## Today's Produce Industry[2]

Fresh fruit and vegetable products move quickly through the marketing system to combat spoilage. After harvest, fresh produce is handled and packed either by a shipper or grower-shipper. Produce grown in the United States may be exported, or sold direct to consumers, retail stores, or foodservice establishments. Sales from grower-shippers to retailers and foodservice establishments might be mediated by wholesalers or brokers, or might occur directly.

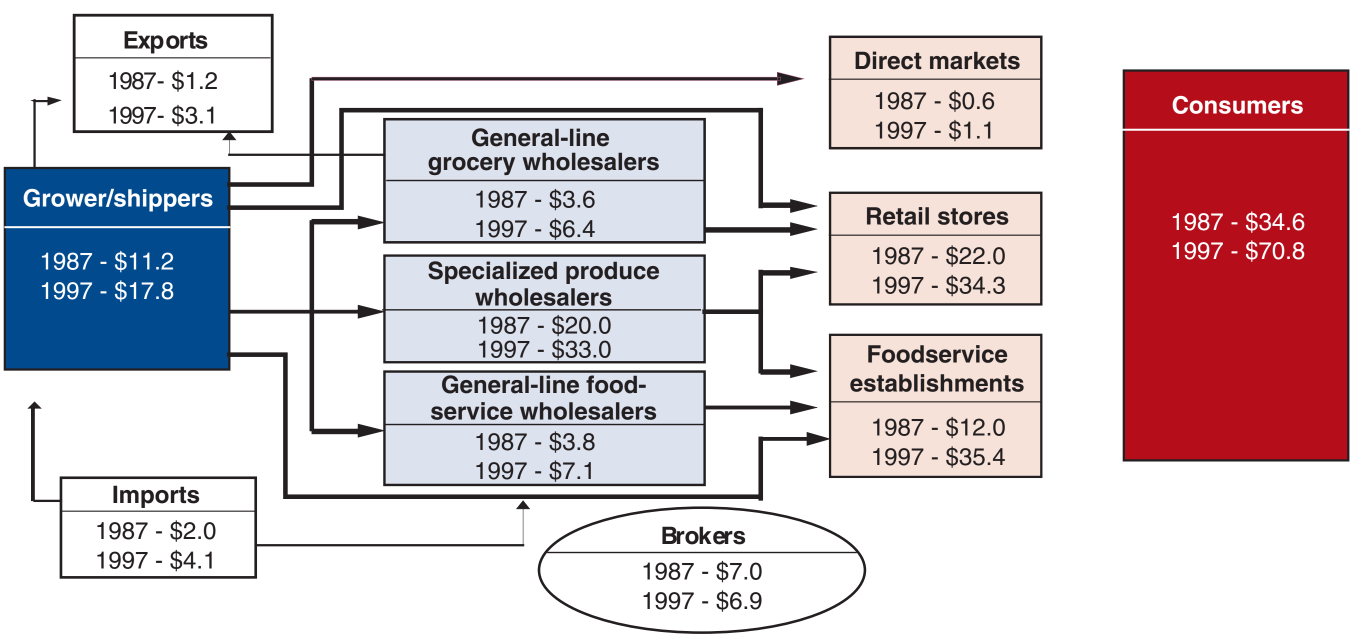
These marketing channels have undergone considerable change since the late 1980s. Prior to 1987, fresh fruit and vegetable markets were more fragmented; most transactions took place between produce grower-shippers and wholesalers on a day-to-day basis, based on fluctuating market prices and quality levels. Today, a typical produce sale may take place between a multi-product grower-shipper and a large supermarket retailer under a standing agreement or contract specifying various conditions and terms, including marketing services provided by the grower-shipper, volume discounts, and other price adjustments and quality specifications. Changes in these marketing services coincided with the growth of value-added and consumer-branded products, increasing variety, consolidation of food wholesalers and retailers, the expansion of the foodservice sector, and the greater role of produce imports and year-round supply.

In 1997, $1.1 billion worth of produce was sold directly to the consumer, $34.3 billion in retail stores, and $35.4 billion through foodservice establishments (fig. 1). While the dollar amount of produce moving through specialized produce wholesalers increased from $20 billion in 1987 to $33 billion in 1997, the share of produce wholesaler sales to retailers declined —from 38.1 percent to 34.6 percent (fig. 2). Large retail stores have increased the volume of direct purchases, bypassing produce wholesalers. At the same time, wholesalers dramatically increased their share of produce sales to the foodservice channel—from 8.4 percent of sales in 1987 to 21.2 percent of sales in 1997. This threefold increase occurred as consumers devoted more of their food dollar to restaurants, fast-food outlets, schools, and other foodservice outlets.

Americans are spending more on fresh produce, and in addition to buying a greater quantity of produce, they are buying new value-added products. Per capita consumption of fresh fruits and vegetables increased 6 per-

[2]For additional information on the material in this section, see Kaufman et al., 2000.

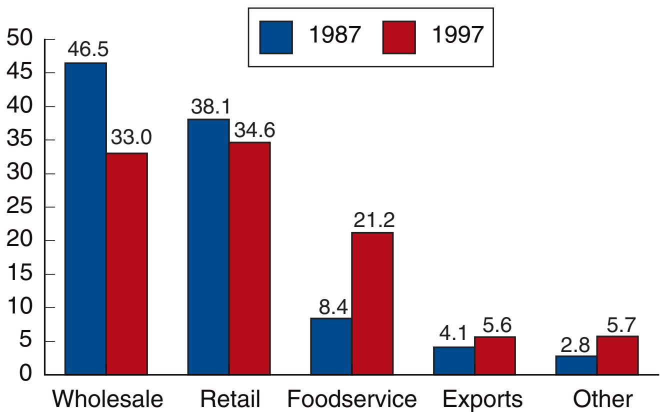
Figure 1
**Fresh fruit and vegetable marketing channels 1987 and 1997**




Note: All values are in $ billion.
Sources: Census of Wholesale Trade Census of Retail Trade; Blue Book, 1997; McLaughlin et al., 1998.

Figure 2
**Produce wholesalers sales**

*Produce wholesaler sales to retailers declined while sales to food service increased*




Source: Census of Wholesale Trade, 1987 and 1997.

cent between 1987 and 1995, and 8 percent between 1995 and 2000 (table 1). As consumption has increased, so has the demand for variety, convenience, and quality, as evidenced by the explosion in produce department offerings (fig. 3). Many products (for example, lettuce and tomatoes) are available year-round, produce is pre-cut, and more packaged and branded products are available. The share of branded produce increased from 7 percent in 1987 to 19 percent in 1997, while fresh-cut produce and packaged salads rose from 1 percent to 15 percent of total sales (fig. 4).

Supermarkets, including supercenters,[3] accounted for the largest share (91.5 percent) of produce sales in foodstores in 1997, amounting to $30.2 billion. Produce sales by supermarkets and supercenters totaled almost 43 percent of total retail produce sales by foodstores and foodservice establishments (Kaufman et al., 2000). For this reason, supermarket developments have considerable impact on wholesalers, grower-shippers, and other intermediaries.

Economic forces—from both consumers and competitors—have been changing the environment in which supermarkets compete. The share of income spent for food-at-home purchases continues to fall. Consumers spent almost 47 percent of their food dollars in the foodservice/restaurant sector in 2000, compared with 44.7 percent in 1987 and 46.6 percent in 1997 (ERS, 2003).

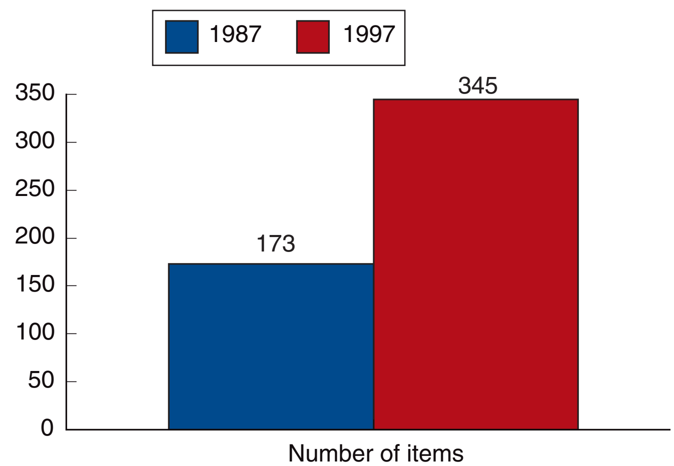
[3]A supercenter is a large combination supermarket and discount general merchandise store, with grocery products accounting for up to 40 percent of selling area.

**Table 1—U.S. consumption of fresh fruits and vegetables**

| | Pounds of Consumption Per Capita | | |
|---|---|---|---|
| | 1987 | 1995 | 2000 |
| Fresh fruits | 121 | 125 | 130 |
| Fresh vegetables | 162 | 177 | 196 |
| Total | 283 | 301 | 326 |

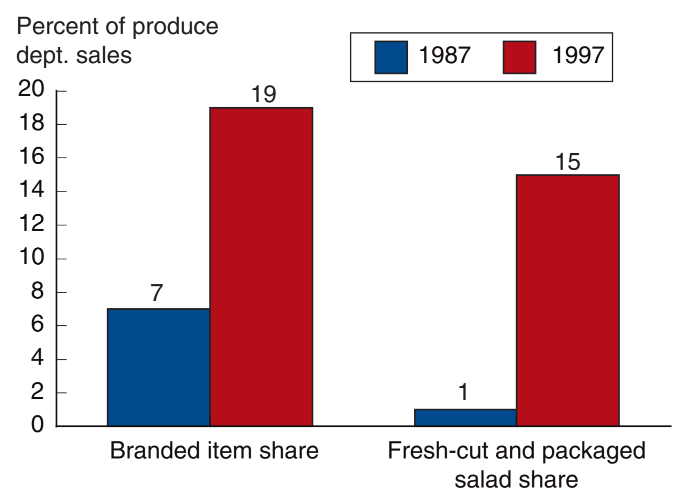
Source: USDA, *Fruit and Tree Nuts Situation and Outlook Yearbook*, 2000, and *Vegetables and Specialties Situation and Outlook Yearbook*, 2000.

Figure 3
**The variety of fresh produce items carried by retailers has increased**




Source: Supermarket Business, October 1999.

Figure 4
**Branded and packaged items account for a growing share of produce sales**




Source: P. Kaufman, et. al. "Understanding the Dynamics of Produce Markets," USDA-ERS (AIB-758).

In addition, rapid expansion of retail food sales by mass merchandise and warehouse club stores has provided additional competition; they captured 8.5 percent of total retail food sales in 2000, up from 2.4 percent in 1987 and 6.8 percent in 1997. Meanwhile, the share of food sales by supermarkets fell from 63.7 percent to 57.8 percent over 1987-2000.

Mass merchandisers such as Wal-Mart, Kmart, and Target have emphasized everyday-low-price strategies to achieve rapid growth in food sales. They have also introduced innovations in the procurement and distribution of the products they sell to gain efficiencies and lower costs (Kinsey 2000; *Supermarket News*, 2002a, 2002b). They customarily purchase large volumes of produce to obtain the lowest prices from suppliers.

Some mass merchandisers, such as Wal-Mart, do not accept fees as part of their transactions. Instead, Wal-Mart provides suppliers with real-time store sales data to support distribution, inventory management, and instore promotion activities (Kinsey, 2000). Wal-Mart also introduced a standardized returnable (to the supplier) plastic container that is used both for distributing fresh fruit and vegetable products to their stores and for instore product display. The Wal-Mart model emphasizes cooperation and coordination of activities in the supply chain between suppliers and buyers, with the goal of reducing systemwide costs. Many features of the so-called "Wal-Mart model" were incorporated in the supermarket industry initiative known as Efficient Consumer Response (ECR), introduced in 1992.

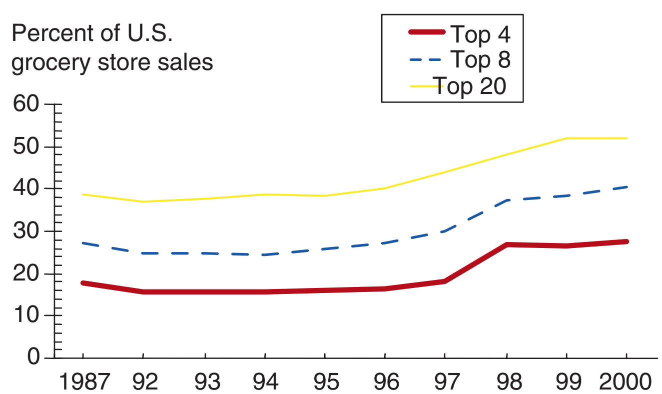
Large supermarket retailers have sought efficiency gains, in the form of lower labor and capital costs, product differentiation, and improved consumer services (*Wall Street Journal*, 1998).

Many supermarket retailers have merged or expanded through acquisitions, citing the potential for lower costs as an incentive for becoming larger (Kroger Co., 2000; Safeway, 2001; *Food Institute Digest*, 2000). Consolidating retailers have cited potential cost savings through streamlining of product distribution functions (*Wall Street Journal, The Packer*, company press releases). Large retailers typically perform wholesaling activities such as purchasing goods from suppliers, arranging for shipment to distribution warehouses, and replenishing store-level inventory.

Supply-chain management practices such as continuous inventory replenishment, the use of cross-docking facilities, direct store delivery by suppliers, and selective use of specialty wholesalers can reduce the need for large distribution centers and their associated costs. The number of distribution centers can be reduced, while remaining warehouses can be used more efficiently. Supply chain initiatives have also spurred the greater use of forward contracting arrangements that set fixed prices for suppliers.

To achieve these efficiencies, retailers are consolidating, as evidenced by a significant increase in the share of total U.S. grocery store sales by the largest firms (fig. 5). By 2000, the share of the 20 largest retailers had reached 52.0 percent of total grocery sales, up from 36.5 percent in 1987. While retail concentration at the national level has increased, concentration at the local level has not changed significantly. This is important because local concentration may influence the degree of retailer control over consumer prices.

Figure 5
**U.S. grocery store concentration, 1987-2000**[1]




[1]Includes grocery sales of Wal-Mart supercenters but no other mass merchandisers.
Sources: Monthly Retail Trade Survey, Census Bureau; Company annual reports.