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Industry perspectives on incentives for food safety innovation: “Economic Incentives for Food Safety in the Pre-Cut Fruit & Vegetable Industry”

Susan AJESKA

American Agricultural Economics Association - 2006  
Pre-Conference Workshop: New Food Safety  
Incentives and Regulatory, Technological, and  
Organizational Innovations  
July 22, 2006, Long Beach, CA

*Industry perspectives on incentives for food safety innovation:*

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**“Economic Incentives for Food Safety in the  
Pre-Cut Fruit & Vegetable Industry”**

Susan Ajeska

COO, Teaz Me Tea

(Formerly EVP Operations, Food Safety & Security, Fresh Express, Inc.)

# *Topics*

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- Overview of an industry in transition
  - Description of the industry
  - Areas of transition
  
- Creating alignment in the supply chain
  - Key Elements
    - Customer pricing
    - Supplier contracts
    - Business improvement teams
    - Internal organization

# *Pre-Cut Industry*

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## **Brief Overview**

- >\$12 billion industry for all “pre-cuts” in the United States
- Products are distributed through retail & food service channels
- Products are made from fresh fruits & vegetables: cut, washed, packaged & ready to eat
- Raw materials are sourced domestically & internationally
- Typical stages in the supply chain:
  - Growing, Harvesting, Cooling, Raw Transportation
    - Manufacturing, Packaging, Distribution
      - » Retail Grocery, Food Service Concept

# *Since 1990, An Industry in Transition*

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September 11, 2001

# *An Industry in Transition*

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Consumer Expectation:  
Wash before eating



Consumer Expectation: Washed  
and ready to eat

Customer Expectation: Price  
Competitive



Customer Expectation: Price  
Competitive, May not understand  
what has changed

Field Grown, Fresh Produce,  
Undocumented Shelf Life



Fresh, Packaged Food Products  
•*GAPs, GMPs, Traceability, Temp  
Mgmt, HACCP, Rapid Distribution,  
Use By Dates*

Floating price, commodities



Fixed price, value added products

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Fewer competitors now, but many levels of sophistication

# *Creating Alignment in the Supply Chain*

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## **Key Elements**

- Customer pricing
- Supplier contracts
- Business Improvement Programs
- Internal organization





## **Customer Pricing**

- Commodity vs. packaged goods (fixed) pricing
- Oversupply policies

## **Supplier Contracts**

- Grower Compensation - fixed \$ per acre vs. variable \$ per pound
- Harvester Compensation - variable \$ per pound

**Fresh Produce**

*Food Safety & Security*



**Fresh Food**

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## **Customer Pricing**

## **Supplier Contracts**

- Competence in GAPs, GMPs, temperature management, traceability.

## **Business Improvement Programs**

- Crisis management process
- Risk management teams

## **Internal organization aligned across functions**

- Structure and reporting relationships
- Rewards

# *Summary*

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## **An industry in transition: Who will succeed?**

- Those who are committed to making the right investment in people and processes
- Those who can successfully articulate the value of food safety investments to customers and get paid for it

# ***BIO***

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**Susan Ajeska** has worked in the California fresh produce industry most of her career. Most recently, she held a number of senior operational and technical positions with Fresh Express, Inc. from 1991 through 2005. Fresh Express was instrumental in the creation of the \$2 billion packaged salad category in retail groceries and super-centers. While at Fresh Express, as EVP Operations, Susan was responsible for national operations, which included management of raw material sourcing, manufacturing, distribution, quality assurance, and food safety for fresh, perishable, ready to eat fruits and vegetables. She recently accepted the position of Chief Operating Officer for a start-up restaurant concept called Teaz Me Tea, and looks forward to working on this exciting opportunity. Susan holds a B.A. in Biology from UC Santa Cruz and an MBA from Santa Clara University.

**“New Food Safety Incentives & Regulatory, Technological & Organizational Innovations”** - 7/22/2006, Long Beach, CA

AAEA section cosponsors: FSN, AEM, FAMPS, INT

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***Industry perspectives on incentives for food safety innovation***

Continuous food safety innovation as a management strategy

Dave Theno, Jack in the Box, US

Economic incentives for food safety in the fresh-cut produce supply chain

Susan Ajeska, Fresh Express, US

Innovative food safety training systems

Gary Fread, Guelph Food Technology Centre, Canada

***Organizational and technological food safety innovations***

Is co-regulation more efficient and effective in supplying safer food?

Marian Garcia, Dept. of Agricultural Sciences, Imperial College London

Andrew Fearne, Centre for Supply Chain Research, University of Kent, UK

Chain level dairy innovation and changes in expected recall costs

Annet Velthuis, Cyriel van Erve, Miranda Meuwissen, & Ruud Huirne

Business Economics & Institute for Risk Management in Agriculture,

Wageningen University, the Netherlands

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**Regulatory food safety innovations**

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Prioritization of foodborne pathogens

Marie-Josée Mangen, J. Kemmeren, Y. van Duynhoven, A.H. and Havelaar, National Institute for Public Health & Environment (RIVM), the Netherlands

Risk-based inspection: US Hazard Coefficients for meat and poultry

Don Anderson, Food Safety and Inspection Service, USDA

UK HAS scores and impact on economic incentives

Wenjing Shang and Neal H. Hooker, Department of Agricultural, Environmental & Development Economics, Ohio State University

***Private market mechanisms and food safety insurance***

Sweden’s decade of success with private insurance for *Salmonella* in broilers

Tanya Roberts, ERS, USDA and Hans Andersson, SLU, Sweden

Are product recalls insurable in the Netherlands dairy supply chain?

Miranda Meuwissen, Natasha Valeeva, Annet Velthuis & Ruud Huirne, Institute for Risk Management in Agriculture; Business Economics & Animal Sciences Group, Wageningen University, the Netherlands

Recapturing value from food safety certification: incentives and firm strategy

Suzanne Thornsburry, Mollie Woods and Kellie Raper

Department of Agricultural Economics, Michigan State University 12

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***Applications evaluating innovation and incentives for food safety***

Impact of new US food safety standards on produce exporters in northern Mexico

Belem Avendaño, Department of Economics, Universidad Autónoma de Baja California, Mexico and Linda Calvin, ERS, USDA

EU food safety standards and impact on Kenyan exports of green beans and fish

Julius Okello, University of Nairobi, Kenya

Danish *Salmonella* control: benefits, costs, and distributional impacts

Lill Andersen, Food and Resource Economics Institute, and Tove Christensen, Royal Danish Veterinary and Agricultural University, Denmark

***Wrap up panel discussion of conference***

FSN section rep. – Tanya Roberts, ERS, USDA

AEM section rep. – Randy Westgren, University of Illinois

INT section rep. – Julie Caswell, University of Massachusetts

FAMPS section rep. – Jean Kinsey, University of Minnesota

Discussion of everyone attending conference

Note: speaker is either the 1<sup>st</sup> person named or the person underlined.

**Thanks to RTI International for co-sponsoring the workshop.**

## **“New Food Safety Incentives & Regulatory, Technological & Organizational Innovations” - 7/22/2006, Long Beach, CA (con’t)**

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### ***Workshop objectives***

- Analyze how new public policies and private strategies are changing economic incentives for food safety,
- Showcase frontier research and the array of new analytical tools and methods that economists are applying to food safety research questions,
- Evaluate the economic impact of new food safety public policies and private strategies on the national and international marketplace,
- Demonstrate how new public policies and private strategies in one country can force technological change and influence markets and regulations in other countries, &
- Encourage cross-fertilization of ideas between the four sponsoring sections.

### ***Workshop organizing committee***

Tanya Roberts, ERS/USDA, Washington, DC - Chair  
Julie Caswell, University of Massachusetts, MA  
Helen Jensen, Iowa State University, IA  
Drew Starbird, Santa Clara University, CA  
Ruud Huirne, Wageningen University, the Netherlands  
Andrew Fearn, University of Kent, UK  
Mogens Lund, FOI, Denmark  
Mary Muth, Research Triangle Institute Foundation, NC  
Jayson Lusk, Oklahoma State University, OK  
Randy Westgren, University of Illinois, IL  
Darren Hudson, Mississippi State University, MI