

# The California Fresh Produce Industry and Marketing Trends

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# Agenda

- Definitions and industry size
- Location of production
- Fresh produce basics
- Fruit and veg grower and shipper structure
- Impact of the economic downturn on produce sales and the food marketing system
- Conclusions

# Fresh Produce Industry Size

- In 2012, California produced approximately \$6.7 billion of fresh fruit plus \$5.8 billion of fresh vegetables, totaling \$12.5 billion in farm gate value.\*
- In 2010, the final value of fresh produce sold in the USA was estimated at \$122.1 billion (including \$51.1 sold through foodservice channels, \$69.2 through retail channels and \$1.8 billion direct from farmers to consumers). Source: Roberta Cook estimate.

\*Excludes tree nuts, processing tomatoes and other fruits and vegetables sold in canned, frozen and dried forms.

Source: Compiled by Roberta Cook from CDFR California Agricultural Statistics Review 2013-2014.

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

Area Harvested		Production		Value	
State	% of Total	State	% of Total	State	% of Total
CA	45	CA	49	CA	52
FL	11	FL	9	FL	12
AZ	7	AZ	7	AZ	9
GA	6	GA	5	GA	4
NY	4	WA	4	NY	3
Other	27	Other	26	Other	19

\*Excludes potatoes

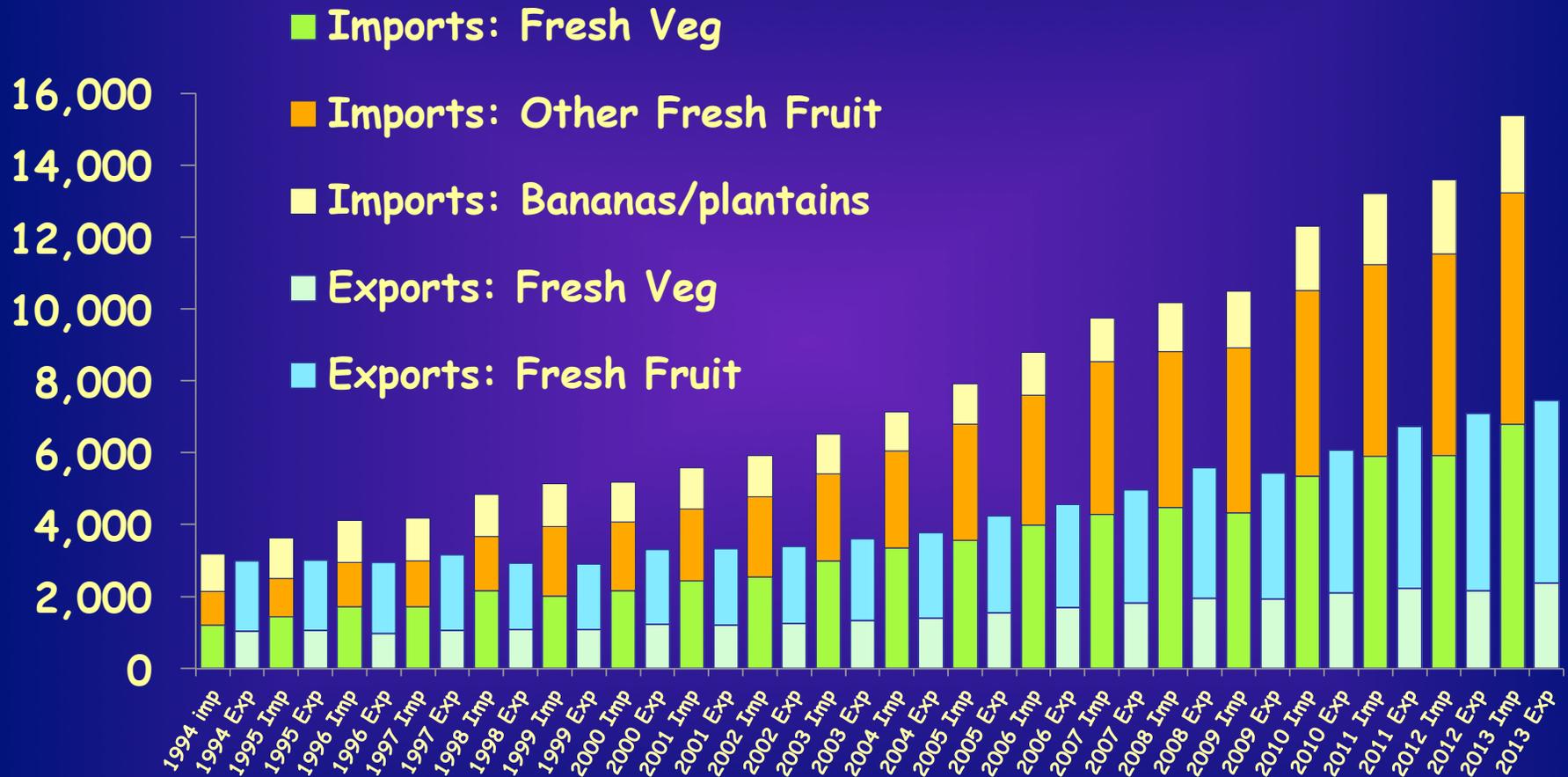
Source: Vegetables 2013 Summary, USDA/NASS, March 27, 2014

## Market Shares of Leading USA Fresh Fruit Producing States,\* 2009

State	Percent U.S. Total
California	53%
Washington	21%
Florida	8%
Oregon	2%
Michigan	2%
Other	10%
All U.S. fresh fruit	100%

\*Excludes tree nuts. Source: USDA/ERS, Gary Lucier.

# US Fresh Produce International Trade: Imports and Exports, by Key Category, \$Millions US, 1994-2013



Source: US GATS online queries, BICO-10.

## Fresh fruit and vegetable imports as a share of U.S. fresh utilization/consumption, 2012

Item	%
Vegetables, excl. melons and potatoes	25.0
Melons	30.5
Potatoes	7.0
Fruit, all	49.4
Excluding Bananas	33.7

Source: Economic Research Service, USDA.

## Some Fresh Produce Basics

- Fresh produce shipping patterns are largely determined by seasonality and ideal growing locations.
- Generally harvested and shipped daily; weather affects both supply and demand.
- Markets are risky and prices may not always cover total costs - requires substantial capitalization to withstand low markets.
- Traditionally, fresh produce sold unbranded.
- The 23 largest U.S. grocery buyers (including club stores) now control over 70% of U.S. grocery sales.
- Buyer consolidation has led to shipper consolidation.

# Fresh Produce Marketing Basics

- Most growers do not market their own production, they have contracts with shippers or distributors to be their marketers.
- Most shippers are family-owned forward-integrated grower-shippers, supplementing their own production with that of other growers.
- Contracts between fresh produce growers and shippers usually don't specify price (unless for fresh-cut).
- Shipper headquarters remain the same regardless of season and production location.
- Direct shipper to retailer sales growing, fewer intermediaries: drive out non-value-adding costs.

# Fresh Produce Marketing Basics

- 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.
- The shipper has incentives to continue shipping if at least covering variable costs, and in order to meet commitments with buyers; sometimes there is no return to the grower (production costs are not recouped).
- The role of forward contracts is growing but challenging to manage across growers in different locations and seasons.
- Perishability makes markets and returns volatile!

## Some Fresh Produce Basics

- Retail and foodservice buyers demand yr-round supply.
- Imports increasingly handled by U.S. grower-shippers which import during the off-season. Same requirements for foreign and domestic growers.
- Growers/shippers increasingly are asked to provide more marketing services, often at least partly unremunerated.
- Food safety requirements have grown, higher cost structure.
- Grower-shippers emphasizing sustainable farming practices.
- Quality, color, shape, flavor, as differentiators, growing role of proprietary seeds.

**Consumers**

**Independent  
Restaurants**

**Chain  
Restaurants**

**Convenience  
Stores**

**Retail  
Stores**

**Export  
Market**

**Foodservice  
Distrib. Warehouses**

**Retail  
Distrib. Warehouses**

**Freight/Shipping  
Agents**

**Brokers**

**Terminal Markets**

**Sales and Marketing**

**Warehouses and Docks**

**Harvesting  
Crews**

**Affiliated  
Growers**

**Outside  
Growers**

**Grower / Shipper  
Organizations**



## Consolidation of the Fresh Produce Value Chain

- 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 about their produce, attempting to stimulate consumer demand; social media facilitates.
- Branding and private label growing simultaneously.
- Firms attempting to differentiate their products to get out of the "commodity trap," but perishability will always make that challenging.

## USA Vegetable/Melon Farm Structure, 2007

- 69,100 total vegetable and melon farms producing for fresh and process markets.
- 4,908 farms selling >\$1million account for 8% of farms and 84% of total value, including:
  - 1,109 in CA, contributing 36% of total US value.

Source: 2007 Census of Ag, USDA (most recent census, 2012 census results forthcoming May 2, 2014)

## USA Fruit, Berry and Nut Farm Structure, 2007

- Total of 112,690 fruit, berry, nut farms producing for fresh and process markets.
- 4,711 farms selling >\$1million account for 4% of total fruit/berry/nut farms and contribute 67% of total value, including:
  - 2,647 California farms which account for 2.3% of US fruit, berry and nut farms and contribute 42.3% of US value.

Source: 2007 Census of Ag, USDA (most recent census, 2012 census results forthcoming May 2, 2014)

## Estimated Number of U.S. Wholesale and Retail Firms, and Fresh Produce Grower-Shipper\*

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

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.

## The Economic Downturn and Food Behavior

- 2009, the quantity of food sold in food stores down.
- “I buy only what I need.” Waste a concern.
- 78 million people on food stamps in 2012.
- Consumption rates of fresh produce increase markedly with income level.
- In 2012, 18% of households earned >\$100,000/yr yet accounted for 27% of food spending, and 30% of spending on fresh produce.
- Lower incomes and concern about waste disproportionately impact fresh produce demand, relative to other food. Quantity of produce sold in retail channels down 4% in 2008.

## 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.
- Foodservice is only now recovering to pre-recession real \$ sales.
- Food retailer mergers are up again, as well as foodservice mergers, and mergers or joint marketing arrangements between shippers.

## Conclusions

- Shippers have less bargaining power than buyers and increasing competitive pressures make it ever more difficult to pass costs (incl. labor, water) along to buyers.
- Margin pressure puts emphasis on streamlining the supply chain, more collaborative relationships between buyers and suppliers (vertical coordination).
- Mutually beneficial tactics: promotions, packaging, logistics.
- Decreasing internal and system-wide operational inefficiencies via information sharing and analytics.
- Attempt to get out of the "commodity trap" via differentiation in products and/or services.
- Scale increasingly important to competitive wherewithal.