



Retail Supplier Outlook: Shrimp

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global aquaculture
the alliance

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Jeff Sedacca is president of the Shrimp Division at National Fish and Seafood, Inc., a U.S.-based full-line frozen seafood supplier whose customers range from large supermarket chains and retail wholesalers to foodservice distributors and restaurant chains.

Previously, Sedacca led Lu-Mar Lobster and Shrimp Co., a wholesale shrimp importing, processing and packaging company named after his parents, Lou and Marge. Sedacca worked with shrimp farmers in Latin America and Asia during the early days of aquaculture development, and Lu-Mar became a major supplier to Walmart and other U.S. market chains. Antidumping issues and extensive hurricane damage forced the closure of Lu-Mar in 2006.



Events Contributing to Disconnect in Price Balance a.

- Early in 2010, with barely adequate supply in country, and lackluster demand, importers were reluctant to add to inventories.
- Particularly with the country in the grips of recession, shrimp prices at several year lows, and exporters asking higher prices, as raw material was seasonally tight in January-April. Import activity declined significantly versus recent years. Inventories began to draw down with little replacement.
- The important point is that supply was barely adequate even in light of lackluster demand.

Events Contributing to Disconnect in Price Balance b.

- Raw material prices firmed during normally low production period of Jan-March as processors attempted to keep factories working at maintenance levels. This created false demand. That is, demand created by processors buying raw material at prices that yield finished goods that cost more than they can sell for, only to keep factories working.
- Most of these goods remained unsold, and much of this production was shipped by processors to the US for their own accounts.

Events Contributing to Disconnect in Price Balance c.

- By April prices in the US began to improve, and import activity picked up as inventories began to draw down.
- But this was short lived. Imports, and prices began to slip in April, as is normal, in anticipation of the first major harvest period for vannamei in Asia.

Events Contributing to Disconnect in Price Balance d.

- In early May it became apparent, or at least it was widely reported, that the shrimp crop was not growing normally.
- Shrimp were small, harvest was going to be late.
- Processors, eagerly awaiting the expected start of high harvest season began to panic buy, and drive raw material prices up.... And they have been climbing slowly but steadily ever since.

Events Contributing to Disconnect in Price Balance e.

- Raw material, and consequently production costs got ahead of, and have generally remained ahead of the US market for most shrimp products.
- The US market did not respond as aggressively as did the processors because, in part, retail buyers were used to promoting shrimp at the levels they were at, and were (and continue to be) reticent to entertain higher retail prices in light of the terrible economic environment that persists in the US.
- Contract buyers, both retail, and food service who normally book in June, or July remained on the sidelines, postponing long term purchases in the expectation that prices would come down.

Events Contributing to Disconnect in Price Balance f.

- By September, it became apparent to large contract buyers, particularly retailers with holiday needs that the market was not coming down, and panic buying set in.
- This has served to drive the raw material market ever higher, as big buyers contracted out through October shipment at prices above the current US spot market.
- Processors began frantically bidding, buying, and packing to ship late coming holiday orders.
- Daily we hear of orders booked by retailers in early September cancelled, presumably because the supplier has paid higher prices, and has sold elsewhere at higher prices.

Events Contributing to Disconnect in Price Balance g.

- As we get closer to the holiday selling period, the spot market has begun to respond, but still lags the contract prices.
- Inventories are barely adequate for most items.
- Prices are inching higher.

What Can We Expect Going Forward?

- In the expectation that there will be more people who are producers, processors, importers, and government representatives at this meeting as compared to last year, when the meeting was in Seattle, and was well attended by retailers, and other buyers,
- I will address the question with a message I believe your customers, the retailers, , and retail consumers would like to send to us:

IT'S NOT RICE.....IT'S SHRIMP!



Rice...vs. Shrimp, Salmon, Tilapia

- People NEED RICE. THEY CAN'T DO WITHOUT RICE. WHATEVER RICE COSTS, THEY WILL PAY.
- They LIKE shrimp... BUT THEY CAN DO WITHOUT SHRIMP, AND for that matter SALMON, AND TILAPIA.

- Your customers- retailers, have to have shrimp for the holidays. Have to! At almost any price. Their customers demand it. And the customers will pay the high price **during the holidays.**

Normal Not Good

- After the holidays however, all goes back to normal. And in the foreseeable future, normal is not too good.
- US unemployment is officially at about 10%. It is actually probably much higher. Staple food costs are up. Fuel costs are up. Taxes are going up.
- This is a very difficult environment in which to raise prices. And retailers will not do so. They will buy what their customers perceive to be a value. They will sell what they can promote. They will stock what their customers are able to buy.

- While I have no data to confirm this, I expect that my competitor's experience is much like that of my company.
- In the last few years 30-40% of our volume of shrimp sold to retailers was for promotion. It was on special sale, in a promotional position in the store. It was used to bring customers to the store, and to drive business.
- Only products that the consumer perceives as a good value are eligible for promotional status.

- The fact that the consumer has begun to perceive shrimp not as a luxury, and not as something they can not afford, but as an alternative to chicken, or beef is due to its having become price competitive, AND to retail industry support in the form of promotion.
- **Shrimp has become the promotional protein of choice for the American retailer!**

Supply Creates Demand

- Often supply creates demand. That is certainly the case with shrimp.
- Farming of vannamei in Asia, and the resulting changes in the cost structure through the supply chain right down to the retail price made shrimp available to the middle and lower income buyers, expanding the demand sufficiently to absorb the massive increase in supply created by successful aquaculture.

Shrimp Has Terrific Appeal

- Shrimp and seafood generally have terrific appeal. Retailers like to promote seafood.
- However, the retailer has many options with which to stock the promotional positions in their stores.
- If they stop seeing our products as a value for their customers, they will stop promoting. They will still buy shrimp, and salmon, and tilapia, but less of them.

- Barring unforeseen adverse conditions affecting future harvests, and assuming a continuing poor economic situation in the west, shrimp prices should begin to ease as the window closes in late October for shipment in time for holiday distribution.

- This is especially true for small to medium shrimp.
- Supply is adequate, and should seasonally continue to improve. High prices for farmed commodities are generally followed by high seeding/stocking of subsequent crops. Rumors of strong shrimp seed sales support the likelihood of improving supplies going forward.
- Prices are currently buoyed by what appears to be excessively good demand, but is likely normal current demand aggregating with some amount of latent demand, as a result of so many buyers demurring on their holiday commitments, and now attempting to catch up.
- As demand slows post holiday, and with improved supply, the pipeline should begin to fill. The “hole” created earlier in the year by importer reticence to inventory, and farmer’s fear to seed in light of last year’s low farm bank prices will slowly disappear, as supply, and demand come back into balance.

- Large shrimp supplies will likely remain tight, and may not fall as soon as smaller sizes.
- But in the absence of holiday driven needs, the market for large shrimp at the currently inflated prices may shrink significantly, curbing further advances.
- Large shrimp could stay firm until new production begins to reach market in early spring.
- This is particularly true of 16/20 and larger, as black tigers while available, are significantly smaller sized on average than is normal.

The stage could be set for a more rational market

- The stage could be set for a more rational market. One in which the cost to process shrimp does not exceed the spot market selling price in the US.
- Also one that does not see farmers growing shrimp to 30 pieces per kilo, only to be returned a farm bank price that equates to a US re-sale market price of under \$4.00 for 16/20 EZ-Peel as happened earlier this year.

- Prices can easily fall back to a level that is in the value range for the retailer, and retail consumer, without falling to the unreasonable lows that were seen as a result of the economic crash of '08/'09.
- Now that prices have broken out the 2 year slump, they seem likely to return to a supply / demand equilibrium that allows everyone, farmers, processors, importers, and retailers, a chance to make money.