and can withstand the scrutiny from quality control teams from the various national end users. Within the past few years, the pecan shelling companies have brought the finished goods standards drastically upwards. Since 1985, our company alone has invested over \$8,000,000.00 in new plants and equipment to better process the pecan crop and compete head-to-head with the large walnut and almond nut companies for the attention of the national ingredient users. Our three processing plants are all equipped with the newest Quantz cracking system. We have the latest in visual electronic color sorting and the newest technology available for shell separation, the ESM infrared light electronic sorters. This process allows us to offer virtually zero-shell control in our finished product. All of our facilities have on sight freezer storage, in-house micro and quality control labs. Our home plant in Florence, South Carolina has implemented the Statistical Process Control program that is now being required by some national accounts to insure a consistent finished product. We too can withstand the scrutiny of the strictest quality assurance inspection and compete equally with the other large nut manufacturers. The pecan shelling industry has evolved into a very specialized and competitive industry.

Processing facilities are very costly to build, equip and maintain. However, the largest cost in the shelling industries is the financing of the crop. It takes a very large cash reserve or line of credit to buy the crop during the harvest season and hold it for shelling and delivery during an entire 12-month crop year or longer. Normally, there is only one turnover of money per year for a pecan sheller marketing in commercial channels. With the industry operating on very close margins, and the federal financial regulators tightening up various ratios, lines of credit are coming under more pressure. It could certainly be advantageous for the growers and shellers to become creative in a joint arrangement in this area. We for one, would certainly entertain such discussions.

From a marketing viewpoint, one would think it would be an easy task to market America's most popular nut. It is very high in nutritional value and very flavorful. The marketing of this nut is done primarily by individual shelling companies consisting of in-house sales personnel and a network of broker representatives throughout the United States. Like many other ingredient or retail food items, the customer is looking for a consistently good product, competitively priced and serviced on a timely basis. The shelling

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industry consists of two segments, the large commercial sheller and the small specialty processor. Some organizations have a balance of the two. In the case of the commercial sheller's marketing, emphasis is placed on existing business and the creation of new applications for pecans. Our company places significant emphasis on working with the research and development departments of the various national and international food companies. Whether its with creating new formulas for conventional products such as baking items, confectionery items or ice cream products, or developing new applications for breads, rice, cereals, cheese, yogurts or the snacking industry, a constant effort is made to increase overall consumption. Extensive travel is involved in promoting the pecan at research and buying headquarters throughout the United States. We participate and exhibit in approximately five food trade shows each year, both domestically and internationally. Substantial efforts are being made on the international scene and after intense marketing efforts, our company is now realizing significant growth in foreign markets for the pecan. I will not expound on this as I understand this area will be addressed later in our meetings.

With the crop sizes being up since 1981, product development and overall consumption has been at all time highs. The 1989 crop was off in size, but the large carry-in to the '89 crop helped maintain the strong supply levels. To date, cold storage buildings are approximately 35% less than last year. Finished good prices are up approximately 45% over last year and consumption remains strong. I believe the stage is set for a continuation of firmness on into the new crop.

The world almond supply is expecting to surpass 1 billion pounds and the walnut crop in excess of 800 million pounds, we should be bracing for more competition from these nuts. Almond kernels are currently being sold in the \$1.20 range with walnuts in the \$1.60 range. At some point, with pecans in the \$2.85 range, consumption could be affected. I believe we can maintain strong consumption and demand on high priced kernel cost for this year. However if the 1990 crop turns up short and prices are high again, consumption and development will be affected. A problem could develop if we come back very strong in 1991. There could be an oversupply and prices could overreact downwards. These scenarios are difficult from a marketing standpoint. With the exception of last year's crop, the pecan total supplies have been fairly consistent. One blip in an 8-year cycle should not hurt consumption or discourage new product development for pecans.

Some of the western acreage has stabilized the supply situation in that they tend to be more consistent in yield. But two consecutive short crops could change the progress of pecan marketing with adverse consequences for all of the industry for several years. Broad swings in prices discourage serious new product development and particularly export efforts.

There has been extensive study and development in the snack food areas. There are many coatings and value added processes that are being offered today. In our particular case for an example, we utilize our product research and development department to create a value added product with pecans. This product is tested internally for consumer acceptance. Upon an accepted product, we will display and sample the product in one of our three retail outlets. If the product is received well, we will then add it to our mail order catalogues. If it continues to be well received, we will offer the item to the retail and snacking industries. Ultimately, our goal is to offer for distribution to the industrial industries, adding processing equipment to our existing specialty sales kitchen and processing areas. Every phase of marketing efforts helps to expose the pecan to more consumers.

The Pecan Marketing Agreement that will be initiated sometime in 1991 is most encouraging from a marketing viewpoint. Never before has the pecan been promoted to the general public as it soon will be. We are extremely optimistic to national and international exposure for the pecan and its ultimate increased demand.

Many people believe the industry is going through a serious crises and it is. Both the growing and shelling segments of the industry are under capitalized and are in an unhealthy financial environment. The growers as well as the shellers are not receiving proper returns for their investments. With inadequate returns, the growers are not able to properly maintain their orchards to insure the best quality yields. With this general deterioration, the industry is struggling with the inconsistent supplies and quality. We as an industry are fortunate in that pecans are primarily produced in the U.S. Think of the difficulties that we would have if Europe, China or South America were producing pecans in large quantities. Not only would we have to organize the American Industry, but contend with the world market. The growers and shellers of the U.S. should make every effort possible to organize our efforts and resources to develop a healthy environment. The industry should encourage

product development and growth both domestically and internationally rather than shellers increasing sales by cutting prices and taking business from other shellers.

Since 1986, the shelling industry has been under an intense price war, and as a result, nine shelling companies have closed. If this trend continues and the industry is reduced to one primary buyer, then the growing industry will be at the mercy of one company who can dictate both what the grower will receive and what the end user will pay. It has been estimated that the crash of the pecan market during the 1986-87 crop year caused the shelling industry to lose between 60 and 80 million dollars in retained earnings and in the reduction of bank lines of credit; in other words, total cash used by the shellers to buy the crop from the growers for processing and marketing. This put some shellers out of business and substantially weakened most of the others. If this trend continues, it is conceivable that the shellers will not have enough money available to them to buy the entire crop from growers. At that point, growers would have to find a way to help in financing their crop to the end user, and to wait in effect for an average of up to a year or more to be compensated for a given crop.

The overall consumption for pecans has been very encouraging. Last September the industry carried 107 million pounds into the 1989 crop. The final crop figures for the '89 crop was recently reported by USDA to be 234 million pounds. Adding another 16 million pounds from the non-reporting states and approximately 25 million imported from Mexico gave us a total supply of 382 million pounds. Based on current cold storage holdings and what we anticipate moving between now and September 30, we should have a carry in position of approximately 55 million pounds. This would put pecan consumption at 327 million pounds, the highest on record! This year's crop was moved at comfortable levels.

In summary, I would like to say that growers and shellers are both heavily committed from a financial position to the success of pecan. As a sheller, we fully realize the importance of a healthy grower base. Without this base, the industry has no future. The shellers must support this fact and the two integral parts of the industry must continue working together exchanging accurate and timely information and understanding one another's problems. I believe consideration should be given to creating a grower/sheller organization to enhance and promote these two

segments of the pecan industry. By so doing we can have an adequate and a healthy exchange of information as to what is affecting our industry for good or for bad, and to react accordingly in our own best interest. The growers must commit to improved quality in the orchards and stability in crop size, and the shellers must commit to improving processing technology and consistent and creative marketing plans.

We have at our disposal a nut that no one else in the world has -- a nut that has tremendous consumer appeal and tremendous potential. Together we decide the pecan's future and our future.