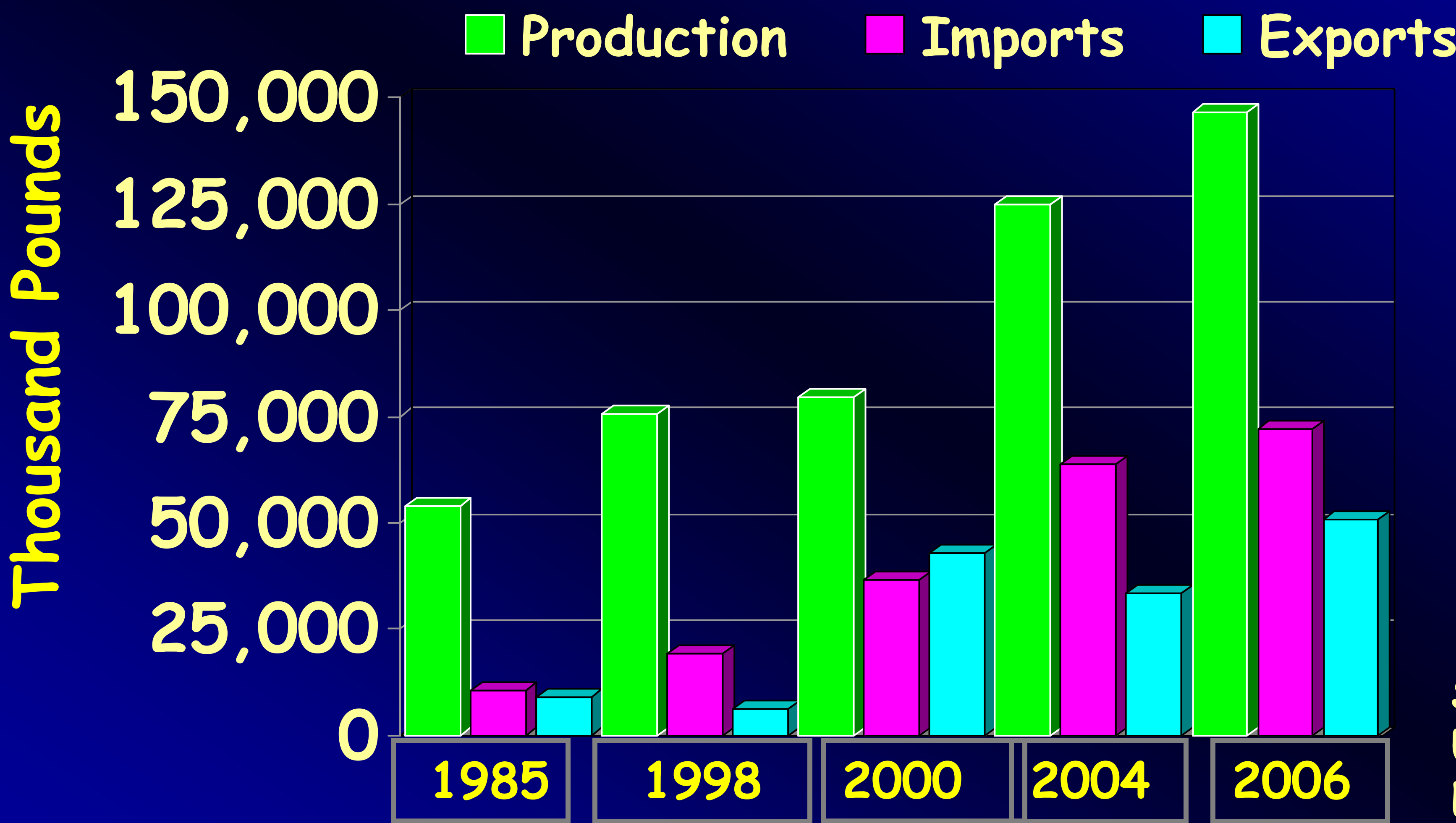
# Fresh Produce Marketing Trends: Implications for Blueberries

**DR. ROBERTA COOK**
**Dept. of Ag and Resource Economics**
**University of California Davis**

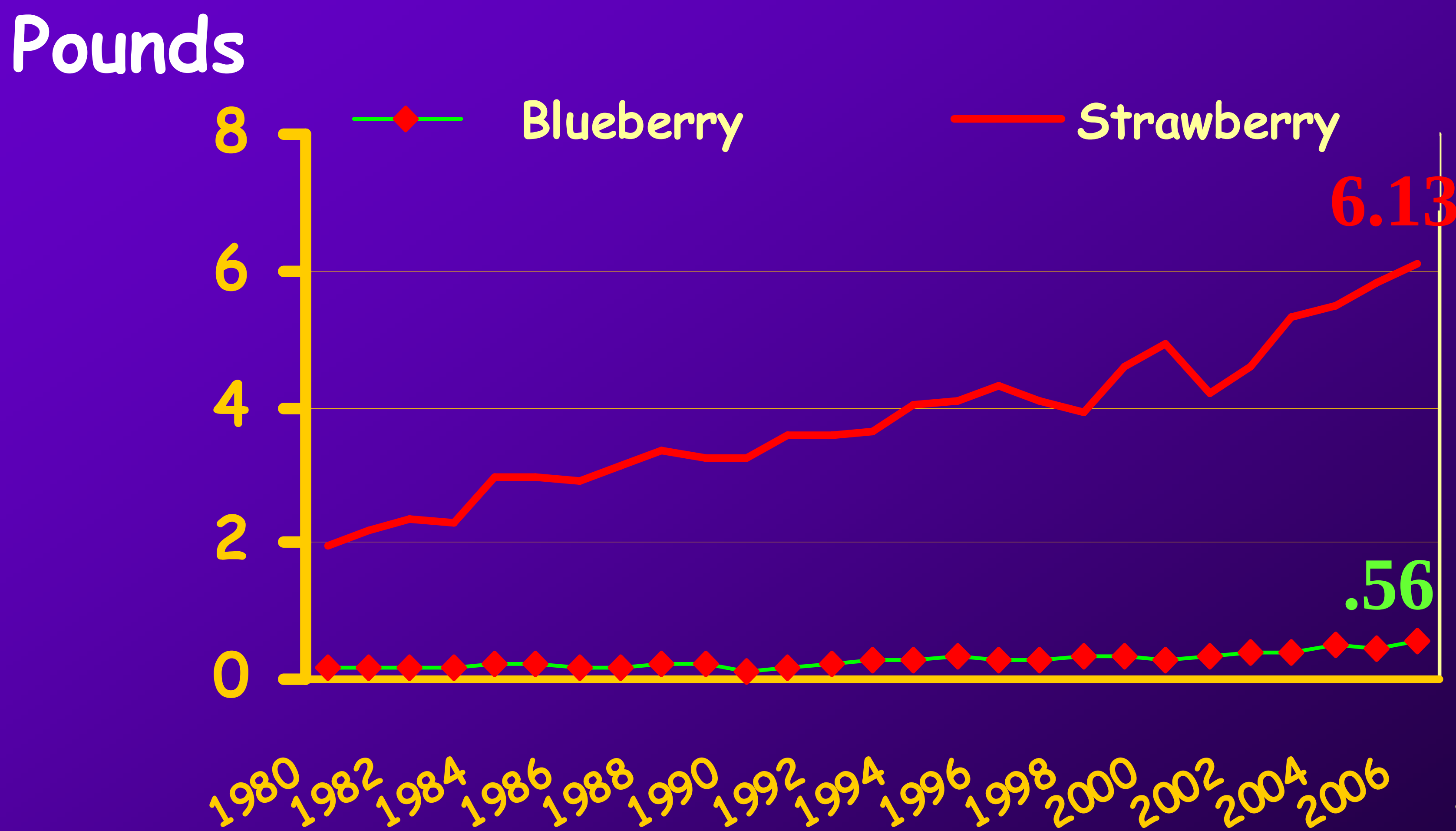
**May 2008**

# U.S. Fresh Blueberries: Production, Imports & Exports, 1,000 Pounds



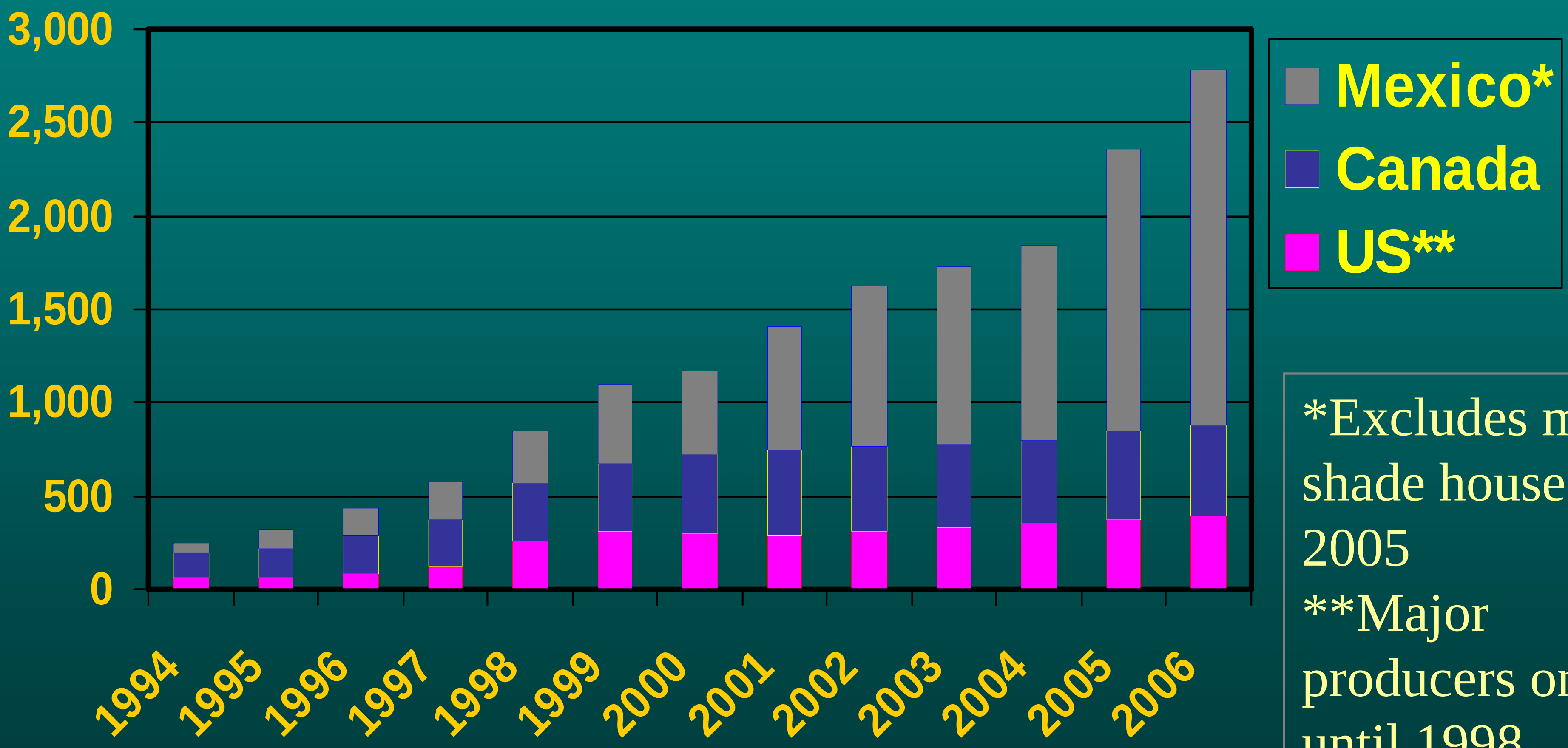

Source: USDA, ERS, 10-07

# US Per Capita Utilization of Fresh Blueberries and Strawberries, 1980-2006




Source: ERS/USDA, 10-07

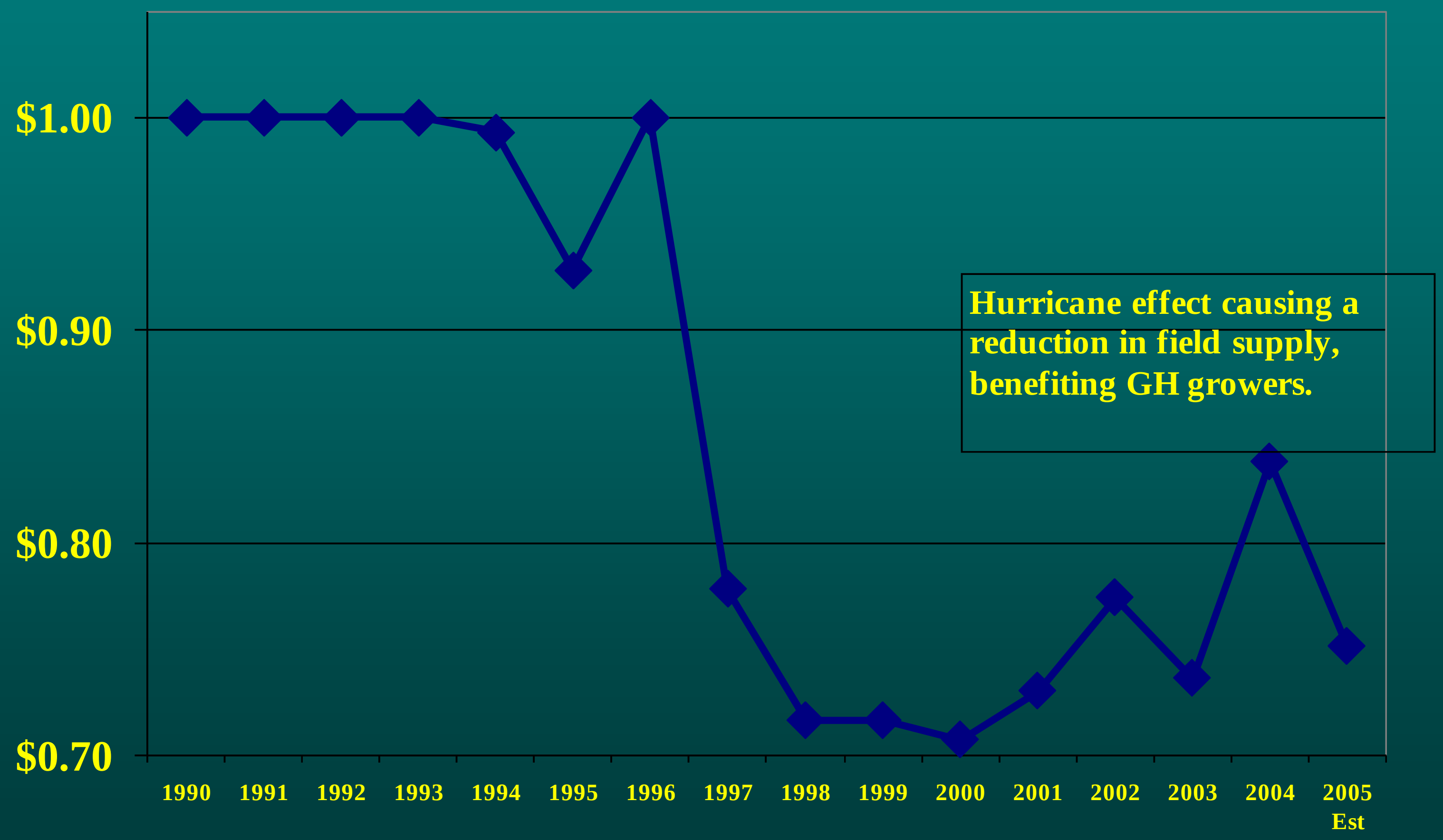
# Estimated trends in N. American greenhouse tomato area, hectares




*Excludes most shade house until 2005
**Major producers only until 1998

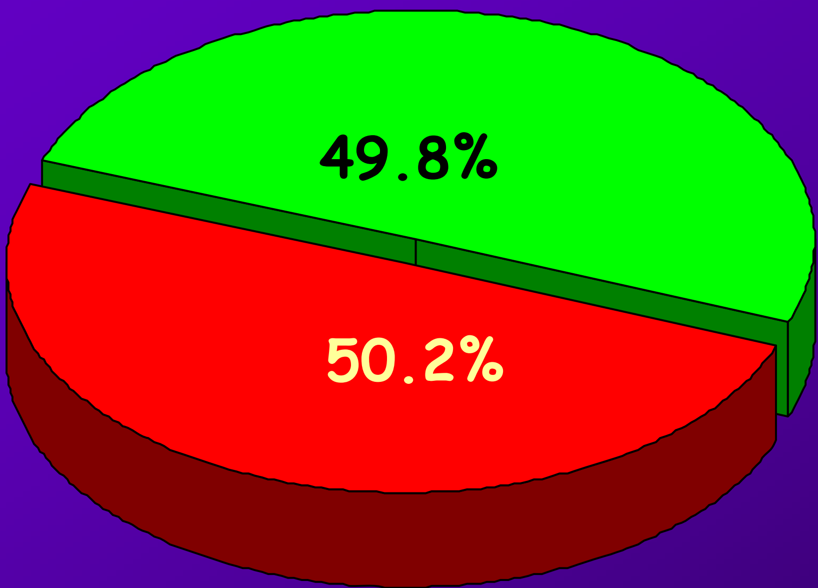
**Sources: ITC, AMPHI, Stat Canada, and Calvin and Cook**

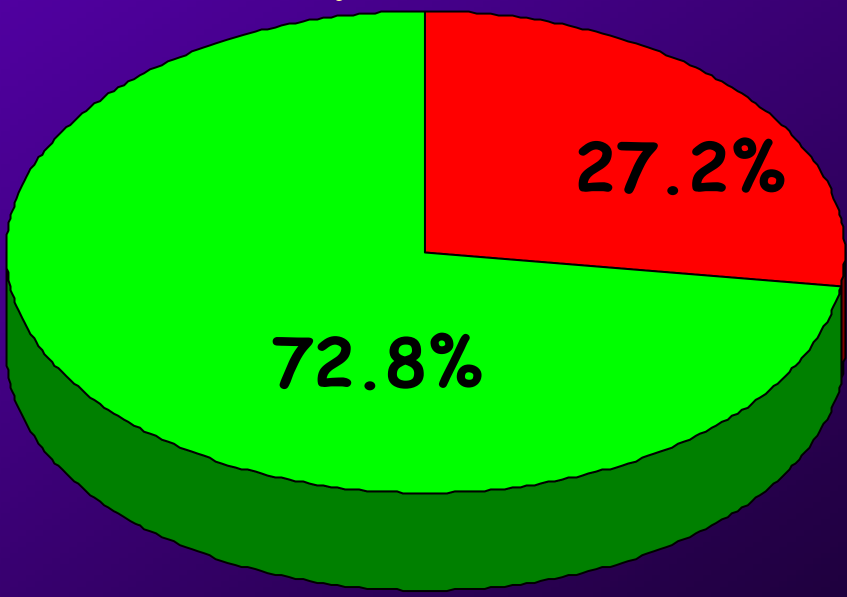
# US Average Annual FOB Greenhouse Tomato Prices, 1990-2005, Dollars per Pound




Sources: Greenhouse shippers’ internal records

# US Food System: $998.25 Billion Retail Sales Equivalent, 2006, and Channel Shares




Source:Technomic, Inc.

# Fresh produce not getting its “fair” share of the rapidly growing foodservice channels

- USDA estimated that only around 10% of fresh fruit and 20% of veggies are purchased in foodservice channels (lettuce, tomatoes and potatoes are big exceptions).
- Seasonality, perishability, supplier size are obstacles.
- Now is the right time for all segments of the foodservice industry to increase fresh produce use, CSR propels action and consumer health and wellness trends support it.
- Everyone must differentiate to successfully compete, fresh produce is a great way – color, “new” products, low plate cost, great flavor.

## Fresh produce not getting its “fair” share of the rapidly growing foodservice channels

- Race to innovate!; including for retailers who are developing foodservice as HMR option (HEB, Publix, Wegman’s).
- Foodservice distributors play a leading role in supplying the foodservice industry (over 800,000 outlets) so intermediaries play a much larger role than in retail channels.
- But more fresh produce offerings on menus expands total demand, regardless of whether shippers are serving restaurant chains directly or not.

# Top 25 US Fast Casual Chain Restaurants, 2006

| Chain | Sales (million $) | Rank |
|---|---|---|
| Panera / St. Louis Bread Co. | $1,911.6 | 1 |
| Panda Express | 894.5 | 2 |
| Chipotle | *837.0 | 3 |
| Boston Market | *685.0 | 4 |
| El Pollo Loco | *530.0 | 5 |
| Zaxby's | *415.0 | 6 |
| Fuddruckers | *373.0 | 7 |
| Baja Fresh Mexican Grill | *335.0 | 8 |
| Einstein Bros. Bagels | *328.5 | 9 |
| Fazoli's | *318.0 | 10 |

Source: The Food Institute's Food Industry Review, 2007

* = estimate

# Top 25 US Fast Casual Chain Restaurants, 2006

| Chain | Sales (million $) | Rank |
|---|---|---|
| Moe's Southwest Grill | 273.0 | 11 |
| Qdoba Mexican Grill | *266.0 | 12 |
| McAlister's Deli | 255.1 | 13 |
| Taco Cabana | *232.8 | 14 |
| Schlotzsky's Deli | *220.0 | 15 |
| Au Bon Pain | *203.0 | 16 |
| Pollo Tropical | *197.1 | 17 |
| Pei Wei Asian Diner | 180.4 | 18 |
| Corner Bakery Café | *180.0 | 19 |
| Donatos Pizza | 175.0 | 20 |

Source: The Food Institute's Food Industry Review, 2007

* = estimate

# Top 25 US Fast Casual Chain Restaurants, 2006

| Chain | Sales (million $) | Rank |
|---|---|---|
| Taco Bueno | 173.2 | 21 |
| Atlantic Bread Company Bakery Café | 166.4 | 22 |
| Rubio's Fresh Mexican Grill | 155.0 | 23 |
| Wingstop | 154.0 | 24 |
| Noodles & Company | *152.5 | 25 |
| TOTAL | $9,611.1** | |

* = estimate

**But still only 6% of LSR segment.

Source: The Food Institute's Food Industry Review, 2007

# Unusual Salad Offerings: LSR Chains

## Panera Bread / St. Louis Bread Co.

**Fuji Apple Chicken*** $5.69

all-natural citrus-herb chicken, field greens, Romaine lettuce, tomatoes, onions, pecans, Gorgonzola, and apple chips with white balsamic Fuji apple vinaigrette

Source: *2007: The Salad Category Report*, Technomic Info. Services, 2007.

# Unusual Salad Offerings: LSR Chains

## Cosi

**Signature Salad** $6.59

Gorgonzola, grapes, pears, pistachios, dried cranberries, and mixed greens with roasted shallot sherry vinaigrette

## Fuddruckers

**Chicken Florentine** $7.59

spinach artichoke dip, Swiss cheese, lettuce, tomatoes, and choice of dressing

Source: *2007: The Salad Category Report*, Technomic Info. Services, 2007.

# Shipper Fresh Produce Strategies:

- Making the investment required to hire foodservice experts (often outsourced) to work "long term"
- Overcome obstacles, consistency in grading, quality, pricing, packs; in some cases marketing incentives for a menu mention of their brand
- Attempt to understand specific account needs, and what's required to sell to them in windows, subwindows, or limited time offers – takes into account seasonality and makes it a plus, creating excitement for consumers
- Ensuring that their product offering is aligned with operations and marketing considerations for the chain in question – can it be executed?!

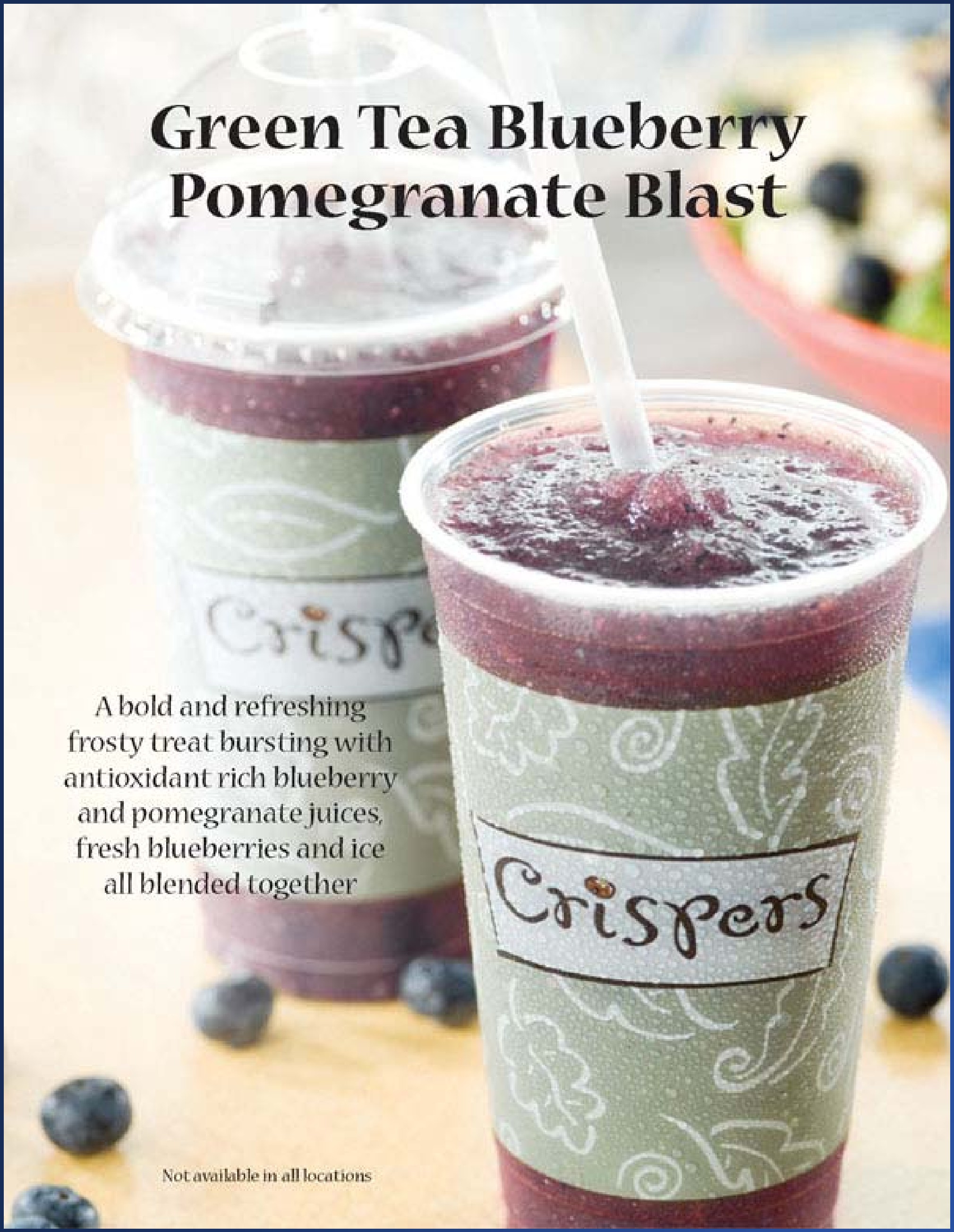
Crispers
FRESH SALADS AND SUCH

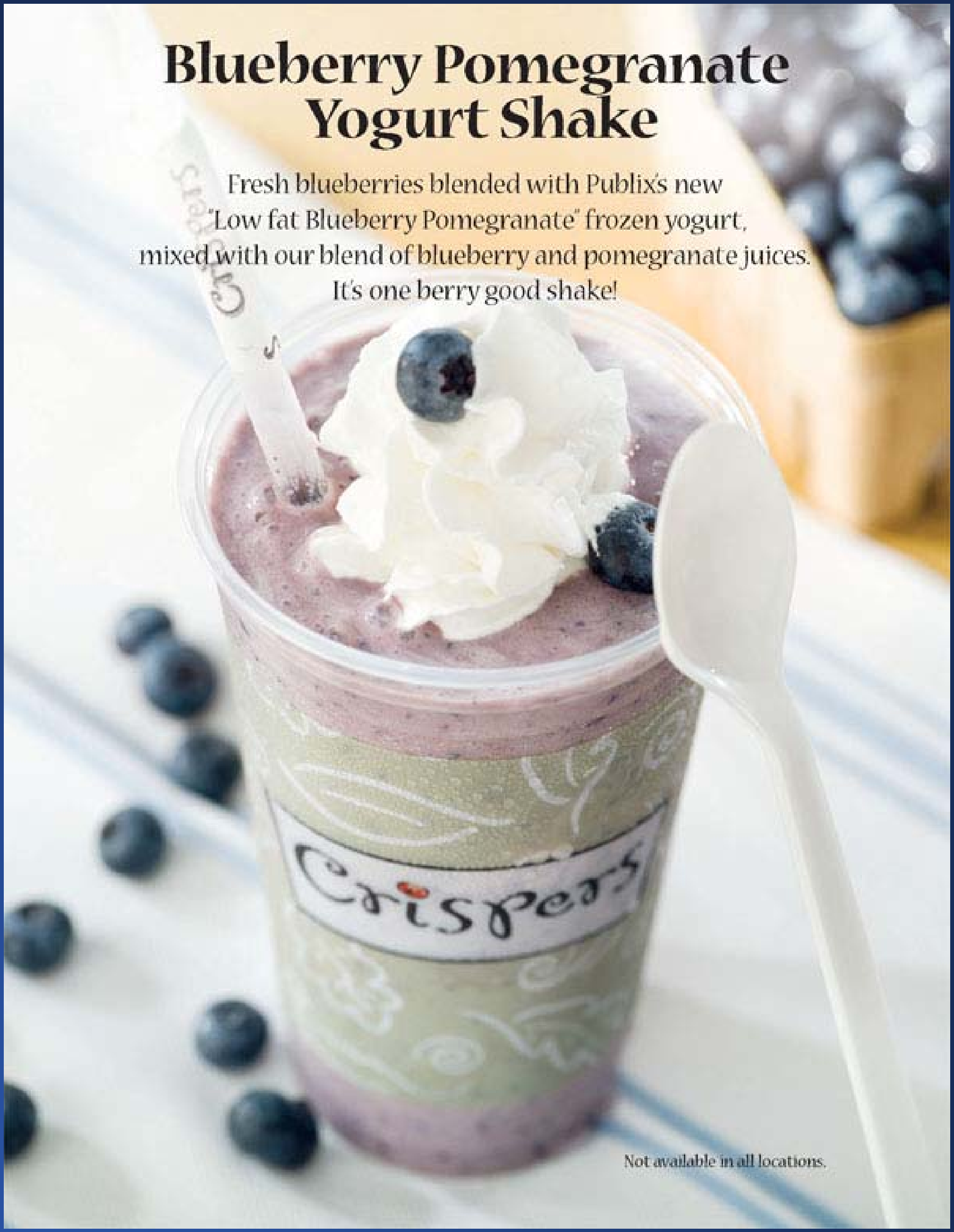
# Drenched Blueberry Cake

A moist cake drenched in three sweet milks, layered with blueberries, blueberry mousse and topped with delicious cream. Sprinkled with fresh blueberries this cake offers you a little something special from south of the border.

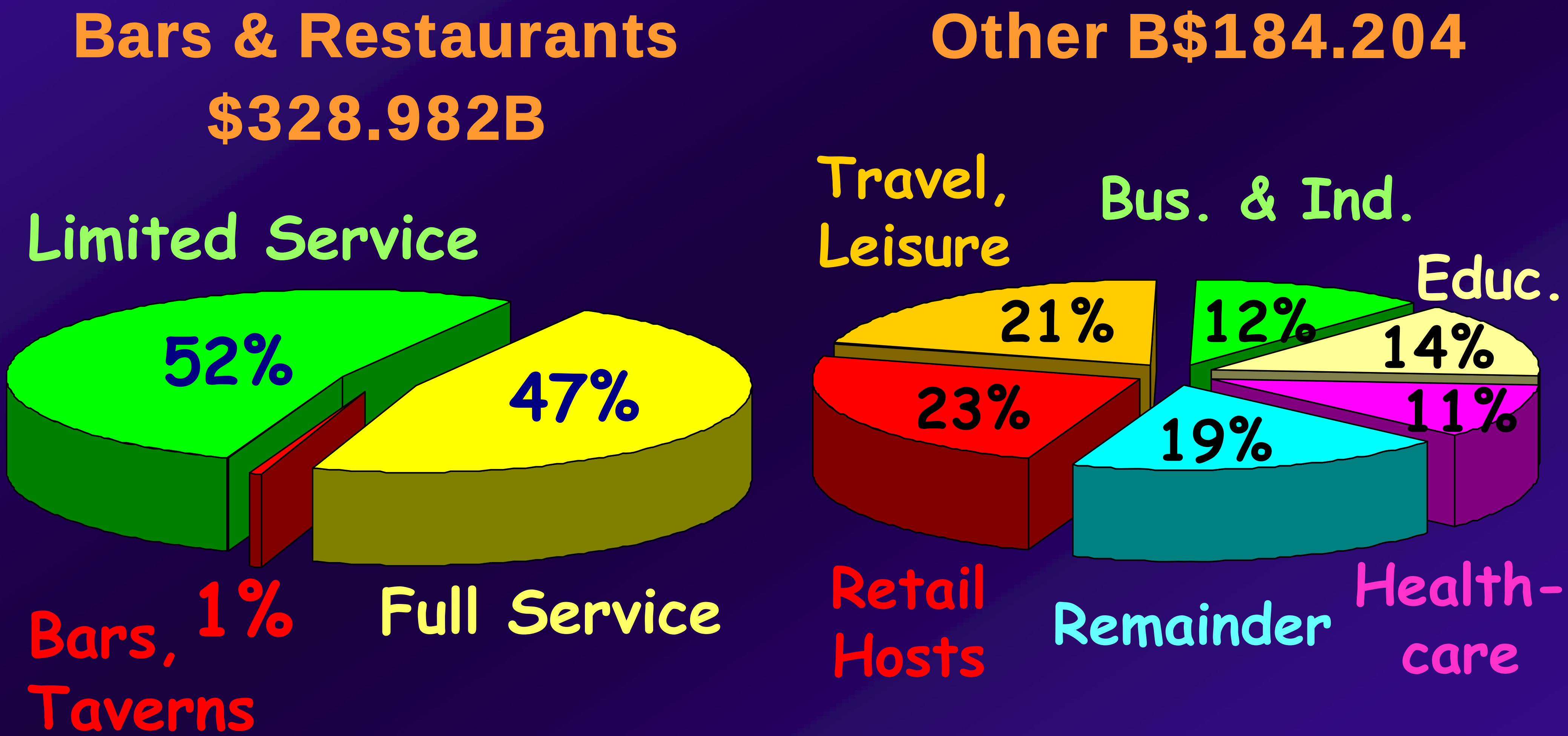
# Sunshine Blue Chicken Salad Conewich

It's our own homemade chunky chicken salad drizzled with blueberry shallot dressing, surrounded by fresh blueberry fruit salad and topped with toasted almonds. We layer it all into a blueberry conewich for a chicken salad creation like you've never had before.


Green Tea Blueberry
Pomegranate Blast
A bold and refreshing
frosty treat bursting with
antioxidant rich blueberry
and pomegranate juices,
fresh blueberries and ice
all blended together
Crispers
Not available in all locations

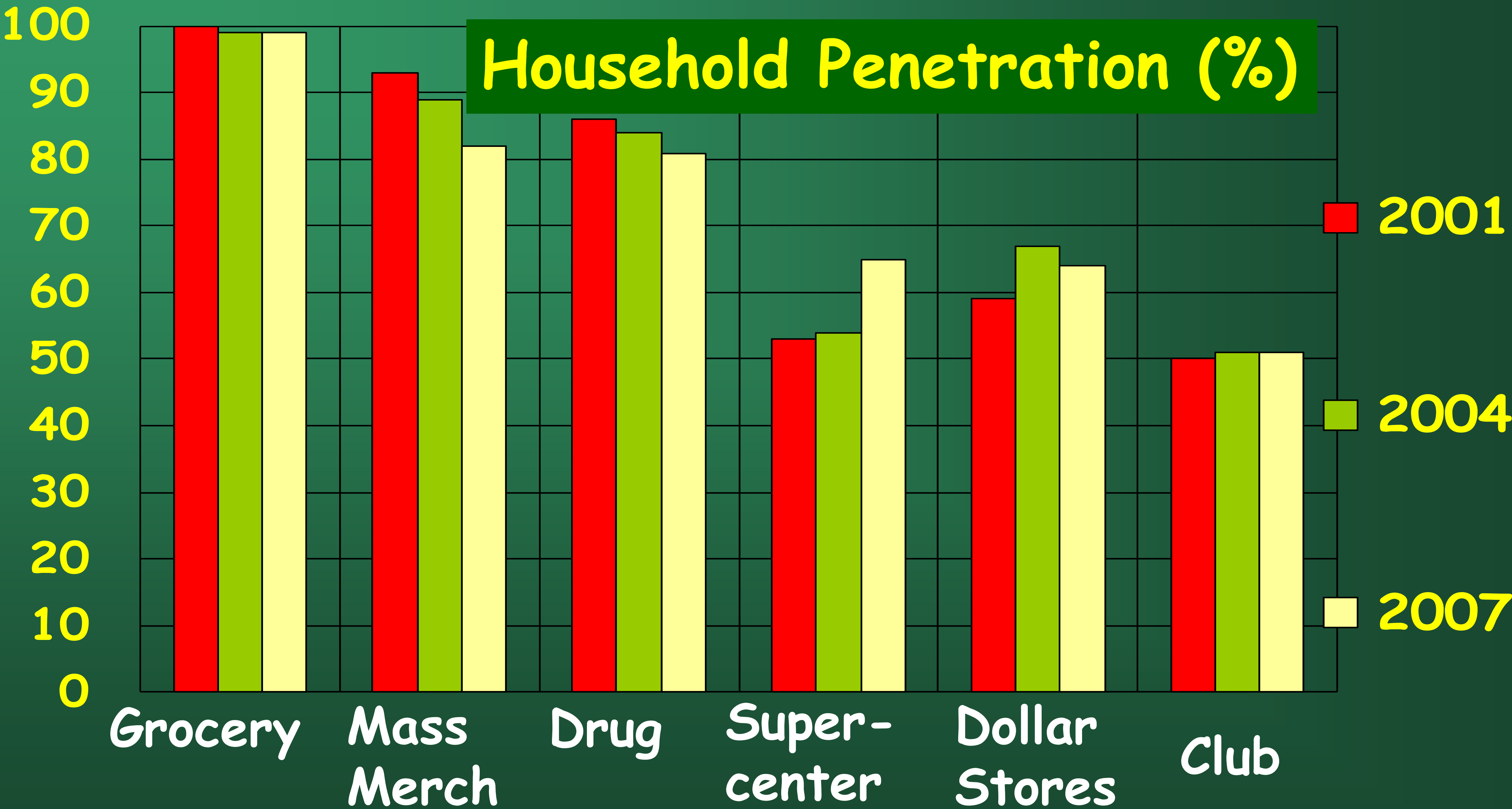

Blueberry Pomegranate
Yogurt Shake
Fresh blueberries blended with Publix's new
"Low fat Blueberry Pomegranate" frozen yogurt,
mixed with our blend of blueberry and pomegranate juices.
It's one berry good shake!
Crispers
Not available in all locations.

# Total US Food Service $513.186 Billion,
## Forecast, July 2007, share of dollar sales



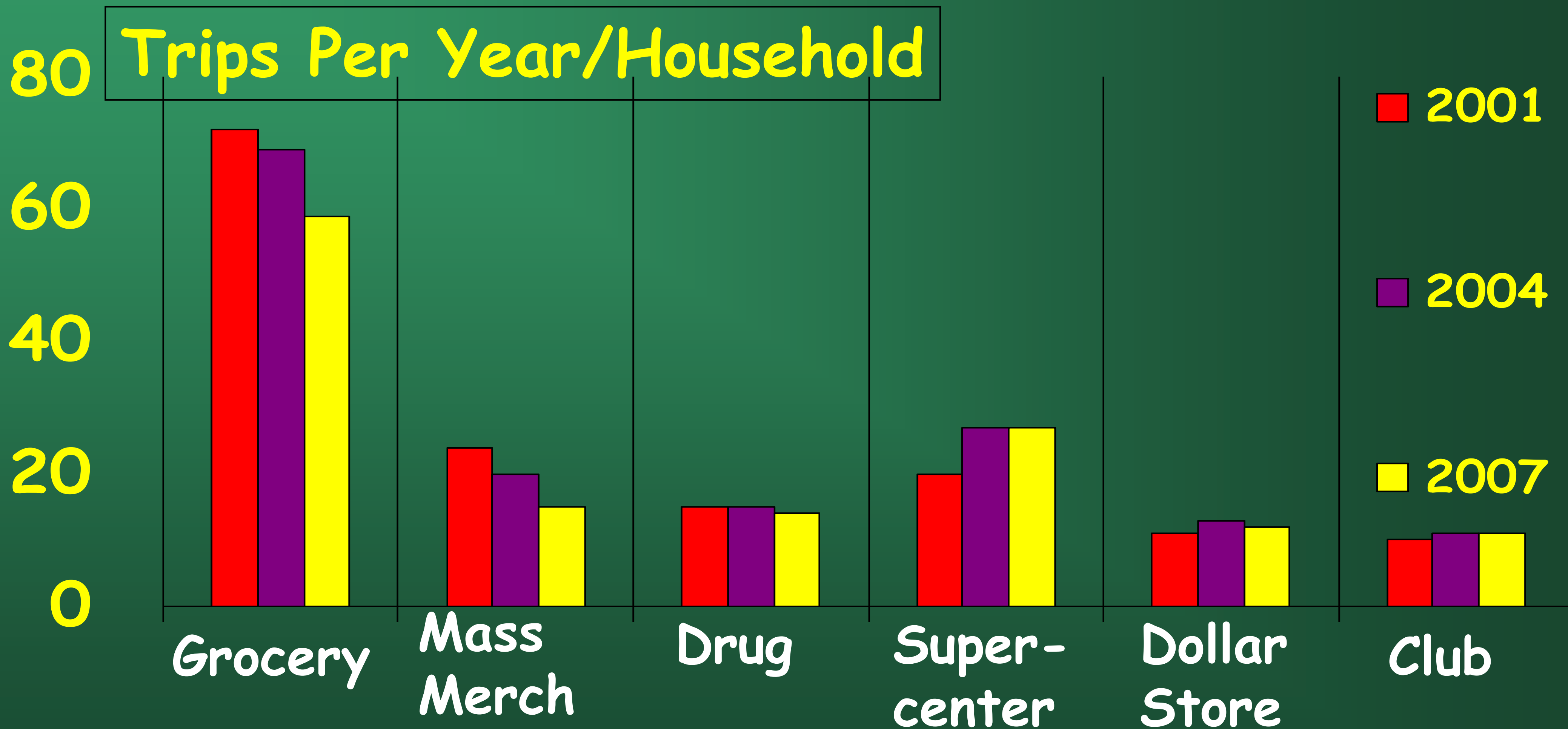

Source: *Industry Size July 2007*, Technomic Inc.

# U.S. Consumer Store Shopping Habits




Source: ACNielsen

# U.S. Consumer Store Shopping Habits, by Household




Source: ACNielsen

# U.S. Consumer Store Shopping Habits, by Household

- Looking back even further, in 1995 consumers made 92 trips/year to a grocery store (supermarket) vs. 59 in 2007.
- But the decline for supermarkets is not the whole story.
- *Total* shopping trips/year, across all formats, are down from 152 in 2001 to 138 in 2007.
- Conventional grocery retailers are fighting back, (e.g., Safeway lifestyle stores, Ingredients for Life Campaign; Hannaford Guiding Stars), all benefiting fresh produce

Source: ACNielsen

# Trends in US Store Format Market Shares, and 2006 Grocery Sales* and Store Numbers

| | *2006 Sales $Million* | *2006 # Stores* | *2006 $ % Share* | *2011 $ % Share* |
|---|---|---|---|---|
| **Traditional** | **$427,567** | **40,552** | **49.8** | **43.5** |
| **Nontraditional** | **$292,409** | **48,340** | **34.0** | **40.3** |
| **Total C-Stores** | **$138,876** | **144,130** | **16.2** | **16.2** |
| **GRAND TOTAL** | **$858,851** | **233,023** | **100.0** | **100.0** |

•Grocery sales only, excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines.

Source: The Future of Food Retailing, Willard Bishop, June 2007

# US Grocery Sales and Store Numbers by Key Format, 2006, Excluding Membership Clubs, C-Stores, and Grocery Stores with Sales <$2M/Yr.

| Format | # of Stores | % of Total Stores | Sales, Million $ | % of Total Sales |
|---|---|---|---|---|
| Total | 33,405 | 100.0% | $492,951 | 100.0% |
| Conventional supermkt | 27,006 | 80.8% | $345,459 | 70.1% |
| Supercenter* | 2,758 | 8.3% | $124,041 | 25.2% |
| Combined ltd assort and natural/gourmet supermarkets | 3,641 | 10.9% | $23,449 | 4.7% |

*Supermarket-type items only.

Source: Based on Progressive Grocer's 74th Annual Report of the Grocery Industry, as cited in The Food Institute's Food Industry Review, 2007.

# Size of Leading Natural and Limited Assortment Supermarket Retailers

- As of Sept. 30, 2007 Whole Foods operated 276 stores* with $6.6 billion in FY 2007 sales, including Wild Oats; Whole Foods is about ½ the size of HEB
- Trader Joe's sales are estimated at over $5 billion, with 262 stores in 2006 (owned by the Albrecht family of Germany)
- Conventional supermarket operators are still the primary customers for fresh produce suppliers, and the good news is, most are changing their formats to emphasize freshness, including increased attention to produce departments, however, they are mega-retailers with buying power

*Includes 6 stores in the UK and 7 in Canada; $5.6B in FY 2006 sales.

Sources: Whole Foods Annual Reports and 10-K filings; The Food Institute.

# 2006 Grocery Sales* and Store Numbers; and Non-Traditional Grocery Channel Share of Total US Grocery Sales, 2006 vs. 2011

| | 2006 Sales $Million | 2006 # Stores | 2006 $ % Share | 2011 $ % Share |
|---|---|---|---|---|
| Total Nontraditional | $292,409 | 48,340 | 34.0 | 40.3 |
| Wholesale Club | $63,504 | 1,240 | 7.4 | 8.2 |
| Supercenter | $124,675 | 2,696 | 14.5 | 20.3 |
| Dollar Store | $14,852 | 20,543 | 1.7 | 2.0 |
| Drug | $42,240 | 19,864 | 4.9 | 4.8 |
| Mass Merchandise | $43,011 | 3,826 | 5.0 | 4.6 |
| Military | $4,126 | 172 | .5 | .4 |

•Grocery sales only, excludes gas, hardlines, clothing, electronics, prescription drugs, knickknacks, footwear, sporting goods, toys, and jewelry.

Source: The Future of Food Retailing, Willard Bishop, June 2007

# Private Label Sales in Supermarkets, 2006: Top 10 Private Label Categories by Dollar Volume: Fresh Produce Becoming Important


Source: The Food Institute's Food Industry Review, 2007.

# Other Food Marketing Channels

- Amazon.com starts marketing food, including dried fruits and nuts.

- Vending machines, $22.54 billion in 2006 sales, but only $37.9 million was perishables, of all types, and that declined 7% over 2005.

- Starbuck's begins to offer prepared salads and may be adding more fresh produce. Starbucks has 15,000 stores worldwide with $9.4 billion in sales.

## Conclusions

The stars are aligned to increase fresh produce sales through most food marketing channels!!

But…….

# Threats and Opportunities

- On the one hand, intensified competition among retailers provides opportunities for fresh produce suppliers – since the fresh produce department is a key point of differentiation for retailers.

- And other new channels selling fresh produce can create new demand that does not cannibalize retail produce sales.

- On the other hand, mega-retailers are likely to exert even more price pressure on suppliers.

- 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 to consumers.

- Private labels can represent an opportunity to fresh produce suppliers by generating predictable demand for those items, on the other hand, margins are likely to be thin.

# Cost-Price Squeezes are Supply Chain-Wide

- The growth in new store formats and marketing channels selling fresh food means more pressure on retail margins.

- In addition, food price inflation is increasing.

- Whereas in the past, retailers could more readily pass on price increases from suppliers to consumers, the more competitive retail environment constrains retailers.

- This likely means more difficulty for fresh produce suppliers/shippers to achieve higher prices as their costs escalate (fertilizer, energy, food safety, labor, etc.).

- As costs increase, in this fierce competitive environment, suppliers will need to use information technology/business intelligence to increase efficiency: increasing shipper size.