



# THE TRUFFLE & WINE CO

MANJIMUP ~ WESTERN AUSTRALIA

TRUFFLE BUSINESS - EDITION 04 - OCTOBER 2017

read the latest edition of...

## *The Truffle Business*



## WE ARE 20 YEARS OLD!



This is the 4th edition of *The Truffle Business* and I am delighted with the positive comments many growers have made about our attempt to present factual, no nonsense information from a commercial and practical perspective.



**Alf Salter, Chairman  
The Truffle & Wine Co.**

In the 1st edition I indicated that the purpose of the newsletter was “to work with other growers to build a profitable and sustainable Australian truffle industry by sharing factual information and experience.”

Having just completed the 2017 season, I have great concerns that building “a profitable and sustainable Australian truffle industry” may be an impossible task, as international competition between Australian growers pushed prices down to the lowest levels our company has seen.

Without cooperation and trust, growers run the risk of surrendering much of their profit margin to the international distribution network. These people are our friends, but they have experience in truffle marketing that has been gained over centuries and they are tough and wily business people. Successfully marketing Australian truffles requires a robust understanding of how international markets and the operators within those markets work. **Read the article below by Alex Wilson, our Head of Sales, to see what we witnessed this past season.**

# 2017 Harvest & Production Review

**Michael Lowe, General Manager  
The Truffle & Wine Co.**

Another harvest has been completed and a whole new bunch of questions have been raised. TWC now has 13 years of harvest data and the only thing we can say with any conviction is that every harvest is different!

Most WA growers noticed a proliferation of small truffles this year, which resulted in reduced quantities of extra and first class truffle with consequent impact on revenue.

In WA we had the warmest start to winter in 100 years. This resulted in a later start to the season as truffle maturity was delayed. Manjimup is the warmest winter climate in the world where truffles are grown, so unseasonably warmer weather may have interrupted the usual physiology of the host trees or the fungus itself.

As always we will use the experience from this season to shape our R&D direction for next year and beyond.

The production equation for truffles is pretty simple: number of truffles harvested x average truffle weight = total yield. We harvested 47% more truffles this year than in 2016, but average truffle weight was down by over 30%. We will be investigating what factors are likely to be involved in truffle size and truffle initiation. We would be much happier with fewer truffles and larger size! Our estimates are that there was a little over 9,000 kg of saleable truffle produced Australia wide this year with NSW and Tasmania both producing about 900 kg each.



It is a real shame that more growers are not prepared to share meaningful information, as marketing and price are emerging as critical issues for enterprise profitability.

The following comment is no reflection on the quality of Tasmanian truffles. I mention it to reinforce the need to have a regional or industry wide marketing plan and that means having accurate quantity and quality data.

This past season we purchased about 14 kg of truffles from a Tasmanian grower to make up an order for one of our distributors. His chef clients were used to being supplied with truffles from Manjimup and our distributor had difficulty selling the Tasmanian truffles because from a perfume, flavour and grading perspective they were quite different from what they regularly purchased. The moral of the story is that Manjimup and Tasmanian truffles are different products. It is not that one truffle is better than the other, rather that as producers and marketers we must know the difference and market accordingly.

# 2017 Season: Price drop? Let's get the facts

Alex Wilson, Head of Sales  
The Truffle & Wine Co.



The pleasant side of marketing - Alex "negotiating" with our long term European distributors in France

Just 10 years ago, no overseas market had access to Australian Truffles – as an industry we were not producing enough to export. Since then, a lot of time, effort, and \$\$\$ have been spent gaining market access, building awareness, educating chefs and consumers and fostering demand for Australian black truffle.

Fast forward to 2017 and Australian black truffles are found in most major cities across the world and many that are not usually regarded as 'traditional' truffle markets.

80 to 90% of sales by all large truffle producers go to distributors overseas. This large network of truffle buyers sells to chefs plus other wholesalers and retailers.

***"If you ask Wholesalers, they will all agree on one thing: there are few things faster on this planet than a Chef hearing about a special truffle deal and pushing for a better price." Alex Wilson***

Chefs are under a lot of pressure to keep food costs low. The cost-pressure is highest on their high-end food items (Wagyu beef, fresh fish, truffles, etc.). Whilst chefs have preferred suppliers and often buy certain items from one wholesaler, they still receive a mountain of emails/texts/faxes/whatsapp messages from all manner of suppliers and producers, large and small.

Therefore, if another wholesaler offers lower pricing on a similar item (e.g. black truffles from Australia), it often reverberates across the whole city in minutes. Chef to chef, venue to venue. This is especially true with large broadcasts on Facebook or sending hundreds of emails to chefs with current price sheets.

On receipt of a supposed “better price”, the clear message from a chef to his or her distributor is often “I like buying from you, so please match this price or I may have to buy elsewhere....” Understandably, from a sales point of view, when one producer agrees to drop prices - this can quite easily cause a classic ‘domino effect.’

During the 2017 season we found price-pressure to be strongest in our most competitive markets (USA, especially New York, Singapore, Hong Kong). In such hyper-competitive markets the following is true: there are a multitude of distributors, sometimes dozens in a single city, all offering a seemingly interchangeable product (Fresh Australian Black Truffles). On occasion, we saw instances where chefs were being offered prices that were 30% less than prices offered elsewhere.

*“You might offer the best Black Truffles in the world, but if someone else offers Truffles 30% cheaper – you’ll soon hear about it.” Alex Wilson*

You might ask “how can that be?” How is it even possible? There are many ways that wholesalers/distributors can make outlandish offers and throw the market off balance. Price ructions cause confusion and without doubt impact our reputation as a truffle supplying region/country. We have found quite often that there is either little truth or a sustainable offering behind ‘special offers.’

Let’s talk about a few examples from this past season...

**‘Bait and switch’:** This is a classic short-term, opportunistic sales tactic that certainly gets chefs’ attention. Example: a truffle producer/supplier in Australia finds their fridge is backing up with too much of one grade (e.g. small pieces) and asks for help from a distributor overseas (e.g. clearance prices for a week or two on that grade).

However, armed with a clearance price on a single grade, the distributor can go to the market offering *“Lowest prices ever, on our full range of grades!”* Note: this is despite the fact they only have access to clearance prices on **one** grade, knowing that when chefs clamour for the special offer – they find out all the other grades have mysteriously ‘sold out’ already. “Oh, but we still have Small Pieces at amazing prices though...”

Regardless of the amount of truffle actually available at a clearance price, within hours or even minutes chefs will be jumping up and down, pushing for discounts from their regular truffle supplier – showing evidence they can get truffle at lower prices elsewhere. This means that **all** Australian producers get squeezed really hard for discounts.

**‘Fake news’ a.k.a. Early season shenanigans (Early June: *“Call us. We have lots of beautiful truffles available right now...”* 🍄).** In the early part of the 2017 season (the warmest start to June on record) across Australia it was difficult to source large volumes of fully ripe black truffle. For us, individual customer orders can often be 20-50kg on any given day and we just did not have enough to fill demand.

Not surprisingly, when a wholesaler puts up a beautiful picture on Facebook, showing chefs a huge basket overflowing with an array of truffle, we soon hear about it (“Others have lots, where are ours? Are you giving them to other customers over us?!”). (Note: There are many other examples of antics that cause intense short-term price pressure.)

### **What can be done to counter these tactics?**

Whether you are dealing with bait-and-switch antics, short-term clearance prices, or fake news: firstly, it has to be taken very seriously and immediately investigated. Time and time again we have found there is often no substance nor sustainable supply behind the story. Plus, as we mentioned earlier, once one major supplier of truffle drops prices – others often follow, or face losing sales and/or market share. This means all producers lose. And you can bet the price in restaurants to diners has not been reduced.

Secondly, to counter these kinds of antics, to keep the price up, we have found with bait-and-switch antics especially; it is pretty easy to just tell the distributor to ask one of their big chefs to obtain a quote on 5kg of Extra Class delivered at that price. When the chef can't get any truffle, we ask the distributor to explain to their customers there is no supply behind the offer and that 'clearing stock' does not equal a price shift.

Ask if they want to deal with a supplier that plays games with them or get top-quality truffle from someone they trust. On nearly all occasions, normal orders at regular prices, resume soon after.

With the "Fake news" story referred to above, we were able to show that the basket of beautiful truffles was actually a picture taken in 2015. We demonstrated there was no bountiful supply of truffle heading elsewhere.

Thirdly, we are prepared to freeze truffle when supply exceeds demand. We have developed markets for frozen truffle of all grades and we are happy to take a small discount on the 15% we freeze, rather than take a discount on 100% of the fresh sales.

In short: Without a shadow of a doubt, information on pricing and availability of truffles travels faster and faster as more supply enters the market. As a producer, we have consistently found that working with our partners, treating each market individually, investigating price claims thoroughly and getting facts as fast as possible, allows us to push-back nearly every single time. **Whether you are looking at it from a single producer point of view, or as one truffle producing region, or even the whole industry, working together in international markets is the only sustainable way to move forward.**

# Provenance And Nomenclature Are Important

Alf Salter, Chairman  
The Truffle & Wine Co.

Opportunism is a two-sided coin. On the one side is short-term advantage, on the other is confusion and betrayal of trust, from which one may never recover.

As an industry we have taken the high ground on provenance and the names by which we refer to our truffles, so it is disappointing to see truffles from other states being sent to WA and sold as WA truffles.

It is also disappointing that *Tuber borchii* (Bianchetta) is being marketed as “white truffle”. This only creates confusion. Whilst not in the same culinary league as *Tuber magnatum*, Bianchetta is a beautiful truffle with a distinctive aroma and should be proudly marketed for what it is.

A reputation is built up over a long period of time, but can be destroyed in an instant. Australian producers need to determine how they wish to position themselves and their industry in the international market. **TWC believes it has differentiated Australian truffles by taking an honest approach as a supplier of high quality product.**

# TWC is 20 Years Old!

## *Has our reality matched our expectations?*



*...with a much greater knowledge of the International truffle business, our achievements have been incredible.*



20 years ago this past June, a group of shareholders took an enormous risk. We purchased a farm at Manjimup, Western Australia and planted 21 ha of hazelnut and oak trees with the intention of growing Perigord truffles.

In 1997 the world was a vastly different place to what it is today. The internet was in its infancy and if you were connected, it was a dial-up connection. If you were patient enough to wait until you were connected, you would find that there was little information about your chosen subject and if that subject was truffles, there was no information. We were operating in the dark!

### **What were our expectations?**

We set targets based on the very limited information available at that time. We were drawn by the promise of \$2,000 per kg, yields of 120 kg per ha after 4 years, that demand from northern hemisphere chefs would be so strong that marketing costs would be minimal and that we would be one of a handful of producers in Australia. The result would be a lucrative horticultural business!

### **Has reality matched our expectations?**

**Price** – average farm-gate price across all grades is closer to \$1,000 per kg and falling

**Yield** – we achieved 120 kg per ha after about 12 years and 250 kg per ha after 17 years.

**Demand** – we have spent a small fortune on market development and continue to do so.

**Limited number of producers** – there are now over 200 growers in Australia.

### **Success or failure?**

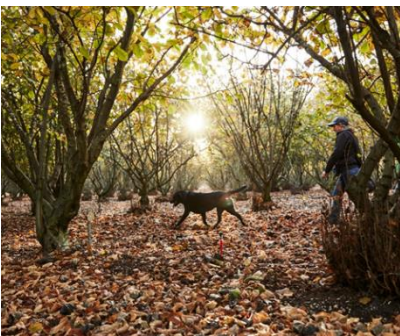
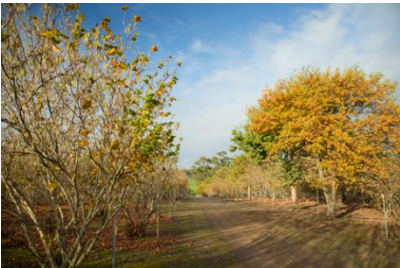
It would be easy to conclude from the above that we have failed in achievement of our early objectives, however with a much greater knowledge of the International truffle business, our achievements have been incredible.

- Our farm produces more Perigord truffle than any other single farm in the world.
- We have invested heavily in R&D and believe the knowledge we have gained has assisted us and other growers to lead the world in cultivated truffle production.





*Much of TWC's success has been the result of timing...,good financial management and a pragmatic approach to business realities.*



**Think about what you want as a producer of a luxury, gourmet product and talk with us about how you think your objectives can be achieved. We have 20 years of experience and we are happy to share that experience with growers who are prepared to help shape a profitable future.**

- Our market development efforts have paved the way for TWC to put Australia and Manjimup in particular, on the world truffle stage.
- We have a strong balance sheet with no debt and good cashflows.
- We have developed an excellent reputation for ethical business conduct and supply of high quality product.
- With our on-site Restaurant, Cellar Door and Truffle Hunt businesses we have promoted truffle consumption to the Australian community and created a agri-tourism business which draws visitors from all over Australia and Asia.
- TWC has a professional team running the business, which ensures its sustainability.

### **The future for Australian truffles?**

Much of TWC's success has been the result of timing (we were an early adopter), good financial management and a pragmatic approach to business realities. It is too easy to get carried away with the romance of truffle production and the abundant media coverage growers receive.

Growers who have entered the industry over the past 10 years face a completely different set of challenges to the early adopters.

The challenge for the next 5 years is to get the focus of all producers on the business drivers of a profitable industry. Individually we are all small fry in the international truffle world and instead of seeing each other as competitors we need to work collaboratively to continue to build new markets, to reduce production costs and to avoid cannibalising the price we receive for our product.

Just one example of where we need to improve: the past season saw prices of at least 20% less than 2016 prices in the USA market, where most larger growers were active. Competing against ourselves will create a race to the bottom and strengthen the position of the international distributors to whom we sell. TWC's marketing strategy has always been to be a "price maker", however marketing behaviour this year is leading our industry down the road of being a "price taker". The result is a transfer of profit from producers to international distributors.

# "Green" Truffles

Brendan Nolan, Planning & Operations Manager  
The Truffle & Wine Co.



TWC's solar panels

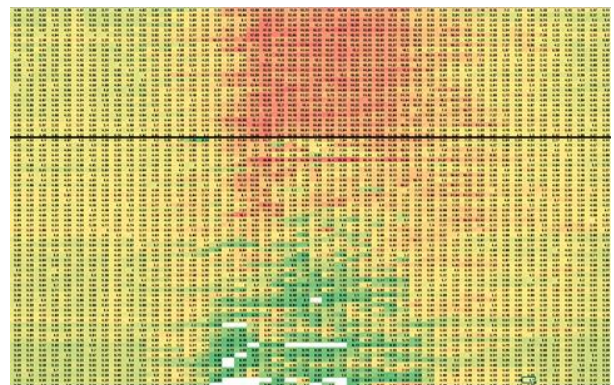


We all know we want our truffles to be jet black and white, but as of now they are a little greener. After many months of research, planning and preparation The Truffle & Wine Co. have recently switched on 40kW of solar panels. In the first two months we saved \$2000+, reduced CO2 emissions by over 5 tonnes and saved 140 trees. We have produced 7 Megawatt hours of energy!

The decision was easy. The Truffle & Wine Co strive to be good corporate citizens and installing solar has a positive impact on our environment, and as a very large sweetener it has a positive impact on our operating costs.

This investment will pay for itself in three years, and will save us a further \$300,000 over the life of the panels. If you use lots of energy during daylight hours then a solar system makes perfect sense.

The heat map below shows our grid energy usage (high red, low green, none white), each row being one day, midnight to midnight. The black line is the day we switched on our new solar system. As you can see the middle of the day is now where we use the lowest amount of grid energy, and as the days are getting brighter we are finding times where our requirements are 100% satisfied by our solar system.



Heat map showing TWC energy usage

*The Truffle Business* newsletter will be available to view on our [website](#) from Monday 16th October

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