



# Theme Overview: Fresh Produce Marketing: Critical Trends and Issues

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## Recent Trends

The fresh produce market has experienced significant change, driven in large part by increased consumer demand and sophistication and corresponding adaptations by streamlined supply chains. These changes are accompanied by consolidation of retailers, an expansion of product offerings and movement towards year-round supply, increases in imports, and shifts in marketing efforts.

### *Increasing Consumer Demand*

The national per capita consumption of fresh fruits and vegetables has risen at an increasing rate, up a total of 15% between 1987 and 2000 (283 lbs. in 1987 to 326 lbs. in 2000). Since 1987, the variety of fresh produce items offered by retailers has doubled (173 items in 1987 to 345 items in 1997) and branded items share of produce sales has more than doubled (7% in 1987 to 19% in 1997). Fresh-cut and packaged salad sales have risen even more substantially (1% in 1987 to 15% in 1997). These growth trends reflect increasing consumer demand for variety, quality, and convenience. There has also been an approximate three-fold increase in the share of sales by produce wholesalers to the foodservice channel over the same time period (8% in 1987 to 21% in 1997), reflecting the rise in food dollars spent in the foodservice/restaurant sector (approaching half of U.S. consumers' total food dollars). This rising proportion of foodservice/restaurant sales is another reflection of consumer desire for convenience and value-added products.

### *Improved Cost Efficiencies and Streamlined Supply Chain*

In 1997, \$71 billion worth of fresh fruit and vegetables were sold to U.S. consumers. The dollars moving through specialized produce wholesalers have increased significantly, but there has been a decline in the share of produce

wholesaler sales to food retailers (and an increase in the share of foodservice) over the same time period. This is in response to the growing demand for specialized and value-added products in a market where traditional outlets, requiring large volumes and year-round supplies, are beginning to bypass traditional wholesalers altogether and increase volume of direct purchases.

Large supermarket retailers continue to strive for lower labor and capital costs, product differentiation, and improved consumer services in order to remain profitable in an increasingly competitive environment. Mass merchandise and warehouse club stores are rapidly expanding and capturing a significant percentage of retail food sales. As a result, there has been a trend toward consolidation of large retailers and distributors to reduce costs and streamline and improve supply-chain management practices. Innovations in procurement and distribution of produce, such as inventory mechanization, direct delivery by suppliers, use of specialty wholesalers, and fixed contracts with suppliers, help to reduce costs and increase efficiencies.

## Future Needs

Although there are certainly some large players that exist in produce markets (i.e., Dole, Del Monte, etc.), many small firms remain active, particularly in the fresh produce arena. Many small farmers exist in this arena, struggling to profitably co-exist with their large-volume competitors. Profitability and, in turn, farm viability has been particularly challenging to many growers competing in this era of supercenters and warehouse retailers, firms striving to cut costs starting at the farm gate.

In the 21<sup>st</sup> century, success in commercial production and sales by small farmers and retail firms will likely depend on their ability to focus on high-value, specialty crops targeted at specific niche markets. Small farmers and

retailers of fresh produce will need to become adept at identifying such market niche opportunities and successfully differentiating their products. This will enable them to achieve market penetration and increase share (without the substantial costs typically required to dominate the market), uniquely position their products in the eyes of the consumer, optimize product mix, and establish early brand loyalty (either by private labeling or early-to-market efforts) to ensure their economic survival.

The focus of this theme in *Choices* is on changes in fresh produce marketing and small farm/firm response strategies in order to remain competitive, profitable, and economically viable in this changing market. The literature that follows includes six manuscripts which address relevant marketing issues (i.e., demand, regulatory/health, and distribution concerns) and provide appropriate response strategies.

### **Consumer Demand**

Bond et al. analyze results from a 2006 national consumer survey that collected data on fresh produce purchasing habits, with a particular emphasis on those consumers who purchase directly from producers. Direct marketing is integral to the prosperity of most small fruit and vegetable farms. In order to enhance the profitability of these enterprises, it is important to understand the targeted consumers, the role of extrinsic and intrinsic attributes in purchase decisions, and how willingness-to-pay may be affected. The focus of this paper is on consumer response to fresh produce marketing claims. Highlighted are consumers' buying habits such as expenditures, shopping locales, frequency of purchases, priorities with respect to the product

attributes, and response to various marketing claims about fresh produce. Differences in consumer response and willingness to pay a premium are analyzed with respect to questions on product and process attributes including the importance of color, taste, production location, production process (organic vs. conventional), and varying nutritional properties.

Govindasamy et al. examine the demographics and marketing of ethnic produce in the Mid-Atlantic States. Continued land development, rising production costs, and increased competition from low-cost suppliers from outside of the region are creating new challenges for traditional agriculture in the Northeast United States. Farmers in the area operate on a relatively small land base with high production costs, making it particularly difficult for viable production of crops, which require substantial acreage in order to break even. This study was initiated to help farmers in this area to identify, size, and seize market niche opportunities for agricultural crops that can be locally grown and was based on data collection and results analysis from an ethnic consumer survey. This survey included ethnic consumers of three different Asian ethnicities (Chinese, Indian, and Korean) in the Mid-Atlantic States to understand their socio-demographic characteristics, shopping patterns, preferences and related practices, and ethnic produce purchases. Findings indicate increased market profitability will be attained by helping retailers and growers exploit the comparative advantages associated with proximity to large, dense, high income population concentrations. The study documents the available opportunities for Mid-Atlantic farmers to grow ethnic crops from a market demand per-

spective by: (1) assessing ethnic consumer shopping patterns, 2) analyzing consumer willingness-to-pay for ethnic produce, and 3) suggesting products for potential local production.

### **Regulation and Health Concerns**

Fonsah examines economically efficient strategies of formulating and implementing traceability regulations in the fruit and vegetable industry utilizing empirical techniques adopted worldwide by some Multi-national Fresh Fruit and Vegetable Corporations. Traceability and Country of Origin Labeling (COOL) have been at the forefront of those regulations affecting the U.S. fresh produce supply chain and are two areas where the wholesale sector is providing increased services. Concerns about adoption of traceability regulations have centered on the cost of implementation, which may increase the financial burden to growers. Other studies have shown that the cost of implementation is based on the breath, depth, precision, objective of the system, and subsequent advantage perceived by the implementing firm. The specific objectives of this paper are: (1) to provide producers or horticultural farm firms with a practical standard operation procedure (SOP) on how to set up traceability systems, and (2) to provide producers with an alternative on how to economically and efficiently collect accurate traceability record-keeping data.

Carman documents the efforts of some firms to capture benefits from targeting sales to growing demands for the health benefits of specific fresh produce products. For example, there is a significant market segment in the United States that is concerned with following a diet that will reduce

the incidence of two important sources of mortality, cancer and heart disease. Another segment focuses on the relationship between diet and weight. Fruit, vegetable, and nut producers are attempting to “capture” these market segments by funding research on the health attributes of their particular products and then disseminating the results of this focused research through commodity promotional programs. This paper illustrates such a strategy by documenting health research programs conducted by four California commodity organizations and describing the utilization of research results in demand expansion programs.

### **Wholesale and Distribution**

Thornsbury et al. examine the role of fresh produce intermediaries in away-from-home food markets. This sector of the supply chain is comprised of business operations which in general do not transform a specific fresh product, but rather provide services related to the sale of this product. In contrast to the food retail/grocery sector, many establishments in the foodservice industry remain small-

and medium-sized businesses, where purchasing is handled by local buyers or chefs. Still, chain restaurants have high volume requirements and need consistency in products across time and outlets. The dichotomy in size among away-from-home food outlets provides opportunities for a greater number of intermediaries to be active in the supply chain when compared with retail food sales. Results illustrate that changes in fresh produce distribution and management have created new forms of commercial relationships between suppliers and wholesalers. In some cases, these changes represent valuable opportunities for business, beyond the demand for additional marketing services from suppliers.

Hall et al. compare produce market development activities in Georgia, Kentucky, North Carolina, and Tennessee, where the prevalence of small farms and growing seasons are comparable across all four states. Part of the difficulty confronting smaller operations relates to market access. Increasingly, fruit and vegetable growers with good entrepreneurial skills have established on-farm outlets or created niche markets with

local independent wholesalers or retailers. Small-volume growers tend to have limited marketing personnel and post-harvest handling equipment, rely more on direct outlets, and sell to final retail consumers, whereas large-scale growers utilize volume-oriented outlets that encompass more involved and specialized marketing activities. Different states have pursued different types of market development to assist small growers and have achieved different degrees of success. This article summarizes the results from a systematic analysis of market development strategies in four states. Kentucky and Tennessee have tended to rely on local initiatives, more independent site selection, and smaller volume outlet activities, such as retail-only farmers' markets or only assembly/packing operations at specific sites. Georgia and North Carolina have tended to develop highly coordinated marketing channels that include regional facilities with activities that range from farmers' markets to wholesaling and brokering at the same site.

