The Dynamic US Fresh Produce Industry

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Agenda

• Location of production and fresh produce basics
• Fresh produce value chain
• International trade
• Select food industry trends
• Growing awareness of produce waste and the need for better coordination of supply and demand
• Conclusions
Location of production matters!

• It’s all about seasonality – which crop, where, when – whether imported or domestic.
• Imports, usually off-season, play important role for many, but not all crops.
• California biggest producer of most produce crops in the US.
• For many crops CA is the only US producer, over 200 crops grown.

Location of production matters!

• CA has Mediterranean climate, long shipping seasons, no rainfall during harvest seasons, helps quality. Depend on winter snowpack for irrigation water.
• Locations within CA vary by crop and season, desert vs coastal vs central valley. Generally production starts in south in winter/spring and moves northward.
• Each commodity has its own story to tell!
Fresh Produce Marketing Basics

- Most growers do not market their own production, they have agreements with shippers or distributors to be their marketers. (price depends on the market)
- Most shippers are family-owned forward-integrated grower-shippers, supplementing their own production with that of other growers.
- Generally harvested and shipped daily; weather affects both supply and demand. Markets are risky and volatile!
- Shipping patterns are well established based on ideal growing locations in each season.

Seasonality of Naturipe Farms berry production locations
Leading US Fresh Market Vegetable States* in 2013:
Geographic concentration of production (due to climate) limits local sourcing potential, yet it is growing in the summer/fall

<table>
<thead>
<tr>
<th>Area Harvested</th>
<th>Production</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>% of Total</td>
<td>State</td>
</tr>
<tr>
<td>CA</td>
<td>45</td>
<td>CA</td>
</tr>
<tr>
<td>FL</td>
<td>11</td>
<td>FL</td>
</tr>
<tr>
<td>AZ</td>
<td>7</td>
<td>AZ</td>
</tr>
<tr>
<td>GA</td>
<td>6</td>
<td>GA</td>
</tr>
<tr>
<td>NY</td>
<td>4</td>
<td>WA</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>Other</td>
</tr>
</tbody>
</table>

*Excludes potatoes  
Source: Vegetables 2013 Summary, USDA/NASS, March 27, 2014

Market Shares of Leading USA Fresh Fruit Producing States and Value of Fresh Fruit Production,* 2009

<table>
<thead>
<tr>
<th>State</th>
<th>Value ($1,000)</th>
<th>Percent U.S. Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>4,330,397</td>
<td>53%</td>
</tr>
<tr>
<td>Washington</td>
<td>1,703,876</td>
<td>21%</td>
</tr>
<tr>
<td>Florida</td>
<td>616,454</td>
<td>8%</td>
</tr>
<tr>
<td>Oregon</td>
<td>156,191</td>
<td>2%</td>
</tr>
<tr>
<td>Michigan</td>
<td>179,578</td>
<td>2%</td>
</tr>
<tr>
<td>New York</td>
<td>170,486</td>
<td>2%</td>
</tr>
<tr>
<td>6 State Subtotal</td>
<td>7,156,982</td>
<td>88%</td>
</tr>
<tr>
<td>Rest of States</td>
<td>1,012,665</td>
<td>12%</td>
</tr>
<tr>
<td>All U.S. fresh fruit</td>
<td>8,169,647</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Excludes tree nuts.  
Source: USDA/ERS, estimated by Gary Lucier to separate fresh and processed volume.
• Growers and shippers are price takers.
• Growers receive the residual of the market price received by the shipper for their produce, less marketing charges, pick, pack and harvest, palletization, in some cases cooling, and other handling charges and mandated-marketing or other institutional fees.
• Shipping point prices may not always cover total costs; when they don’t even cover variable costs (e.g. harvest/packing) product is left in field.
• The shipper has incentives to continue shipping if at least covering variable costs in order to meet commitments with buyers, to maintain labor and potentially earn profit margins on cooling, harvesting and marketing; sometimes there is no return to the grower (production costs are not recouped).

• Shippers have big investments in facilities, technology, seed trials, research to improve efficiency, sustainability, precision farming.
• Growers/shippers require substantial capitalization to withstand low markets.
• 23 largest food retailers estimated to account for over 70% of total retail food volume sold.
• Buyer consolidation has led to shipper consolidation – fewer, bigger firms.
• Retail and foodservice buyers demand yr-round supply.
• Imports increasingly handled by U.S. grower-shippers that import during the off-season.
• Same requirements for foreign and domestic growers.
• Role of forward contracts is growing but challenging to manage across growers in different locations and seasons.

Fresh Produce Marketing Basics

• Foodservice leads in forward contracting.
• As forward contracting grows for retailers as well, the marketing system becomes less focused on transactions (daily spot market) and more on building marketing “programs,” Costco and Walmart stand out.
• Firms attempting to differentiate their products to get out of the “commodity trap,” but perishability will always make that challenging.
Fresh Produce Marketing Basics

- Quality, color, shape, flavor, as differentiators, growing role of proprietary seeds.
- Branding and private label growing simultaneously.
- Shippers emphasizing sustainable farming practices.
- Social responsibility practices becoming more important.

Fresh Produce Marketing Trends

- Major food safety requirements, higher cost structure. Large growers have big investments.
- Fewer, larger buyers have enabled shippers to reduce their customer lists and to focus more on understanding the needs of key accounts - becoming account-driven.
- Buyers expect suppliers to be much more data-driven in their selling/marketing approaches, requires IT investments.
- Shippers focuses more on understanding and communicating with consumers, attempting to stimulate consumer demand; social media facilitates.
Fresh Produce Value Chain

U.S. Fresh Fruit and Vegetable\(^1\) Value Chain, Estimated Dollar Sales, Billions, 2010

- Farms: $26.8\(^2\)
- Shippers: $6.1
- Integrated wholesale-retailers: $51.157
- Produce and general-line wholesalers: $69.175
- Institutional wholesalers: $12.3
- Food service establishments: $122.132
- Supermarkets and other retail outlets: $1.800
- Consumers: $1,800
- Exports: $26.8\(^2\)
- Imports: $12.3

Sources: Compilations by Kristen Park, Roberta Cook, and Edward McLaughlin based on U.S. Retail Census, ERS/USDA, NASS/USDA, U.S. Department of Commerce, and other data.

\(^1\) Excludes nuts and pulses
Misc. Fresh Produce Trends

- Wholesalers, brokers and other intermediaries are especially pressed to add value to remain relevant; traditionally focused on independent retailers, foodservice operators & fill-in orders for large chains.
- Foodservice industry is no longer expanding as it was for decades.
- Seed companies are striving to develop more output-specific consumer traits, in some cases in conjunction with growers and shippers in order to capture more of the value chain.

International Trade in Fresh Produce
International Trade in Fresh Produce: Highlights

• Story of diversification of sources of supply and the types of products imported and consumed.
• Growing role of Mexico.
• In general, exporters are large, professional firms attuned to meeting requirements of foreign markets. Exporters operate differently than firms focusing only on domestic markets.

Source: US GATS online queries, BICO-10.
Fresh fruit and vegetable imports as a share of U.S. fresh utilization/consumption, 2012

<table>
<thead>
<tr>
<th>Item</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetables, excl. melons and potatoes</td>
<td>25.0</td>
</tr>
<tr>
<td>Melons</td>
<td>30.5</td>
</tr>
<tr>
<td>Potatoes</td>
<td>7.0</td>
</tr>
<tr>
<td>Fruit, all</td>
<td>49.4</td>
</tr>
<tr>
<td>Excluding Bananas</td>
<td>33.7</td>
</tr>
</tbody>
</table>

Source: Economic Research Service, USDA.

Relative Competitiveness of US Fresh Produce Industry

• The relatively strong competitiveness of the US industry is because more than being labor-intensive, fruit/veg are knowledge, technology, capital, and marketing-intensive. LOCATION!

• However, protected culture, which is technology and capital-intensive is emerging elsewhere.

• US growers face an ever more complex regulatory environment.

• Labor availability is increasingly problematic, everywhere.
Select Food Industry Trends


percent

Current $    Inflation adjusted $

In 2009, the quantity of food sold in food stores declined.

“I buy only what I need.” Consumers are increasingly concerned about waste; negative impact on fresh produce demand.

Plus, consumption rates of fresh produce increase markedly with income level. So, more low income people means a challenging environment for the produce industry.

Economic growth should stimulate produce demand.

The economic downturn accelerates pace of change in the food marketing system

More than originating new trends, it intensified pre-existing forces, such as channel blurring.

Margin pressure at all levels of the food system!

Many produce suppliers facing lower profits.

Need for major investments in info tech systems.

Food retailer mergers are up again, as well as foodservice mergers, and mergers or joint marketing arrangements between shippers.
US Food Retailer Mergers & Acquisitions 2007-2013


Forecast of Compound Annual Sales Growth Rate vs. Inflation 2012-2017

-6.8% Mass

Food Inflation Compound Annual Rate: 3.0%

Source: The Future of Food Retailing, Willard Bishop, June 2013
Changing marketing channels for fresh produce

• New marketing channels handling produce: convenience store potential, drug stores, dollar stores, e-commerce.

• Europe ahead in E-commerce. Click ‘n collect, delivery, in-store pickup, other models emerging. Amazon Fresh foray in Los Angeles market.

• Major initiative to increase fresh produce on foodservice menus but many barriers (uncertain pricing, consistent availability and quality).

• Growing international trade provides more redundancy in supply which may help large foodservice users to add produce items to the menu.

Growing awareness of produce waste and inefficiencies in distribution system
### Estimated Ranges of Losses in the U.S. Fresh Produce Distribution System

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percent Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>2.80 – 5.00</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>2.50 – 5.03</td>
</tr>
<tr>
<td>Retailing</td>
<td>2.74 – 6.58</td>
</tr>
<tr>
<td>System losses</td>
<td>7.04 – 16.61</td>
</tr>
</tbody>
</table>


Update: 2010 Estimate by Roberta Cook, Preliminary: 9-12% or $11-15 billion.

Percentage losses are based on dollar values of losses in each phase of distribution as a % of the wholesale value of products entering the distribution system.

### Estimated Food Loss in the USA for Fresh Fruits and Vegetables, Retail and Consumer Level Only – Most losses at consumer level

- **Fresh Fruit**
  - Food Supply: 37.6 billion pounds
  - Retail Level: 12 percent
  - Consumer Level: 25 percent
  - Total Retail and Consumer Level: 13.9 billion pounds, 37 percent

- **Fresh Veg**
  - Food Supply: 53.5 billion pounds
  - Retail Level: 10 percent
  - Consumer Level: 24 percent
  - Total Retail and Consumer Level: 18.0 billion pounds, 34 percent

Notes:
- Food supply at retail level, which is the foundation for retail- and consumer-level loss stages in the loss-adjusted data series.
- Totals may not add due to rounding.

Fresh Produce Realities

- Most fresh produce items are sold without UPC bar codes which has contributed to less-intensive use of data. Growth in packaging and scannable bar codes (even on bulk items) is changing this.
- With PLU codes there is no identification of the individual supplier.
- Most retailers not yet comparing the shelf-life and quality of suppliers’ products to measure performance (sales and shrink). Without this it is harder to convince retailers to pay more for investments in quality. Incentives not aligned!

Fresh Produce Realities

- The global industry needs PTI not just for potential food safety incidents but for product identification and metrics.
- Slow implementation of PTI. Walmart announcement may be a balance tipper.
- Retailer focus on gross vs net profit is a problem as it doesn’t take into account shrink.
Freshness Histogram (days of shelf-life remaining) for the Same Product Sourced from the Same Supplier: Comparison of Competing Retailers in the Same Market

Significantly more product with more than 8 days remaining

Source: HarvestMark/Yottamark, Where Did The Day Go?, August 2013

Freshness Histogram (days of shelf-life remaining): Different Freshness Profiles for Two Products in the Same Category and Store

Source: HarvestMark/Yottamark, Where Did The Day Go?, August 2013
Datasets whose size is beyond the ability of typical database software programs to analyze, store, and manage

Volume, variety and velocity

Making sense of the information inherent in these massive amounts of diverse data to make better decisions, analytics

The Produce Industry Challenge

Getting the right product to the right consumer at the right place and price, with reasonable remaining days of shelf-life.

Requires collaboration between suppliers and retailers, including loyalty card data and promotional efficiency.

Shippers increasingly involved in category development but most not assisting with individual store shelf-set recommendations, unlike CPG firms, great opportunity.

We can increase efficiency and reduce shrink through better coordination of supply and demand. This will make produce more affordable to more consumers, expand demand.
Supply Chain Imperatives, Big Data

- Streamlining the supply chain involves identifying which activities add more value than cost.
- Eliminating non-value-adding activities.
- Decreasing internal operational inefficiencies.
- Mutually beneficial tactics - promotions, packaging, logistics.

Becoming Marketing-Driven

- Becoming customer-centric.
- Next level is to become consumer-centric.
- Consumer-centrism will increasingly be achieved via supplier-customer partnerships.
- Suppliers and customers must choose strategic partners - align with those who will succeed in the marketplace.
### Conclusions

- Fresh produce has faced challenges due to the economy.
- Firms at all levels of the fresh produce supply chain must take management practices to a higher level.
- Better information technology is a necessary but not a sufficient condition for meeting today’s/future standards for efficiency.
- Firms must develop cultures of continuous improvement and innovation.
- Understanding consumer segments as they relate to preferences for a product/retail format is vital.
- Competitive pressure on retailers means on-going margin pressure for suppliers as well.

### Supplemental Handout Material: More on the Food System and the Fresh Produce Value Chain
Information Technology Summary

- Firms embracing business intelligence may gain competitive advantages.
- Store clustering is an essential tool in better coordination of supply and demand.
- Well-executed SKU rationalization can lower shrink and improve value chain efficiency. Care must be taken not to alienate top shoppers.
- It is essential to achieve a better understanding of consumers and the tactics that increase consumption without sacrificing return for the commercial buyer or seller, e.g., promotional efficiency. This will be achieved via retailer-vendor partnerships.
- Yet lower retail profits and lack of robust software solutions at the shipper level are obstacles to greater investments in technology at both the buyer and vendor levels.

Food and Produce Marketing Structure and Trends
### Estimated Number of U.S. Wholesale and Retail Firms, and Fresh Produce Grower-Shippers*

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Chains (10 or more stores), 2010</td>
<td>138</td>
<td></td>
</tr>
<tr>
<td>Retail Chains/Club Stores/Dollar Stores with 100 or more stores, 2010, actual</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Fresh produce wholesalers/jobbers/distributors</td>
<td>NA est. 2000</td>
<td></td>
</tr>
<tr>
<td>Wholesale grocers, 2008</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td><strong>Total US Grower-shippers, 2011</strong> (includes some distributors and importers that also have the shipper classification in the Blue Book)</td>
<td>3,214</td>
<td></td>
</tr>
<tr>
<td><strong>shippers in California</strong> (several also operate in FL)</td>
<td>1,259</td>
<td></td>
</tr>
<tr>
<td><strong>shippers in Florida</strong> (several also operate in CA)</td>
<td>465</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Bluebook online queries June 2011 for shippers, and Planet Retail queries by Cook, March 18, 2011.
*Subject to over-counting as some firms are listed in multiple categories or locations.

### Total US Grocery Sales,* Store Numbers, and Market Share by Channel, 2012

<table>
<thead>
<tr>
<th></th>
<th>2012 Sales $Million</th>
<th>2012 No. of Stores</th>
<th>2012 % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>$517,705</td>
<td>40,245</td>
<td>46.5</td>
</tr>
<tr>
<td>Nontraditional</td>
<td>$429,274</td>
<td>57,387</td>
<td>38.6</td>
</tr>
<tr>
<td>Total C-Stores**</td>
<td>$165,923</td>
<td>155,513</td>
<td>14.9</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td><strong>$1,112,902</strong></td>
<td><strong>253,145</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Grocery sales only (food and nonfood): excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines. **Sales exclude gas.
Source: The Future of Food Retailing, Willard Bishop, June 2013
### Traditional Grocery Channel

<table>
<thead>
<tr>
<th></th>
<th>2012 Sales ($Million)</th>
<th>2012 No. of Stores</th>
<th>2012 % of Sales</th>
<th>2017 % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Traditional</td>
<td>$517,705</td>
<td>40,245</td>
<td>46.5</td>
<td>44.9</td>
</tr>
<tr>
<td>Conven. Supermkt</td>
<td>$442,611</td>
<td>26,257</td>
<td>39.8</td>
<td>36.5</td>
</tr>
<tr>
<td>Fresh Format</td>
<td>$12,699</td>
<td>965</td>
<td>1.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Ltd Assortment</td>
<td>$29,857</td>
<td>3,774</td>
<td>2.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Super Warehouse</td>
<td>$20,120</td>
<td>550</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Other (small groc.)</td>
<td>$12,419</td>
<td>8,700</td>
<td>1.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: The Future of Food Retailing, Willard Bishop, June 2013

### Nontraditional Grocery Channel

<table>
<thead>
<tr>
<th></th>
<th>2012 Sales ($Million)</th>
<th>2012 No. of Stores</th>
<th>2012 % of Sales</th>
<th>2017 % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nontrad'l</td>
<td>$429,274</td>
<td>57,387</td>
<td>38.6</td>
<td>39.1</td>
</tr>
<tr>
<td>Wholesale Club</td>
<td>$96,300</td>
<td>1,355</td>
<td>8.7</td>
<td>9.0</td>
</tr>
<tr>
<td>Supercenter</td>
<td>$192,571</td>
<td>3,710</td>
<td>17.3</td>
<td>18.2</td>
</tr>
<tr>
<td>Dollar Store</td>
<td>$26,344</td>
<td>25,856</td>
<td>2.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Drug</td>
<td>$60,463</td>
<td>22,907</td>
<td>5.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Mass</td>
<td>$48,500</td>
<td>3,381</td>
<td>4.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Military</td>
<td>$5,095</td>
<td>179</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

*Grocery sales only (includes food and non-food); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines.

Source: The Future of Food Retailing, Willard Bishop, June 2013
### US Grocery Store Format Characteristics, 2012
#### Traditional Grocery Channel

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Average</th>
<th>Average</th>
<th>Groc. &amp; Sales $</th>
<th>% Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Store</td>
<td>Total</td>
<td>SKUs</td>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Traditional</td>
<td>$247,379</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Conven. Supermkt</td>
<td>53,500</td>
<td>45,000</td>
<td>45,000</td>
<td>$324,171</td>
<td>100</td>
</tr>
<tr>
<td>Fresh Format</td>
<td>34,000</td>
<td>21,000</td>
<td>21,000</td>
<td>$253,180</td>
<td>100</td>
</tr>
<tr>
<td>Ltd Assortment</td>
<td>12,600</td>
<td>2,900</td>
<td>2,900</td>
<td>$152,144</td>
<td>100</td>
</tr>
<tr>
<td>Super Warehouse</td>
<td>45,000</td>
<td>37,000</td>
<td>37,000</td>
<td>$702,950</td>
<td>100</td>
</tr>
<tr>
<td>Other (small groc.)</td>
<td>9,000</td>
<td>3,000</td>
<td>3,000</td>
<td>$27,452</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The Future of Food Retailing, Willard Bishop, June 2013

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### US Grocery Store Format Characteristics, 2012
#### Nontraditional Grocery Channel

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Average</th>
<th>Average</th>
<th>Groc. &amp; Sales $</th>
<th>% Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Store</td>
<td>Total</td>
<td>SKUs</td>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Nontrad’l</td>
<td>$143,852</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Club</td>
<td>132,400</td>
<td>4,900</td>
<td>4,900</td>
<td>$1,366,874</td>
<td>59</td>
</tr>
<tr>
<td>Supercenter</td>
<td>179,600</td>
<td>100,000</td>
<td>100,000</td>
<td>$998,206</td>
<td>60</td>
</tr>
<tr>
<td>Dollar Store</td>
<td>8,100</td>
<td>9,400</td>
<td>9,400</td>
<td>$19,594</td>
<td>66</td>
</tr>
<tr>
<td>Drug</td>
<td>11,100</td>
<td>19,000</td>
<td>19,000</td>
<td>$50,759</td>
<td>34</td>
</tr>
<tr>
<td>Mass</td>
<td>62,400</td>
<td>95,000</td>
<td>95,000</td>
<td>$275,885</td>
<td>23</td>
</tr>
<tr>
<td>Military</td>
<td>29,400</td>
<td>15,000</td>
<td>15,000</td>
<td>$547,479</td>
<td>100</td>
</tr>
</tbody>
</table>
Promotional Measures in Action for Packaged Salads

The garden premium subcategory sold 67.9% volume on promotion.

- At 76% promotional efficiency, this subcategory demonstrated the highest promotional efficiency.

- Percent subsidized volume in coleslaw was 69.2%.

- Only about 30% of the volume sold on promoted weeks was unexpected.

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Promotional Efficiency - Volume. Packaged salads, Retailer X, 52 wks ending 03/28/09.

Private Label
Private Label Share in U.S. Supermarkets, Excluding Other Store Formats, 1989, 2009-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollar Share</th>
<th>Unit Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>11.6</td>
<td>15.3</td>
</tr>
<tr>
<td>2009</td>
<td>18.3</td>
<td>23.2</td>
</tr>
<tr>
<td>2010</td>
<td>18.6</td>
<td>23.0</td>
</tr>
<tr>
<td>2011</td>
<td>19.1</td>
<td>23.1</td>
</tr>
<tr>
<td>2012</td>
<td>19.1</td>
<td>23.1</td>
</tr>
</tbody>
</table>

Source: Food Industry Review, 2013 and Private Label Magazine

Private Label Sales in US Supermarkets, 2012:
Top Private Label Categories by Dollar Volume:
Fresh Produce Becoming Important

- Milk: $9.5 Billion
- Bread & baked goods: $6.2
- Cheese: $6.0
- Paper products: $5.9
- Fresh produce: $4.1
- Medications & remedies: $3.8
- Deli prep’d foods: $2.6
- Frozen meat & seafood: $2.4
- Packaged meat: $2.3
- Bottled water: $2.3

Threats and Opportunities

- Private labels are becoming more important to retailers both as a differentiation tool with innovative rather than just “me-too” products, and as a way to offer value (price relative to quality) to consumers. Value can be at the high end as well.

- However, in fresh produce the situation is different: the retailer typically was already perceived as “the brand” – few national brands with strong consumer loyalty; and shipper margins low and low marketing expenses.

- Private labels might represent an opportunity to fresh produce suppliers by securing shelf-space and generating predictable demand, on the other hand, margins are likely to be thin.

Marketing Margins and Some Pricing Basics
U.S. fresh vegetables, 1997-2012, FOB farmgate price share of retail price


U.S. fresh fruit, 1997-2011, FOB farmgate price share of retail price

Retail Pricing Strategies

- Every Day Low Pricing (EDLP) or High-Low pricing are the two most common strategies.
- EDLP is generally used by new model retailers - supercenters, club stores - and generally margins are lower than for conventional supermarket chains. Costco margins never exceed 14%.
- EDLP operators emphasize contract vs. spot market buying but conventional retailers are also increasingly operating more on a partnership basis with key preferred suppliers with a program focus.
- Recently some conventional retailers moving to EDLP.
- Successful grower-shippers are increasingly account-driven so they can respond to either EDLP or High-Low pricing retailers accordingly.

Retail Produce Department Pricing

- It's takes a 7% change in a retail price for a consumer to “sense” there has been movement.
- It takes a 10% change in retail pricing for a consumer to “think” about a behavior change.
- It takes a 15% change in retail pricing for a consumer to “act” and change behavior.
- So if the f.o.b. price declines buyers will generally take it in margin and it won’t negatively impact quantity sold.
- Buyers are generally not held accountable for net margins/profit as the expense side is typically viewed as beyond their control. Source: Bruce Peterson