Conclusion

Four key developments prompted this study. First, consumer demand for greater variety and quality in fresh produce has risen. Second, supermarkets have merged, acquired new stores, and grown larger. Third, anecdotal evidence suggests that the role of merchant wholesalers in produce has faded while that of the foodservice sector has grown. And fourth, nonprice provisions such as marketing fees have grown increasingly common in transactions between retailers and grower-shippers.

ERS's study of the produce industry aimed to answer several questions. What is the current state of the produce industry? How do produce shippers and retailers conduct business? And is the increased use of different types of marketing fees the result of growing retailer influence or business efficiencies?

As the average consumer now enjoys year-round availability of many fresh fruits and vegetables, pre-cut produce, and more packaged/branded products, the underlying marketing system has changed too. Large self-distributing supermarkets are buying a larger share of fresh produce directly from shippers. By 2000, retail concentration had increased at the national level but not at the local level. Many shippers reported little change in the number of total customers, although most saw fewer retail buyers and more foodservice accounts. We found that shippers too are consolidating, with tomato and bagged lettuce shippers among the most concentrated.

Advance pricing arrangements and contracts are becoming more common. Fees and services are being used more frequently. Volume discounts are the most commonly imposed fee, while returnable plastic containers are the service most often requested. Slotting fees are not used for bulk items, such as tomatoes, lettuce, grapes, grapefruit, and oranges, but are used in the bagged salad industry. Interviewed shippers were concerned about fees and services, fearing that they would lose accounts if they did not comply with buyer requests.

Two empirical studies conducted in this project suggest retailers are able to influence prices paid to fresh produce shippers and by consumers for some of the commodities. Consumer prices in excess of competitive prices were evident for Washington State apples, California oranges, Florida grapefruit, California fresh grapes, California and Florida tomatoes, and California and Arizona iceberg lettuce. Retailers' ability to hold shipper prices below competitive prices was evident for Florida grapefruit, Washington State apples, and iceberg lettuce, but not for California and Florida tomatoes, California grapes, and California oranges.

These results indicate the need for future research with regard to empirical robustness. To what extent are these findings (of retailer market power) applicable to produce categories not included in the study? How would the econometric results change if we had access to individual retailer procurement and operating cost data? How would these results differ had the retailer market power analyses included supercenters and mass merchandise retailers?

From a policy perspective, it is vital to determine whether fees, services, and other trends like supply chain management are the result of retailer market power or the desire to gain distribution efficiencies. What are the different retailer-shipper models for procuring, marketing, and retailing produce, and what are their implications for competition in produce markets? Which factors drive retailer pricing behavior? How do the incidence of fees and services and the type of fees and services vary across shippers and retailers? Are specific fees and services used to accentuate a particular shipper or retailer's business strength? As researchers address these complex questions, we will better understand competition in produce markets.