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Staff Paper

WHAT BUYERS ARE SAYING ABOUT MICHIGAN CELERY

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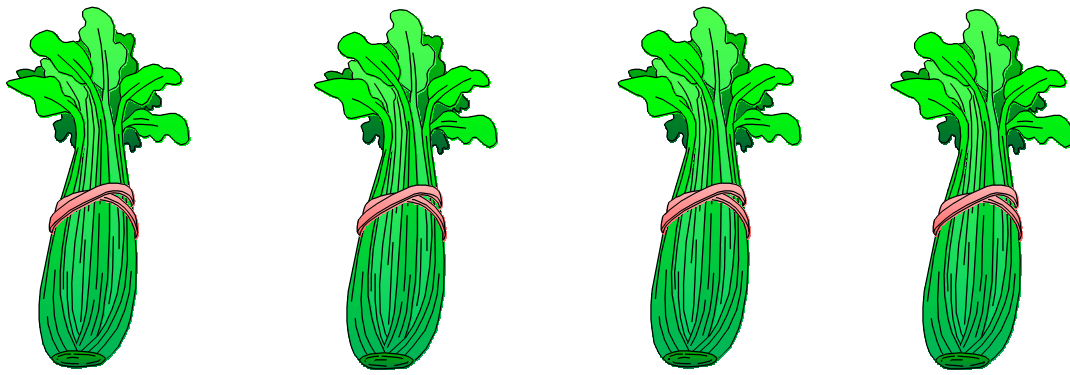
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WHAT BUYERS ARE SAYING ABOUT MICHIGAN CELERY



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**Presented at the Michigan Celery Promotion Cooperative, Inc. Annual Meeting
December 16, 1997**

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WHAT BUYERS ARE SAYING ABOUT MICHIGAN CELERY

Michigan celery producers find themselves at a crossroads. In one sense they are stuck in the middle between west coast celery producers (primarily California), known for quality and year-round supplies, and Canadian celery producers (primarily Quebec), who because of their proximity to Michigan's east coast markets often exert downward price pressure on the celery market.

What is the correct course of action for the Michigan Celery Promotion Cooperative, its members, and the Michigan celery industry?

In August, 1996, the Michigan Celery Promotion Cooperative sought the help of the Agricultural Economics Department at Michigan State University to survey past, current, and potential celery buyers to determine the prevailing opinion of the produce trade regarding customer satisfaction and competitiveness of Michigan celery relative to celery grown by producers in competing areas such as California and Canada. It is hoped that these findings will serve as a basis for increasing customer satisfaction, competitiveness and profitability of Michigan celery producers.

This research was jointly funded by the Michigan Celery Promotion Cooperative, Inc. and the Michigan State University Experiment Station.

This report is divided into the following parts: (1) a summary of the key findings of this study, (2) a description of the U.S. and Michigan celery industry, (3) the number, type, and location of firms interviewed, (4) the procedures used to collect data, (5) a detailed discussion of the research findings, and (6) summary remarks.

I. KEY FINDINGS OF THE STUDY

A detailed discussion of all findings from this study are presented in section V. The key findings of the study are presented below:

- Suppliers of celery must excel in three areas: quality, service and price. Buyers prefer to deal with suppliers capable of consistent quality and year-round supplies of celery. Just because you sold a buyer in the past, there is no guarantee you will sell them in the future.
- Buyers become discouraged when suppliers : (1) over promise and under deliver, (2) are inconsistent regarding quality, service and pricing, (3) fail to provide timely marketing information, and (4) don't follow-up or lack problem solving skills.
- The dramatic increase variety and number of produce products offered has contributed to the increased use of slotting allowances, virtual elimination of the

seasonality of produce, increased effort on creating produce brands, and less time available for negotiating prices.

- Major challenges facing the Michigan celery industry include: (1) the short marketing window of four summer months, (2) celery is of limited importance to produce buyers, which is further exacerbated by Michigan suppliers who rely heavily on celery sales in a produce world of increasing product offerings, (3) California shippers and their continued push for increased quality and service, and (4) increased competition from Canadian celery which is often seen as equal to Michigan celery.
- Respondents indicated that price was only “important,” while a number of other supplier and product characteristics including product appearance, consistency, cleanliness, customer acceptance, and supplier dependability were rated “very important.”
- The possibility for partnering between Michigan producers and California shippers does exist. However, the initiative must come from Michigan celery producers.

The bottom line is that while Michigan celery producers have worked hard to improve celery quality and consistency over the years, so have growers in competing areas such as California and Canada. One might say the price of admission into the celery marketing game continues to rise, while returns appear to be more variable with each passing marketing season.

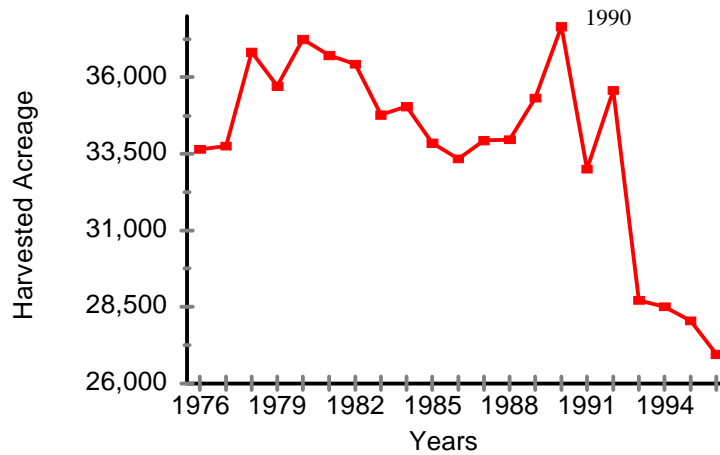
II. THE U.S. AND MICHIGAN CELERY INDUSTRIES

Before entering into a discussion regarding the specifics of this study it is necessary to present background information on the U.S. and Michigan celery industries. In the sub sections that follow, U.S. and Michigan historical acreage and production totals from key celery producing areas are presented. Michigan fresh celery shipments and the level of Canadian and Mexican imports are compared, as well as, celery shipments into selected east coast markets. The section concludes with a brief discussion of the historical prices growers have received in nominal and real (inflation-adjusted) terms.

2.1 U.S. and Michigan Celery Acreage and Production

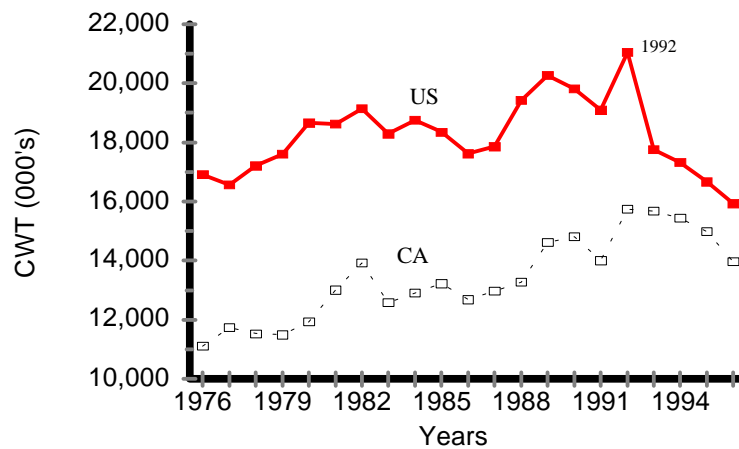
The amount of U.S. land devoted to celery production in 1976 was 33,660 acres. Harvested celery acres reached a peak of 37,660 acres in 1990 and has since declined to 26,950 acres in 1996 (see Exhibit 1). Although the acreage devoted to celery production has declined over the past 20 years, total production has remained relatively constant at approximately 18 million hundred weight (see Exhibit 2) because of increases in yield. U.S. yields increased from 502 cwt per acre in 1976 to 591 hundredweight (cwt) per acre in 1996. During the past 20 years, California celery growers have accounted for an average of 74 percent of total U.S. celery

Exhibit 1: US Celery Acreage
1976 to 1996



Source: USDA ERS Report VGS-269 July 1996

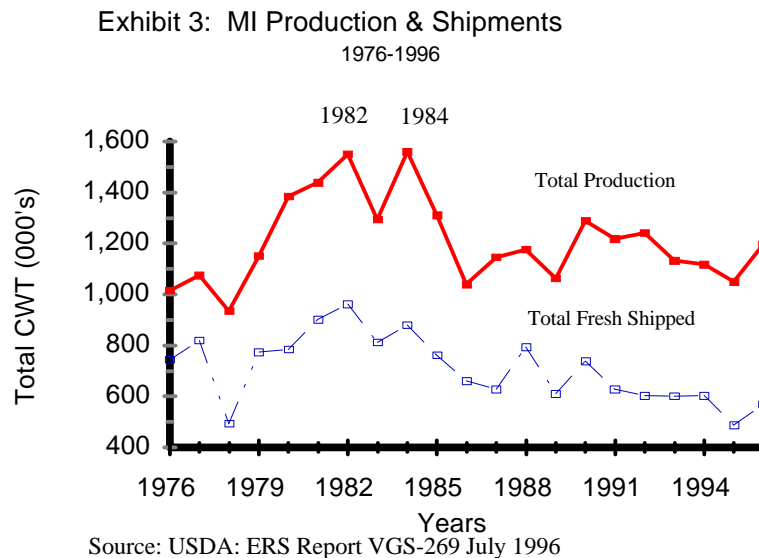
Exhibit 2: US & CA Celery Production
1976 to 1996



Source: USDA: ERS Report VGS-269 July

The production of agricultural commodities in Michigan has been under the influence of the same forces shaping the entire U.S. food system. Since 1976, the number of Michigan farms has decreased from 67,000 to 52,000. At the same time, average Michigan farm size has risen from 165 acres to 202 acres. The average producer in Michigan grew approximately 60 acres of celery in 1996. While California celery production has increased moderately over the past 20 years, Michigan celery production rose dramatically in the early 1980's and has fallen back down to just over 1 million cwt a year (see Exhibit 3), at a value of \$13.2 million (USDA, 1997).

Exhibit 3 also compares total Michigan celery production against total Michigan fresh celery shipments. Fresh celery shipments consist of celery used in fresh consumption in grocery stores and restaurants, as opposed to celery shipments used in the production of vegetable juices, soups, and frozen food products. Generally speaking, fresh Michigan celery shipments have been declining, while total Michigan celery production has remained relatively constant. This means a growing, as well as, a greater percentage of Michigan celery production is being shipped for non-fresh uses.

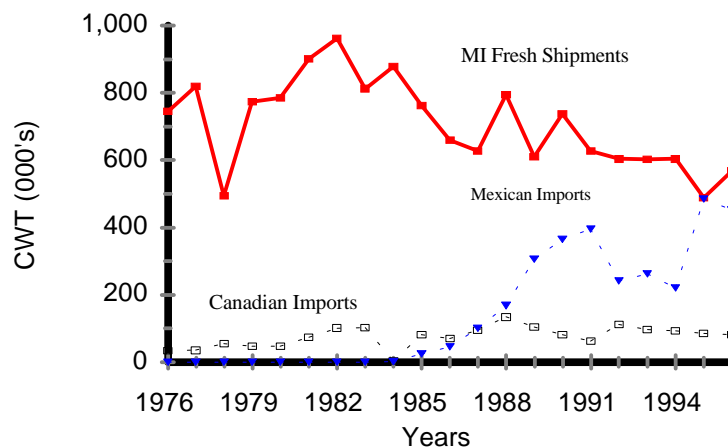


2.2 Michigan Celery Fresh Shipments and the Level of Imports

Exhibit 4 compares Michigan fresh shipments Canadian, and Mexican imports of celery into the U.S. Imports from Canada and Mexico make up the majority of imported celery. However, the total imports include celery from various Central and South American countries such as Guatemala. Total imports of celery have risen during the last 20 years from 34,000 cwt in 1976 to 539,000 cwt in 1996. The lion's share of celery imports come from Mexico. In fact, Mexican celery imports have gone up significantly in the last 10 years. This increase is due to a combination of factors including improvements in quality and the NAFTA free trade agreement.

Mexican celery imports are of minor importance to Michigan celery producers since the Mexican celery harvest does not occur when Michigan is harvesting. Canadian imports are an entirely different matter since the Canadian celery growing, harvesting, and marketing season coincides directly with the Michigan celery growing, harvesting, and marketing season. Canadian imports averaged approximately 60,000 cwt from 1976 until 1986. During the last 10 years (1987 to 1996) Canadian celery imports averaged approximately 95,000 cwt per year. While the level of Canadian imports is small relative to total Michigan celery production (1,164,000 cwt or 8 percent of Michigan's average production).

Exhibit 4: Fresh Shipments & Imports
1976 to 1996

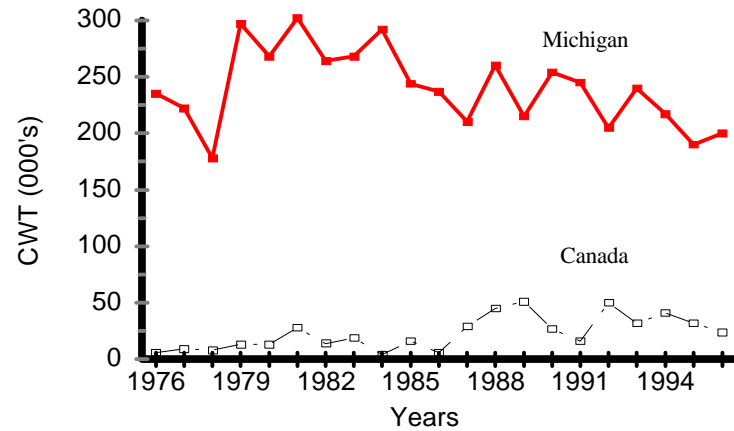


Source: USDA Ag Mktg Service FVAS-4 various years

The effect of these imports can increase the price volatility of the market. In economic terms, because celery has an inelastic demand, small changes in supply can lead to large changes in price. For example, in 1996 Michigan growers experienced lower prices. However, this was not likely a direct result of Canadian imports. According to the USDA (Vegetables and Specialties: Situation and Outlook Report, 1997) Canada's fresh celery shipments fell 6 percent while Michigan's jumped 16 percent. U.S. volume also rose 11 percent, leading to lower prices.

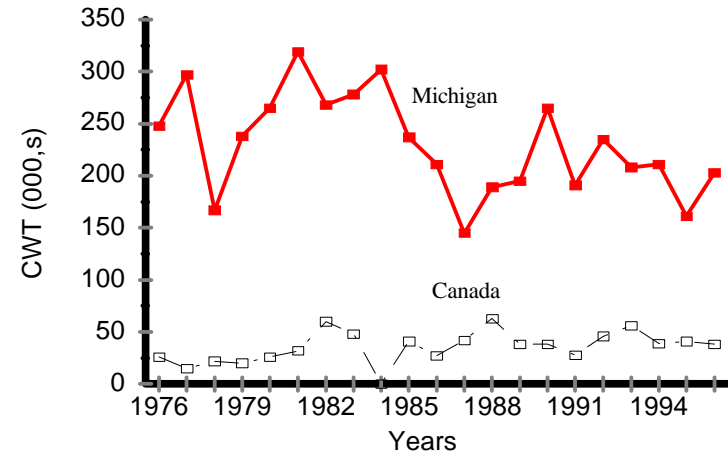
Exhibits 5-7 compare total U.S. fresh celery shipments against total Canadian imports of celery during the months of August, September, and October. The typical Michigan celery shipping season (July through October) is approximately one month longer than the Canadian celery shipping season (August through October). Michigan producers indicated that Canadian imports into the U.S. greatly increases the supplies of available celery and creates downward pressure on the price of Michigan celery. Analysis of Exhibits 5-7 reveal that the total shipments of fresh Michigan celery has experienced a slight decline over the past 20 years during the months of August, September, and October, while Canadian imports have risen slightly during this same time period. It is difficult to say how much Canadian imports affect the price of Michigan celery in the long run given the consistent presence of Canadian imports. It is quite possible that Michigan and California growers would increase production in the absence of Canadian imports, resulting in the similar price pressures.

Exhibit 5: Fresh Shipments: August
1976 to 1996



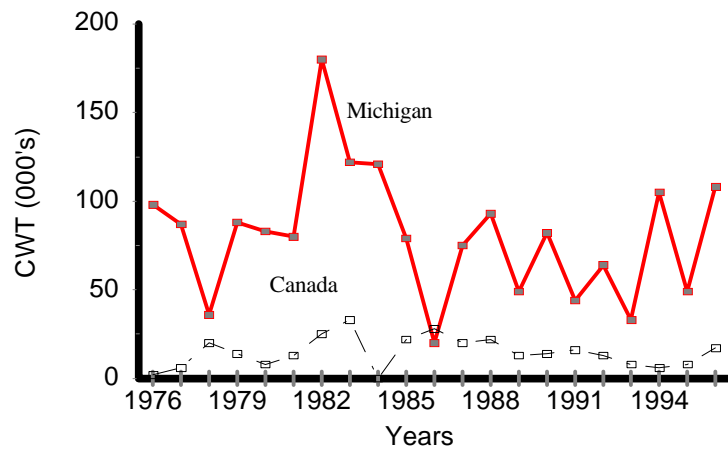
Source: USDA Ag Mktg Service FVAS-4

Exhibit 6: Fresh Shipments: September
1976 to 1996



Source: USDA Ag Mktg Service FVAS-4

Exhibit 7: Fresh Shipments: October
1976 to 1996



Source: USDA Ag Mktg Service FVAS-4

2.3 Celery Shipments to Selected East Coast Cities

Of great concern to Michigan celery producers is the increased shipment of Canadian celery into Michigan's traditional markets. In an effort to better study the relationship between Michigan celery and Canadian imports, celery shipments to four major east coast cities is broken down according to Michigan and Canadian arrivals. In Baltimore, Michigan celery shipments are approximately double Canadian shipments. This has been true since 1983 (see Exhibit 8), although during the last couple of years this gap has narrowed.

The Boston market is characterized by a switching back and forth between Michigan and Canadian celery shipments (see Exhibit 9). Michigan celery shipments were higher on average than Canadian shipments prior to 1986. Since 1986 Canada has shipped more celery on average than Michigan. In fact, in 1996, Canada shipped approximately 8,000 more cwt than Michigan to the Boston marketing area.

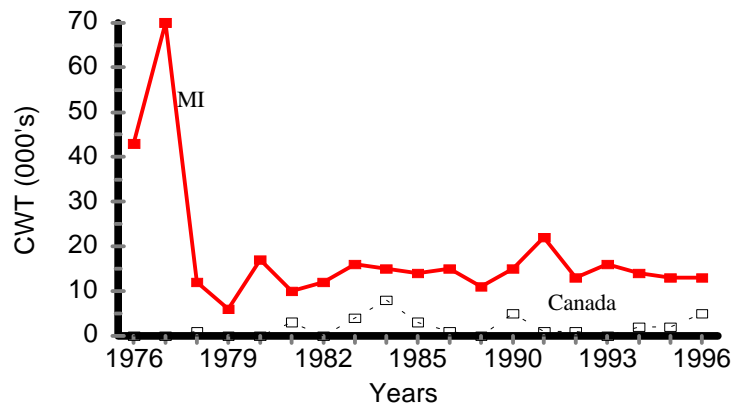
Michigan used to enjoy a substantial lead in celery shipments into the New York marketing area. For example, in 1982 Michigan shipped approximately 44,000 cwt of celery, while Canada only shipped 6,000. Ever since 1986, both Michigan and Canada have shipped approximately equal amounts of celery into New York (see Exhibit 10).

The Philadelphia market is similar to New York in that Michigan used to sell considerably more celery into Philadelphia than Canada 15 years ago. The last 2 years have seen approximately equal celery shipments between Michigan and Canada (see Exhibit 11).

When the celery shipments are combined for the four East Coast cities, it becomes readily apparent that Canadian celery is perceived as a substitute for Michigan celery in these four east coast markets (see Exhibit 12). During this research, buyers indicated that Canadian celery had improved dramatically in the last five years, and the freight advantage to this East coast markets made Canadian celery even more attractive. The other interesting fact revealed by Exhibit 12 is that back in 1976 the average combined celery shipments of Michigan and Canadian celery into Baltimore, Boston, New York, and Philadelphia was approximately 122,000 cwt, while in 1996, shipments were averaging just 72,000 cwt, a disappearance of 50,000 cwt. The majority of these celery shipments have gone to California, implying that even on the east coast, California has gained substantial market share.

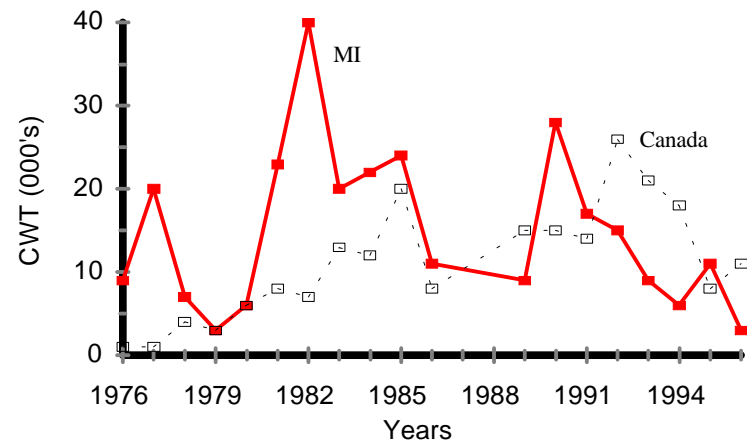
The reader should not apply the trends shown in Exhibit 12 unilaterally across the entire Michigan celery marketing area. There are a number of cities such as Chicago, Atlanta, and Miami, where little, if any, Canadian celery is shipped. The four marketing areas studied above (Baltimore, Boston, New York, and Philadelphia) were readily available in the USDA literature as these marketing areas that allowed a direct comparison of fresh celery shipments between Michigan and Canada.

Exhibit 8: Baltimore Celery Shipments
1976 to 1996



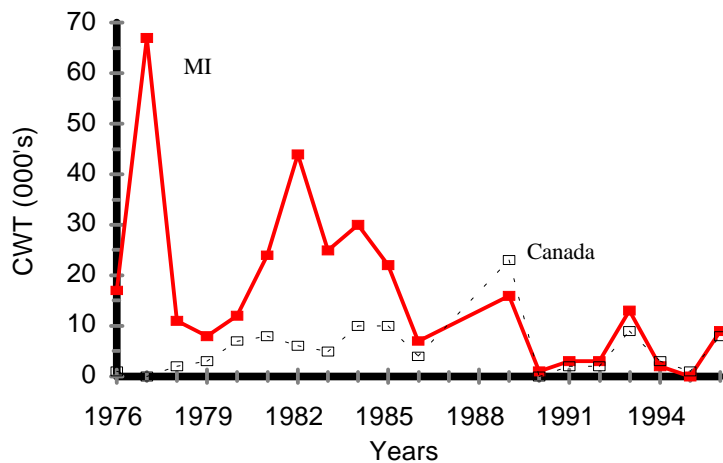
Source: USDA Ag Mktg Service FVAS-3

Exhibit 9: Boston Celery Shipments
1976 to 1996



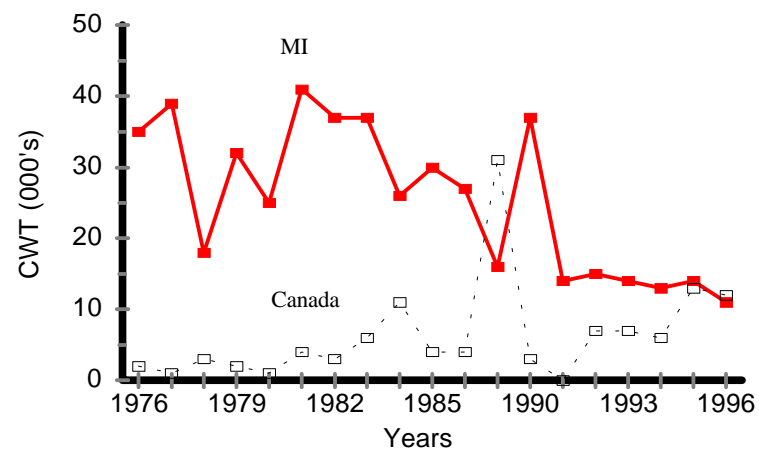
Source: USDA Ag Mktg Service FVAS-3

Exhibit 10: New York Celery Shipments
1976 to 1996



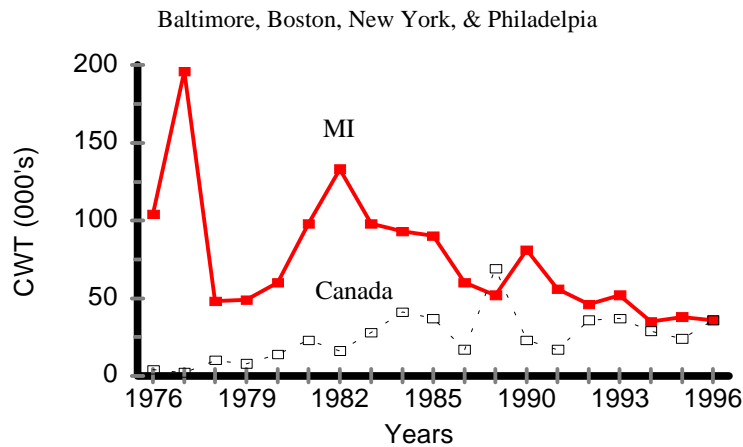
Source: USDA Ag Mktg Service FVAS-3

Exhibit 11: Philadelphia Shipments
1976 to 1996



Source: USDA Ag Mktg Service FVAS-3

Exhibit 12: Combined Celery Shipments
1976 to 1996

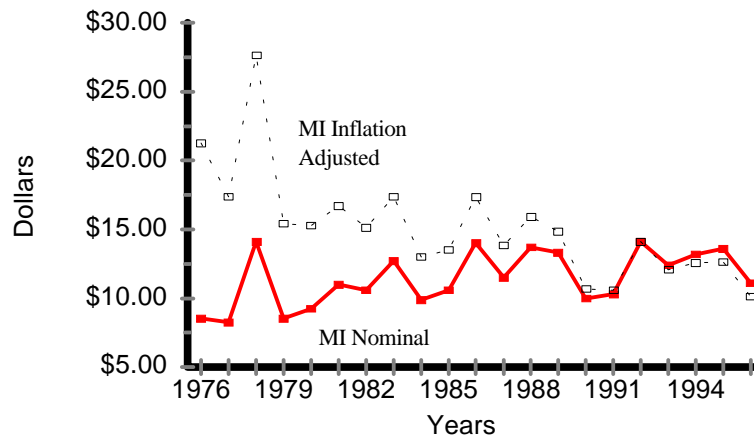


Source: USDA Ag Mktg Service FVAS-3

2.4 Historical Celery Prices in Nominal and Real Dollars

The celery prices discussed in this section are all FOB shipping point prices (the price paid at the shipper's door). Exhibit 13 points out the relationship between the nominal prices and the inflation-adjusted prices Michigan growers received for celery during the last 20 years. The nominal prices received by Michigan producers has risen gradually from \$8.53 per cwt in 1976 to \$11.10 per cwt in 1996.

Exhibit 13: Nominal & Real Prices
1976 to 1996



Source: USDA ERS Report VGS-269

When these prices are adjusted for inflation, a very different picture appears. 1992 was used as the base year to adjust the nominal prices. For example, the inflation-adjusted price received for Michigan celery in 1976 was \$ 21.27. This means that the \$11.10 received by the grower in 1996 would only be worth \$10.12 in 1992 dollars. The result of inflation in this case is that the inflation-adjusted prices received by growers has been declining.

Exhibit 14 compares the U.S. season average celery prices for the past 20 years with the Michigan season average celery prices. The prices listed in Exhibit 14 are in nominal terms, that is, they are the actual prices collected by the USDA during the year in which they were reported. The FOB prices paid to Michigan celery producers was very similar to the prices paid for the U.S. average. On average, it is fair to say that Michigan celery producers receive prices for their celery that are at or near California prices

Exhibit 14: U.S. and Michigan Season Average
Celery Prices: FOB Shipping Point

| | US Nominal \$ | Michigan Nominal \$ |
|-------------|--------------------------|--------------------------------|
| 1976 | \$7.89 | \$8.53 |
| 1977 | \$8.51 | \$8.24 |
| 1978 | \$11.90 | \$14.10 |
| 1979 | \$9.15 | \$8.52 |
| 1980 | \$9.11 | \$9.24 |
| 1981 | \$10.80 | \$11.00 |
| 1982 | \$10.20 | \$10.60 |
| 1983 | \$13.70 | \$12.70 |
| 1984 | \$12.20 | \$9.87 |
| 1985 | \$10.30 | \$10.60 |
| 1986 | \$12.00 | \$14.00 |
| 1987 | \$11.10 | \$11.50 |
| 1988 | \$11.90 | \$13.70 |
| 1989 | \$13.20 | \$13.30 |
| 1990 | \$10.80 | \$9.99 |
| 1991 | \$10.80 | \$10.30 |
| 1992 | \$12.30 | \$14.10 |
| 1993 | \$14.80 | \$12.40 |
| 1994 | \$12.50 | \$13.20 |
| 1995 | \$16.30 | \$13.60 |
| 1996 | \$10.50 | \$11.10 |

Source: USDA ERS Report VGS-269 July 1996

III. NUMBER, TYPES, AND LOCATION OF FIRMS INTERVIEWED

The firms surveyed for this study were located across the country, at different stages in the U.S. produce system. These firms were deliberately selected based on the following criteria:

- proximity to the Michigan celery marketing area
- a past, current, or potential buyer of Michigan celery
- firms in a position to shape the future of the produce industry (leading firms in the produce industry)
- to purposely gather opinions across the food system from professionals associated with the U.S. celery industry
- the desire to target the produce buying decision makers within each firm (e.g., produce merchandiser, buyer, owner, etc.).

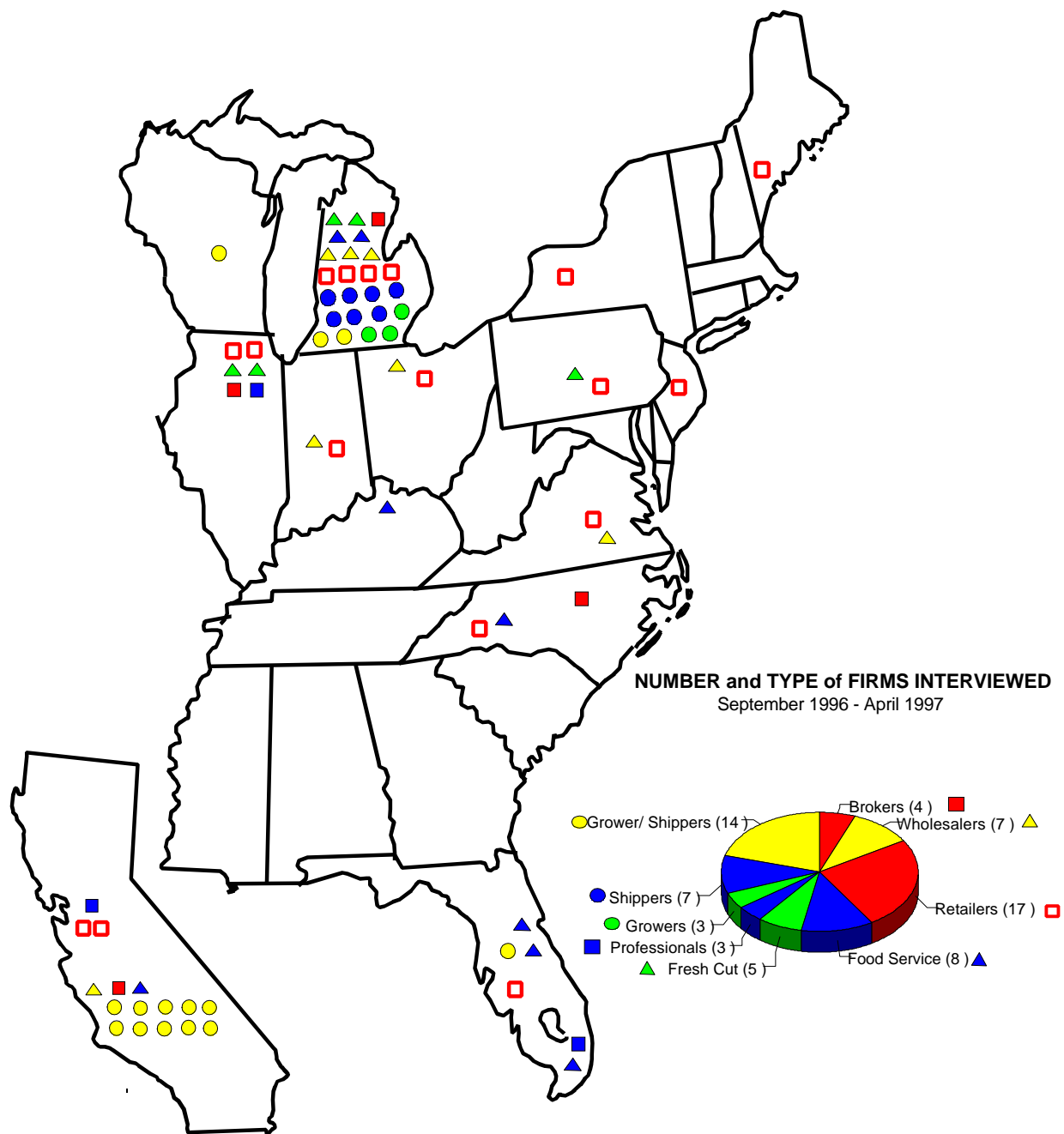
Exhibit 15 is a graphical representation of the number, type, and location of firms interviewed for this study. A total of 68 firms/individuals were interviewed regarding their insight into the produce industry, their produce buying habits, and their perceptions of Michigan celery and the U.S. celery industry. The types of firms interviewed included growers (3 firms), shippers (7 firms), grower/shippers (14 firms), produce brokers (4 firms), food wholesalers (7 firms), grocery retailers (17 firms), firms associated with the food service industry (8 firms), firms that make fresh cut produce (5 firms), and professionals associated with the produce industry (3 firms).

The three growers interviewed were located in Michigan. These firms derived the majority of their farm income from the production of celery. Although the Michigan Celery Promotion Cooperative is comprised of approximately 20 celery growers, more were not interviewed because the main purpose of this study was to survey produce buyers. However, responses of the three growers interviewed were believed to be representative of the Michigan celery industry.

All seven shippers in this study were located in Michigan. A firm classified as a shipper does not produce celery, but does physically handle celery as part of the process of selling to various buyers including processors, retailers, and food service distributors. These shippers bought and sold other Michigan grown commodities in addition to celery, such as radishes and carrots.

Grower/shippers are involved in both the production and the sale of raw celery to wholesalers, retailers, fresh cut manufacturers, and food service distributors. The majority of the grower/shippers interviewed in this study were located in California. Many of these large California grower/shippers raise a wide variety of produce on large tracts of land (10,000 to 50,000 acres). The majority of California grower/shippers are involved in year-round produce production and shipping. Many of these firms move with the produce deal from northern California (Salinas) to southern Arizona (Yuma). Being involved in production and shipping year-round is significant because it allows these firms to maintain constant contact with their customers.

Exhibit 15: Number, Type, and Location of firms Interviewed: 1996-97 Michigan Celery Study



Brokers buy and sell produce just like shippers, but they seldom, if ever, take physical possession of the celery. All four of the brokers in this study bought and sold produce from across the U.S. Two of the four brokers had buying and selling offices located in key U.S. production areas. Brokers commonly buy and sell product from growers, shippers, and grower/shippers to be sold to wholesalers, fresh cut processors, food service distributors, and grocery retailers. The role of the broker is changing in the U.S. food system. For years brokers were the key firms involved in bringing the producer and customer together. As the produce industry matures, and the terminal produce markets become less important, brokers find themselves struggling to find new ways to add value in the produce food system.

Wholesalers are very important in the U.S. produce industry. A number of larger grocery wholesalers such as Spartan Stores, Fleming Foods, and Rich Foods, individually purchase and act as the produce warehouse for individual grocery outlets numbering in the thousands. Wholesalers typically carry multiple grades and brands of celery to satisfy their diverse customers' produce needs. Wholesalers located on terminal markets used to buy substantial quantities of Michigan celery. The same forces that are driving the growth and consolidation in the retail and food service sectors of the country are causing the terminal markets to diminish in importance. For this reason it was decided to focus on those sectors of the produce industry that were most likely to shape the future of the U.S. produce industry. As a result, the only terminal market wholesalers involved in this study were located in Chicago. These particular terminal market buyers' comments are listed under a broker who covers the Chicago terminal market.

Given the increasing consolidation taking place within the retail sector of the U.S. economy, grocery retailers are continuing to shrink in number, but increase in size. Retailers have traditionally purchased the majority of fresh Michigan celery in the past. For this reason, this study was designed to obtain a representative sample of retailers across the eastern and southwestern U.S.

In 1994, the average American consumer spent more than 50% of their disposal income for food, on purchases away from home. That is, the average American consumer now spends more money eating out than they do at the grocery store. The food service sector of the economy is responsible for supplying these "away-from-home" businesses with produce and other food items. While many of the food service distribution firms interviewed were suppliers to eating establishments on a limited regional geographic basis, there were two notable exceptions where both of these organizations were involved in produce buying and distribution across the U.S.

Given the growing importance the average consumer places on freshness and convenience, it is not surprising that fresh cut produce consumption continues to rise. As consumers spend more of their disposable income on meals away from home and restaurants struggle with shortages in the labor market, fresh cut produce sales will continue to grow. Five companies specializing in the manufacturing, sales, and distribution of fresh cut produce were interviewed. All five of these firms have purchased Michigan celery in the past.

Finally, three professionals associated with the produce industry were interviewed to gain their unique perspectives. Individuals from these firms included the publisher of a produce magazine, a restaurant procurement consultant, and a scientist of a biotechnology company involved in the genetics, production, and sales of seed to the produce industry.

The geographic location of firms was chosen to correspond with the primary markets for Michigan celery. The primary markets for Michigan celery are in the Midwest (e.g., Chicago and Indianapolis), the east coast (e.g., New York City and Washington D.C.), and the Southeast United States (e.g., Charlotte and Orlando). As Exhibit 15 indicates, interviews were spread out among the eastern half of the United States, with a concentrated effort being made in Michigan. It should be noted that the pattern of firms interviewed in Exhibit 15 has been influenced by the location of major vegetable production areas, corporate headquarters, and logistical flying constraints.

California is not a viable market for Michigan celery because of the enormous amounts of celery grown in the state and cost of freight that would be associated with shipping Michigan celery to the west coast. However, California was chosen for interviewing professionals who were believed to be at the fore front of the U.S. produce industry. As Exhibit 15 points out, the majority of interviews conducted with California firms were with large multi-commodity grower/shippers. Many of these grower/shippers willingly shared their vision of the U.S. produce industry's future and their views regarding possible partnerships with the Michigan celery industry.

IV. PROCEDURES USED

In order to better understand what buyers were saying about Michigan celery, the Michigan Celery Promotion Cooperative and the Michigan State University Department of Agricultural Economics determined that in-depth, face-to-face interviews with buyers was the most appropriate course of action to be taken.

The 68 in-depth interviews were conducted at a location of the respondent's choosing to make the interview process as convenient as possible for the respondents. An average interview took between 60 and 120 minutes to complete. Exhibit 16 (in the appendix) is a copy of the open and close ended questions used during the interview process to collect the information provided by the respondents.

The interviews began with broad questions designed to gain an understanding of the scope of the respondent's business (e.g., number of stores, geographic area covered, number of acres, etc.). After this initial information was gathered, general business philosophy questions were asked. For example, respondents were asked to describe their growing, selling, and marketing philosophy regarding fresh produce. In fact, questions 1-20 (see Exhibit 16) were designed to be applicable to a wide range of commodities and managerial perspectives. The researchers believed that allowing the initial questions to be general would keep the respondent's interest, while providing non-celery examples of successful buyer-seller relationships. Questions 21 to 23 were related specifically to

the Michigan celery industry. It was hoped that insights gained from non-celery experiences could be applied to the Michigan celery industry. A summary of the responses to these questions will be presented in the next section.

In addition to the in-depth questions, respondents were asked to rate the importance of a list of supplier and product characteristics in their purchasing process (see Exhibit 17 in the appendix). Respondents were asked to rate each of the 15 supplier and product characteristics on a five point scale from very important to very **un**important. The goal of this rating process was to identify those characteristics that buyers considered to be the most important in their purchasing decision. Characteristics most important to the purchasing decision could be used in designing a set of strategic actions for the Michigan celery industry. A summary of the responses to these questions will be presented in an upcoming section.

Respondents were asked to complete one final rating exercise. They were asked when applicable to the respondent's celery buying situation, to rate their satisfaction with Michigan celery and supplier characteristics. The 15 Michigan celery supplier and product characteristics were similar to supplier and product characteristics important to the purchasing decision in (see Exhibit 18 in the appendix). This time respondents were asked to rate each of the 15 supplier and product characteristics on a five point scale from very satisfied to very **uns**atisfied. Rating the satisfaction of Michigan celery supplier and product characteristics allowed a direct evaluation of the Michigan celery industry. A summary of the responses to these questions is presented later in this report.

All respondents, regardless of business type, were asked the same set of questions. Michigan celery growers were asked slight variations of questions 21-23. For example, instead of asking growers if they had ever purchased Michigan celery in the past, they were asked to identify the major problems facing the Michigan celery industry. This form of "mirror-questioning" allowed the researchers to see if the respondents' answers varied by business type or geographic region. In other words, do produce buyers rate the importance of supplier and product characteristics and their satisfaction with Michigan celery supplier and product characteristics different than growers and shippers of celery?

V. SUMMARY OF THE FACE-TO-FACE INTERVIEW RESPONSES

The following sections summarize the main points respondents made during the interview process. The questions are broken down into the following categories: (1) responses common to all respondents, (2) responses unique to brokers, wholesalers, and retailers, (3) responses unique to firms involved in food service and fresh cut produce, and (4) the growers', shippers', and grower/shippers' perspective regarding the question asked of respondents listed above. In those cases where the responses were not significantly different between the groups identified above, the responses were combined under responses common to all respondents.

5.1 Buying Philosophies of the Respondents

5.1.1 Responses common to all respondents

The vast majority of buyers said they buy the best and carry the best possible produce. As one buyer said “You can’t make the product any better once you have purchased it.” All buyers strive to buy the best available products at or below market prices. The real insight is that the “best” is subjective and varies according to the individual buyer. For some buyers this means carrying only the top labels, for others, meeting specific needs such as Thompson seedless grapes with amber color, or buying in a manner that ensures freshness and allows the use of local produce sources whenever possible. For many buyers, buying the best available produce comes down to carrying products that are better than USDA standards. For example, 80-90 count size potatoes in 5# bags. All buyers to a certain extent take pride in keeping on top of the market. That is, they derive value out of being a shrewd buyer, merchandiser, etc.

Most buyers recognize the tradeoff between quality and price of product. Of course buyers are willing to negotiate hard to keep their costs as low as possible. For example, a growing number of buyers prefer to purchase produce on a FOB shipping point basis, where they are responsible for arranging and paying for delivery. They are able to reduce some of the volatility in the summer California produce market by contracting with trucking companies for a fixed year-round freight rate out of California.

5.1.2 Responses unique to brokers, wholesalers, and retailers

In addition to buying the best available products at the cheapest prices, brokers, wholesalers, and retailers need to offer a variety with different value attributes because they cater to a broad market segment (e.g, a grocery wholesaler may service 200 locally-owned independent retailers who have different store formats and produce needs). To satisfy these diverse needs, brokers and wholesalers often offer multiple grades, lines, or labels of produce.

Due to their large size and often diverse customer base, brokers, wholesalers, and retailers usually purchase single commodities from multiple suppliers. This allows these buyers to get a better handle on the market, and it may result in playing one supplier against another. Some buyers are forced to purchase produce from multiple sources because the sheer size of the organization may dictate multiple suppliers to guarantee product availability on a timely basis.

The produce department has become the focal point of the grocery store for many retailers, and produce is used to bring customers into the store. The use of color, smells, freshness, and healthiness are all important and buyers want to purchase produce from suppliers that create an image of freshness, healthiness and excitement. At the same time, buyers work at smoothing out the large price swings common in the produce industry by contracting and other business relationships that are very different from traditional spot market buying and selling.

Today, the majority of retailers utilize centralized produce buying (e.g., a 20 store chain ordering produce through one buyer or office) to gain economies of scale and consistency across produce

departments. It is believed that centralized buying reduces the time and energy required to negotiate with produce suppliers and it frees up the local produce manager for merchandising and attention to store clientele. A few exceptions remain where the local store produce manager is given the authority to cut his/her own deal during the local produce season.

5.1.3 Responses unique to firms involved in food service and fresh cut produce

Food service and fresh cut uses of produce are often tied to very specific product needs (e.g., for use in recipes, or for use in fresh cut products such as celery sticks). As a result, food service and fresh cut firms are often willing to pay more for products that result in increased yield.

Price stability is relatively more important in food service and fresh cut firms compared to brokers, wholesalers, and retailers because of reduced flexibility due to printed menus. Restaurants commonly set their menu prices for a quarter-year at a time. These firms would love to lock in their costs, as well as their profits. One result of this need for price stability is the increasing use of contracts between restaurants and produce suppliers.

Most of today's larger food service companies began as drygoods companies, while only a limited number began as produce houses. This can have a direct affect on a firm's approach to buying and merchandising produce. The affects of a buyer with a non-produce background is discussed in greater detail in an upcoming section on how produce buying practices have changed over the years. The varietal, technological, and biotechnological advances which have taken place over the last 20 years have taken much of the mystery out of produce, by making it possible for suppliers to offer much more shelf stable and consistent produce to buyers.

Most of the food service distributors serving the U.S. food service sector today belong to buying groups that include produce. For the supplier this could be an opportunity if the firm is able to gain approval and thereby access to all the firms of the buying group. Of course, a buying group is a threat if the selling firm is not able to gain approval to sell to the buying group or if the firm is not able to meet the special requests for labeling, and promotional consideration demanded by most buying groups.

5.1.4 Growing and selling philosophy of suppliers

The growers, shippers, and grower/shippers interviewed in this research exhibited different competitive strategies including price/cost advantage strategy (e.g., concentrating on producing and selling to the terminal markets), quality/features advantage strategy (e.g., one grower/shipper indicated that they liked to see adverse weather conditions because they felt they were positioned well to take advantage of problems and opportunities caused by adverse weather), and niche/market focus advantage strategy (e.g., a desire to target a specific type of customer and a willingness to do almost anything those customers are willing to pay for, such as, six days a week delivery).

Many of the growers interviewed strive to be the best grower possible (e.g., the celery must achieve at least a 98% rating before it will be shipped). They believe in doing the best job possible in order to develop a trusting and lasting relationship, in part, because buyers are increasingly preoccupied

with non-buying activities and they don't have time to monitor the buying process like they once did.

The remaining grower, shipper, and grower/shipper points of view regarding selling philosophy were summed up as suppliers who desire long term relationships with their customers. For some suppliers this involves finding ways of offering a wide variety of products, year-round. Other growers, shippers, and grower/shippers work hard at establishing a "brand identity" in the marketplace as a means of signaling their quality to potential buyers.

A common practice among California grower/shippers involves splitting sales between wholesale, retail, food service, and the fresh cut markets. By no means were sales split equally across the different market segments. It was quite common for a California grower/shipper to sell approximately 30 percent to food service, 55 percent to retail, and the balance to fresh cut firms. Dividing the business may make it possible to match different customer needs with different product quality. Targeting the different market segments is a sales strategy designed to offset the sales volume variability associated with individual sectors.

5.1.5 Implications of the responses regarding produce buying/selling philosophies

The responses indicated a variety of buying and selling philosophies present in the produce industry. The respondents emphasized the importance of knowing the needs of the customer and how the supplier is positioned to answer these needs. Successful suppliers do not try to be all things to all potential customers. Successful suppliers know their company's strengths and competitive advantages. They are able to communicate these competitive advantages in words and actions within their companies and to potential customers.

5.2 What Produce Buyers Look For In a Supplier

The responses to the question of what produce buyers look for in a supplier were generally consistent across all respondents. Therefore, differences in responses according to industry sector are given by way of examples, and not by separate buyer-defined subsections.

5.2.1 Responses common to all respondents

Consistency, reliability, and the ability to deliver a quality product were far and away the most cited characteristics of what buyers look for in a supplier. Suppliers must meet the buyer's needs, not just USDA standards. For example, a particular retailer may only want to purchase Michigan 18 count celery verses a Michigan 24 count. Quality is very important today, in part, because of the emphasis retailers are placing on the produce department as a stage setter for the entire grocery store. Food service operators utilize produce to add pizzazz to the meal presentation. Quality is also critical because of the perishability of produce which limits shelf life. Increasingly important is the supplier's ability to assure the buyer that their produce meets food safety standards.

Integrity, trustworthiness, honesty in growing, packaging, and general business dealings are also important to produce buyers. Does the supplier take pride in their company, products and services? The supplier must understand the customer's specifications and have the ability and willingness to

respond to these specifications. Can the supplier offer a produce program tailored to the specific needs of the buyer? That is, don't try to offer a canned program where one size fits all. Retailers respect a s who understands the retail business or has retail experience. Buyers want suppliers to tell them when product quality is not up to the buyer's specifications. Integrity, honesty, and trustworthiness lead to long term relationship selling.

Credible growers, shippers, and grower/shippers are likely to enjoy long-term success. Buyers want to buy from suppliers interested in a long term relationship. Will you deliver what you promise? Buyers want to deal with a supplier who is competent and has enough sales outlets so they are able to move all grades of product they produce to alternative outlets. Realistically, a producer's entire crop is not likely to be diamonds, so don't bother to send marginal product because it could be your last order. Relationships take time to develop, but a good relationship requires maintenance, not constantly putting out fires.

Buyers prefer to conduct business with leading edge firms that know their produce and the produce business. All buyers like to buy from innovative suppliers who freely pass along market trends and other information, as well as, offering the latest varieties. Suppliers must be able to keep current with technological advancements. For example, the ability to provide price look up codes and automatic inventory tracking and reorder capabilities. Buyers want to deal with suppliers that make their life easier. They don't want to have to worry about the producer using the correct cultural, shipping, and packaging practices. Is the supplier able to handle the volume of business needed to service the buyer? If the buyer's firm is large enough, they are likely to insist on multiple suppliers just to spread the business around.

Does the supplier truly value the buyer's business? Suppliers must be willing to work with the buyer. This can mean different things to different firms. For example, ad pricing in retailing, product availability during tight market conditions and/or sales training and support for food service, or a willingness to contract with fresh cut firms. Will the supplier understand the buyer's needs? Do they understand how to meet the end users needs as well? Will the supplier be willing to sell a particular buyer on an exclusive basis for a given market area? These are all examples of what buyers mean by working together.

Increasingly buyers are looking for suppliers that have the ability to pack private labels. This includes the ability to meet specific quality requirements as well as the packaging and logistical demands of putting up different labels. For example, branding at the national, private, and store label levels are becoming more common and important. Buyers like to purchase from suppliers who are not hung up on having their name all over the product, and these buyers would rather see more uniformity and consistency in presentation to the end user customers.

Realistically, not all produce commodities are given the same attention because of differences in the relative importance of various commodities. For example, bananas receive more attention than celery in a retail setting and lettuce and tomatoes receive more attention than celery in a food service setting. Buyers appreciate suppliers who understand the priorities of the particular buyer.

5.2.2 What growers, shippers, and grower/shippers believe buyers look for in a supplier

The majority of the growers, shippers, and grower/shippers indicated that providing quality and timely, dependable service (no surprises, or at least the buyer is kept informed of changing situations) and products at a fair price were the main things that buyers were looking for in a supplier. Michigan growers and shippers emphasized the buyers' need for a low price more than California grower/shippers. For example, Michigan growers and shippers believe value from a buyer's perspective is being able to purchase product on a \$9.00 to \$11.00 market for \$10.00 while the product is of \$11.00 quality. California grower/shippers placed more emphasis on delivering consistent product, and year-round supplies, as well as the ability to consolidate loads, including store drops if possible. Many of the California grower/shippers are full line produce suppliers, offering everything from asparagus to zucchini.

Increasingly, the ability to be active in more than one stage in the produce value chain is important. An integrated California grower/shipper who is involved in genetics, production, marketing, and distribution is positioned well to meet the changing needs of brokers, wholesalers, retailers, food service and fresh cut firms. For example, one large California celery grower/shipped has a celery breeding program that has produced over 80 celery varieties. This grower/shipper believes having 80 proprietary celery varieties allows them to match customer needs with growing conditions that result in substantial competitive advantage in the marketplace.

5.2.3 Implications of the responses regarding what buyers look for in a produce supplier

Success in the produce industry is not based solely on who has the sharpest pencil (the lowest price). Buyers demand consistency, reliability, integrity, honesty, and quality from produce suppliers. Credible growers, shippers, and grower/shippers who find ways to make the buyer's life easier will enjoy long-term success. This means that sellers must be willing to work with, not at odds, with buyers. Suppliers must know their company's capabilities and limitations. It is not reasonable to expect to sell to all buyers because of the diversity of business and operating philosophies which may be in direct conflict with the supplier's philosophies. Suppliers need to be ready and willing to try new approaches to business, such as banding of celery. Finally, Michigan celery producers need to realize that celery as a single commodity is relatively less important than other produce items such as lettuce and bananas.

5.3 Description of a Valued Relationship Between the Respondent and a Valued Supplier

5.3.1 Responses common to all respondents

The universal characteristic of a valued buyer-supplier relationship, is a relationship based on mutual respect. The supplier truly understands the buyer's needs and is willing to admit when they don't have the buyer's quality. Valued suppliers are up front. They don't over promise and under deliver, they shoot straight and represent their product as it really is. Provision of timely market conditions and timely product information is commonplace.

A valued relationship drives costs out of the system. It is not a relationship based solely on obtaining the cheapest FOB prices. A valued relationship evolves to where both parties take the

long term view, including pricing because both parties know there will always be someone out there selling cheaper. A valued buyer-supplier relationship is one where there is a great deal of trust (the supplier is in effect treated like part of the buyer's organization). The buyer counts on the supplier, and the buyer doesn't have to price check every week to keep the supplier honest. Another way to drive costs out of the system is when the supplier takes care of the details such as arranging transportation or acting like a small retail chain's warehouse.

5.3.2 Responses unique to brokers, wholesalers, and retailers

Brokers, wholesalers, and retailers value supplier relationships involving give and take. For example, flexibility on pricing, such as pricing three lots of product at three different prices for three of a broker's customers. Buyers like working with firms that are willing to offer deals because they get tired of begging for cheaper prices all the time.

Buyers appreciate a supplier that listens to them and is willing to do what is right for the product. One buyer offered this example: shipping cherries at 32 degrees where a few cherries will freeze on the top of the load, but the balance of the load arrives in perfect condition. Although buyers like suppliers that are good listeners, they also seek relationships where the seller continually suggests new and innovative approaches to doing business, such as, sourcing limited lots of the very best quality produce that fits the volume needs of a given buyer. Another example is offering twice a day delivery on sweet corn to local retail stores.

Some buyers believe that it is wise to carry multiple top quality labels of product and to establish good relationships with multiple suppliers. Still other retailers like to obtain exclusive product relationships with certain suppliers in selected markets. Therefore, it is possible to obtain valued supplier status, without obtaining an exclusive sales arrangement for reasons outside the supplier's control. The researchers believe the proportion of buyers who like to spread the business around is approximately equal to the proportion of buyers who prefer exclusive buyer-supplier relationships. The researchers also believe the trend towards exclusive buyer-supplier relationships will continue to grow. If an increasing number of buyers begin seeking exclusive buyer-supplier relationships, Michigan celery producers may be forced to seek partnerships with firms involved in these exclusive arrangements just to have access to potential customers.

5.3.3 Responses unique to firms involved in food service and fresh cut produce

Food service and fresh cut produce buyers value supplier relationships where the supplier has the ability to be a strategic partner (e.g., selling produce to the buyer when supplies are tight). Highly valued, is a supplier that is able to deliver consistently high quality produce, at competitive prices, regardless of the season. For some food service or fresh cut firms this means the ability to engage in contract pricing for produce. A good buyer-seller relationship exists when the buyer doesn't have to check the quality of incoming produce closely because the seller knows the buyer's needs and is able to meet them on a consistent basis.

All buyers want suppliers that are willing to work with them. Food service and fresh cut buyers generally want a supplier who will help them ease the up and down prices of the market whenever

possible. They want the supplier to help the fresh cut firm remain competitive regarding the purchasing price of raw product. Still other food service firms (i.e., restaurant chains) seek relationships where there is open exchange of information, usually in the form of prices and costs of distribution. While this may appear to be somewhat of a one-way exchange, it is possible for the supplier to gain long term buying commitments in exchange for sharing costs and profit figures.

5.3.4 A valued relationship from supplier's points of view

The growers', shippers', and grower/shippers' description of a valued supplier-buyer relationship is similar to the views expressed by the buyers. A valued relationship exists when both parties understand and respect each other's needs. A relationship where buyers are loyal to suppliers as well as being flexible. In this relationship the buyer is willing to stick with the supplier through out the season, and not just cherry pick the supplier.

Sometimes successful relationships come down to how good the fit is between the parties involved in the relationship. For example, a buyer that uses a quality/features approach in the marketplace where he is trying to differentiate his produce through quality and variety, will have a natural fit with a supplier committed to quality and variety. A good fit results when the needs of the buyer are matched with the abilities of the supplier.

Just as buyers get tired of haggling over prices and begging for deals, growers, shippers, and grower/shippers grow tired of always having to justify their prices to buyers. It is difficult to find buyers that are trusting enough to not question prices constantly. A great relationship exists when both the buyer and the supplier believe they are getting value for their money.

5.3.5 Implications regarding the relationship between a buyer and a valued supplier

The key ingredients of a valued buyer-supplier relationship can vary depending on the exact needs of the relationship. For example, some buyers may place service above price and quality as the key to a long term successful relationship. The point is, it takes considerable matching of the capabilities, strategies, and needs of both the buyer and the supplier to achieve a mutually beneficial and valued business relationship.

5.4 How a Produce Buyer Becomes Discouraged With a Supplier

The responses to the question of how a buyer becomes discouraged with a supplier were generally consistent across all respondents. Therefore, differences in responses according to industry sector are given by way of examples, and not by separate buyer-defined subsections.

5.4.1 Responses common to all respondents

The number one way a supplier can get into trouble with a buyer is to over promise and under deliver. This can mean a variety of things: (1) sending marginal product that is not up to the specifications of the buyer, (2) cheating on the quality of the packs, (3) breaking the trust between the buyer and the supplier, (4) cutting corners and lack of proper customer service, (5) lack of follow up when problems occur, (6) not being able to get to the bottom of a problem, and (7) being inconsistent on volume of product supplied (e.g., food service distributors tend to be more

sensitive to being shorted on an order than retailers or wholesalers). However, a supplier who falls prone to problems listed above is not automatically dropped by the buyer. Generally, there is a certain level of tolerable mistakes that most buyers will accept.

It is worth elaborating on the points listed above to gain a better perspective on the sources of buyer frustration. A common theme through out this report is that price is not the only factor or even the single most important factor that buyers consider in their purchasing decision. However, buyers have a number of pet peeves regarding pricing. Raising the prices too fast on the market. That is, getting ahead of a market frustrates buyers. Suppliers that are consistently priced higher relative to the market and are unable to justify the added price will be dropped. Buyers are always on the look out for suppliers who low-ball to get a customer's business and then raising the prices later on in an effort to regain initial losses. Buyers don't like it when Michigan suppliers try to get the same price FOB shipping point for their product as a California shipper delivered when the supplier has considerably less freight. Pricing errors, even if unintentional, quickly try the patience of buyers. Quoting one price and having the product arrive at a different price (usually this means at a higher price than quoted) is a sure sign of potential buyer-supplier problems.

Failure to pass on information in a timely manner is another buyer frustration. This is especially critical when failure to pass on information results in the buyer looking foolish. One common example of this is when the supplier doesn't have a good handle regarding the delivery of the product (e.g., when will the truck arrive?). The worst thing a supplier can do is to have an attitude that says these types of problems are out of their control. One test of a good supplier is the presence of a crisis management plan. How fast and efficiently is the supplier able to respond under adverse conditions. For example, do they contact all the affected parties?

A product that only marginally makes grade and results in forcing the buyer to take the product (as a result of PACA litigation) may result in the supplier winning the battle, but losing the customer's business and the war. Rejecting loads are not what buyers look forward to in today's changing market. They have little or no time to deal with these kinds of problems, especially if the buyer suspects the supplier of trying to slip something past the buyer (e.g., pricing, quantity, or quality). A related concern voiced by the buyers was their frustration with suppliers that always scream bloody murder, when adjustments are inevitable in the produce business. Buyers often interpret this reaction as not standing behind their product.

5.4.2 *The supplier's perspective regarding how a buyer becomes discouraged with a supplier*
Growers, shippers, and grower/shippers identified the same critical factors involved in discouraging a buyer in a buyer-supplier relationship. Lack of follow up and problem solving, not being honest, breaking the trust, inconsistency, shipping old product, as well as, over promising and under delivering. On supplier put it best when he said "Sellers must excel in three areas: quality, service, and price."

5.4.3 Implications regarding how buyers become discouraged with suppliers

The harsh reality of business is although it may take years to win a buyer's business and to develop a good working relationship, it only takes a couple of miscues, such as over promising and under delivering, to lose the business. Like it or not, produce suppliers are judged by California standards, whether the discussion centers on price, quality, or service. Whenever possible, under promise and over deliver. Promise what your organization is capable of doing, and promise what the buyer minimally expects. Once again, the importance of truly knowing your customer's needs can not be over stated.

5.5 How Produce Buying Practices Have Changed Over the Past 10 Years

5.5.1 Responses common to all respondents

For years, business in the produce industry was conducted on the basis of personal relationships developed across generations of produce buyers and suppliers. This type of relationship selling still has a place in the produce industry today. However, partnering has become the buzzword of the 1990's for buyer-supplier relationships in produce. Partnering can mean different things depending on your position in the produce system. Partnering may mean providing promotional and sales training support to some buyers, while to others it can mean an exclusive relationship, or contract pricing. Many suppliers look on partnering as one sided, where the supplier is giving up flexibility and profits, while buyers see partnering as the minimal requirement of any business relationship. As a result of this fundamental shift in ideology, there is less need today for "horse-trading" when it comes to the buyer-supplier relationship, and an increased need for relationships based on "negotiation," "partnering," or "diplomacy." Buyers, in general, seek more communication and less adversarial relationships.

Increased use of technology is also changing the traditional relationship between buying and selling firms in the produce industry. For example, scanning, and inventory management based on electronic ordering, and continuous replacement. Buyers and suppliers with the appropriate technology will spend less time haggling over price, and more time on making sure they deliver the best produce possible, at the least cost. In some cases, buyers are willing to let the supplier manage the buyer's produce inventory. Along with technological advancements comes the ability to track produce lots back to the grower as far back as the genetics. Technological and specific product needs will continue to increase in the future, along with the increasing use of specific product standards.

There has been a dramatic increase in the number and variety produce products offered today compared to a short number of years ago. As a result, new product purchases have to pay for themselves. This has lead to the increased implementation of produce slotting allowances to gain access to the buyers' warehouses. Slotting allowances are becoming more prevalent, in part, because of the increased number of produce items and the standardization of fresh cut items making them much more grocery-like. An additional effect of the increased number and year-round availability, resulting reduction in seasonality (e.g., red seedless grapes are now available year-round) of produce items has lead to increased competition for shelf space and less advertising of

certain traditional produce commodities such as naked celery in the grocery store. Related to the increased number of products handled, is the shrinking amount of time buyers have for the responsibilities they now undertake. This means there is no time for extensive dickering, price adjustments, handling trouble loads, etc.

Continuing consolidation of producers, fresh cut providers, food service distributors, and retail food outlets associated with the U.S. food system has resulted in fewer and larger organizations for suppliers to conduct business with. There are few remaining outlets today for marginal products and buyers have less flexibility. The product must be delivered as ordered or don't bother shipping it (e.g., don't substitute 18 count celery if 24 count was ordered). Today, fewer produce buyers have a true produce background. Many produce buyers are now coming out of general business and grocery backgrounds. These buyers have specialized job descriptions such as category manager, which require them to perform duties in addition to purchasing.

Increased use of contracting is prevalent in all sectors of the produce industry. Contracting is particularly prominent in the fresh cut industry. Contracting can take on many forms. For example, some contracts are set prices for a given period of time, while other contracts may be based on a set formula, set over/under an average market price. Respondents affiliated with the food service industry were more willing to engage in contracting than brokers, wholesalers or retail, in part, because of fixed menu prices characteristic in the food service industry.

5.5.2 Responses unique to brokers, wholesalers, and retailers

The days of adversarial buyer-supplier relationships, so characteristic of the broker, wholesale, and retail sectors of the produce industry have given way to partnerships. These successful relationships extend beyond the initial sale. Sharing of information is expected and critical to a successful long-term buyer-supplier relationship. On result of this is that it may be hard to get a buyer's business, but the supplier will be rewarded for his/her efforts once the relationship is formed. The role of brokers and terminal market wholesalers appears to be changing along with the traditional buyer-supplier relationship. In many cases, the brokers and terminal market wholesalers have been cut out of the supplier-buyer loop, as buyers and suppliers have become fewer and larger in number and have found ways to deal directly with each other.

There has been increased effort on creating brand identity for produce items. Traditionally, there has been little brand identity in produce other than for items such as bananas. It is unclear at this time how extensive branding will become. The authors believe branding will become more important in the produce industry as traditional buyer-supplier relationships are replaced and as the traditional personnel used to buy are replaced by category managers. An increasing number of retailers are expanding their store label programs to include a number of produce items such as potatoes, onions, and fresh cut lettuce products. While celery is a lower volume produce item, retailers utilizing their own store labels are more likely to purchase produce under consistent labels to give their customers the impression of consistency and uniformity.

5.5.3 Responses unique to firms involved in food service and fresh cut produce

Food service and fresh cut respondents indicated that buyers are much more interested in produce today. Produce is no longer an after thought. Buyers are more sophisticated and they want to understand the supplier's business, including growing practices and safety procedures. There has been an increased emphasis on produce in restaurants because of increased attention that is being paid on eating healthy and the use of produce to create variety and excitement in meal presentation. Additionally, the 5 a day program and need for convenient products has driven the growth of fresh cut and specialty packs of produce.

One produce professional suggested the big push on fresh cut produce for the restaurant sector is cycling back towards the increased use of top quality fresh bulk produce. This is more common in white table cloth restaurants and family style restaurants where the emphasis may be on preparing a "home-cooked" meal. However, an overriding factor in the restaurant sector is the increasing shortage of qualified restaurant laborers which forces time saving measures like the use of fresh cut produce.

The advent of fresh cut produce has forced produce cold systems to become better. Fresh cut produce has a limited shelf life that is dramatically affected by deviations from optimal storage temperatures. This has lead to the need for better refrigeration equipment at the fresh cut facility, during transportation and warehousing, and at retail or restaurant outlet. Suppliers that are unable to guarantee fresh cut produce that is handled properly all throughout the produce cold system, are unlikely to secure these sales.

5.5.4 Suppliers' perspective regarding how buying practices have changed over the years

Growers, shippers, and grower/shippers cited a number of examples of how buying practices have changed including: (1) increased number of packs and products available for sale, (2) fewer and larger buyers which may result in smaller produce suppliers looking in from the outside, (3) the seasonality is all but gone out of the produce deal (perhaps the only true remaining seasonal deal are fresh cherries?), (4) increasing sales of fresh cut produce is taking some of the art out of produce sales, (5) fewer terminal and wholesale buyers around today, and (6) Michigan celery is in effect stuck in the middle because California is the quality leader and Canada tends to be the price leader.

Increased availability and demand for technology such as fax machines are common place. Such uses of technology have become the minimum requirements in order to conduct business in the produce industry. It is interesting to note how fax machines were once the new way to reach substantially more potential customers. This was true, but the increased use of fax machines by all suppliers gave these potential buyers a great deal of information which was used to negotiate prices with suppliers. Many suppliers lament the fact that the emphasis on streamlining, and the manufacturing of products including produce is taking the traditional "richness" out of the produce business.

Today's buyers are driven by a "grocery" mentality. There is also an increased corporate influence on produce purchasing (e.g., shipping a larger size celery may not fit inventory and store cash

register systems). Buyers are driven by just-in-time inventory, and the increasing number of produce product offerings further exacerbate this. The days of straight loads of celery are few and far in between. Buyers are in many ways less personable and they expect market pricing or better and they demand quality and service and business dealings that make their lives easier.

There is a stark contrast between the relatively short term nature of produce production (e.g., a four month growing season and the grower's concern over what the market for celery is today) and the need to establish long-term buyer-supplier relationships (e.g., will the supplier give me a deal today in exchange for future orders?). From a supplier's perspective, every day seems to be filled with tradeoffs between accepting an unreasonable offer in exchange for possible future business. A related issue raised by growers, shippers, and grower/shippers is that there seems to be an increasing amount of lead time demanded for conducting ad business, which is difficult given the uncertain nature of growing produce and this is further compounded by the short growing season in Michigan.

5.5.5 Implications regarding how produce buying practices have changed over the last 10 years

The buyer-supplier relationship is changing. Suppliers skilled in the art of “horse-trading” are no longer as valued as suppliers who understand partnering, negotiating, and the diplomacy involved in bringing groups of producers together to achieve a common marketing goal. Today's buyers are likely to have little produce background and even less time to spend on just buying produce. Buyers want to deal with suppliers who understand their needs and who offer products and services that fit the buyer's systems and in general make their lives easier. Although there are fewer suppliers in the market today, buyers are increasingly only willing to work with fewer suppliers.

5.6 The Most Important Trends Affecting the Produce Industry Today and How Firms are Reacting to These Trends

The responses to the question regarding the most important trends affecting the produce industry were generally consistent across all respondents. Therefore, differences in responses according to industry sector are given by way of examples, and not by separate buyer-defined subsections.

5.6.1 Responses common to all respondents

The number one trend driving the produce industry, based on interviews with the respondents is the increased need American consumers are placing on convenience and meal solutions. The lack of time the average American suffers from, combined with the need for dual income or single parent families places increasing pressure on the reduction of meal time preparation, the need for convenience, and the increasing number of meals consumed outside the home (home meal replacement). As a result, the produce business is more demand driven today, than supply driven, like it was in the past. Fresh cut vegetable sales, as a category, continue to rise and is likely to continue increasing into the future.

Per capita consumption of celery has been on a slight downward trend since 1976 (see Exhibit 19). Per capita celery consumption went from 7.4 pounds per person in 1976 to 6.7 pounds per person

in 1996. This decline in celery consumption can be explained in part, by consumers' increasing need for convenience, the increase in easy to prepare entrees and the increasing popularity of substitute vegetables, such as whole peeled baby carrots.

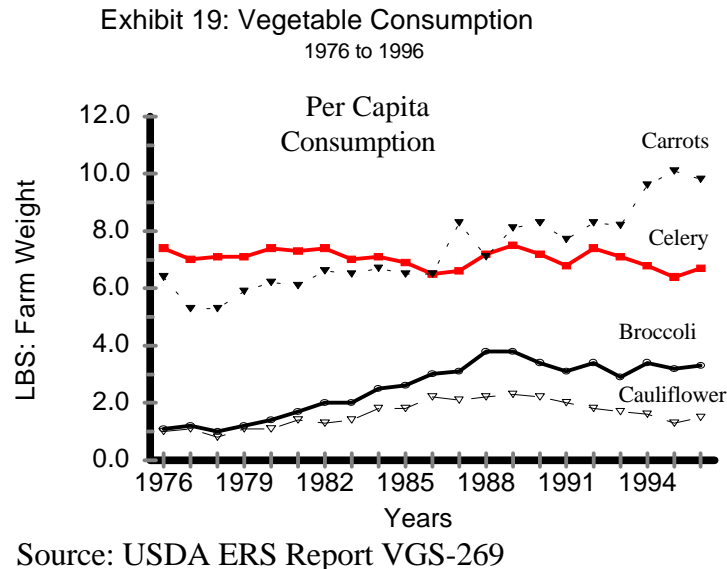


Exhibit 19 also illustrates the per capita consumption of carrots, broccoli, and cauliflower. Carrots have shown the largest gain in per capita consumption since 1976, increasing from 6.4 to 9.8 pounds. Both broccoli and cauliflower have also increased since 1976 but appear to be leveling off at approximately 3.3 and 1.5 pounds per person respectively.

Fresh cut fruit is likely to be the next frontier to be conquered. Currently there are limited offerings of fresh cut fruit due to the difficult task of keeping cut fruit from browning. As the produce industry moves towards increasing the amount of fresh cut and value-added produce, governmental programs such as HACCP (Hazard Analysis and Critical Control Plan) are becoming increasingly important in day to day produce operations.

In addition to the need for convenience, consumers are much more conscience and knowledgeable today regarding healthy eating. There is however room for further consumer education regarding new products and alternative uses of products. The produce industry is doing a nice job of promoting the value of produce with the 5 a day program.

The size of grocery stores is no longer expanding at the rate it once was. As the number of food and non-food items continues to increase in the grocery store and the absolute size of the store seem to have reached its limits, it is likely that the size of the produce department may be limited or at least it will have to justify itself more than in the past. Within grocery stores on the west coast,

the importance of organic fruits and vegetables has been growing, as well as the emergence of grocery delivery service-based companies such as Pea Pod in Chicago.

Finding qualified labor is likely to be one of the biggest challenges facing the restaurant industry for years to come. One obvious result of this trend will be the continued need for fresh cut produce that is safe to consume to help reduce the amount of skilled labor needed.

5.6.2 Implications regarding trends driving the produce industry

The pace of the American lifestyle is showing no signs of slowing. Therefore, it is in the best interest of produce suppliers to provide products and services that fit this lifestyle. Fresh cut produce will continue to grow and suppliers must determine what their role will be: (1) a supplier who wishes to sell on a day by day basis to any buyer, (2) a supplier who relies on long-term contracts with buyers, (3) a member of a grower cooperative involved in marketing, (4) an integrated grower/processor/marketer selling direct, or (5) a niche marketer of organic fruits and vegetables.

5.7 The Role of Category Management in the Produce Purchasing Decision

There role of category management was expressed in significantly different terms between brokers, wholesalers, retailers, and the rest of the respondents. Therefore, no responses common to all respondents are presented.

5.7.1 Responses unique to brokers, wholesalers, and retailers

Brokers, wholesalers, and retailers responses to the question of the role category management plays in the purchasing decision were all over the board. The following is a sampling of what category management meant to the respondents: (1) a totally new way to look at produce, based on the need for standard PLU's (price look up codes) in order to truly track costs and profits of produce categories, (2) simply the combining of the buying and merchandising functions, and (3) a foolish attempt at trying to control to needs and demands of customers.

Many firms have been implementing some form of category management for years, but just not calling it category management. The very nature of produce (its perishability, etc.) implies efficient replenishment, one of the four foundations of category management. However, the produce industry could make improvements in the areas of efficient assortment, efficient promotion, and efficient new product introduction. Under category management, suppliers are more involved in the entire produce merchandising process. Category management has been used in the non-produce areas of the grocery stores for many years.

Centralized buying is not the same as category management. Many firms are skeptical of following the principles of category management to the letter. For example, if a produce item is not selling, but a few customers still want it, should the item be kept or not? For many firms, category management comes down to providing the products and services that their customers demand.

For wholesalers, category management is not practical to apply to the warehousing operation itself because of the wholesaler's need to satisfy the needs of its customers (e.g., bringing in 4 cases of persimmons for a specific customer). However, a wholesaler could act as a consultant to their customers by helping the customer implement category management into their specific operations.

5.7.2 Responses unique to firms involved in food service and fresh cut produce

Category management has not been emphasized in the food service industry at the time this study was under taken. There may be some emphasis under the new efficient food service response initiative currently underway. There are components of category management in the grocery sector that could be applied to produce in the food service sector, such as efficient promotion, and efficient new product introduction.

5.7.3 Implications regarding the role of category management in the produce industry

Category management will require suppliers to match up with category managers instead of buyers. For some this will mean their firm is a category leader or category captain, for others, a category follower. Categories in produce are likely to be based on groups of commodities sharing common themes, such as, the lettuce family, potatoes and onions, etc. Realistically, Michigan celery growers, shippers, and grower/shippers will be category followers due to their limited product offerings and part-year involvement in the celery business.

5.8 The Impact of Fresh-Cut Produce on Traditional Sales and How a Firm Selects a Fresh-Cut Provider

5.8.1 Responses common to all respondents

Respondents indicated that sales of fresh cut produce continues to grow. However, the growth rate has slowed in recent years. This is in part, a function of the entire category growing (e.g., sales increases are now part of a larger number, making the percentage increase smaller).

Respondents in general did not believe that traditional produce sales were suffering to any great extent as a result of increases in fresh cut sales. Some retailers said that sales of head lettuce has declined somewhat. A possible explanation for the ability of traditional produce sales to hold their own versus fresh cut sales may be the current emphasis American consumers are placing on health and nutrition. Traditional produce sales may decline if the emphasis on health and nutrition lessens and/or consumers' need for convenience increases.

However, some respondents indicated there has been some cannibalism of certain produce items due to the increased usage of fresh cut produce. For example, the advent of salad mix, which may contain a variety of lettuces, carrots, radishes, croutons, does not usually contain fresh tomatoes. This has hurt the sales of fresh tomatoes, and to a lesser extent, a similar argument could be made for celery. Buyers indicated that reputation for quality, service, and safety are important factors. For example, does the company providing the fresh cut produce have the ability and reputation for providing consistent quality and safe products in a timely manner?

In some cases, choosing between fresh cut suppliers is based on the amount of promotional allowances that the supplier is willing to give in order to win and maintain the business. Still other buyers choose fresh cut produce suppliers based on the supplier's willingness to grant exclusivity in a particular market place.

5.8.2 Responses unique to brokers, wholesalers, and retailers

For some brokers, wholesalers, and retail buyers it is important that the fresh cut provider is able to pack a private label or a store label. Given the increasing number of produce products available today (due in large part to the proliferation of fresh cut produce), many retailers are willing to tradeoff product label diversity for consistent, eye appealing displays of traditional and fresh cut produce. The increased number of produce products available and the ability to provide consistent fresh cut produce has lead to increased buyer expectations regarding quality and service across the produce industry, including suppliers of traditional produce.

There has been an on-going debate in the produce industry regarding whether it is better to purchase fresh cut produce from west coast processors or from regional fresh cut processors that are located closer to the buyer. There was no clear cut "best" choice regarding west coast or regional fresh cut provider. Respondents were evenly split between buying fresh cut produce from west coast or regional processors. Given the technological advancements that have taken place in the fresh cut industry over the last ten years, the choice of west coast or regional processor depends on firm specific needs such as volume and turnover of fresh cut produce.

5.8.3 Responses unique to firms involved in food service and fresh cut produce

Fresh cut suppliers are selected based on their ability to meet the customer's needs. In some cases this may be based on proximity of the fresh cut provider to the customer (e.g., the desire to buy local whenever possible). In other cases, the fresh cut supplier may be able to provide a unique product or service such as clipped pea pods.

Fresh cut produce sales may or may not increase as restaurants get a better handle on activity based costing. Currently, it appears less expensive to utilize fresh cut produce in restaurants verses bulk produce. One respondent from a national restaurant chain indicated that it could be possible to switch back to bulk produce if fresh cut produce got too far out of line. In general, skilled labor shortages in the kitchen has become one of the main factors driving the restaurant industry's need for fresh cut produce. Any thing that could be done to give fresh cut produce the appearance of homemade would help sales to food service outlets. For example, irregular cuts on lettuce.

5.8.4 Suppliers' perspective regarding the implications of fresh cut produce on sales of traditional produce

One unfortunate trend in the fresh cut area is the growing commodity mentality of both buyers and suppliers. Standard salad mix is now a football item where fresh cut suppliers are increasingly willing to offer this product at or below cost, to get the rest of the buyer's fresh cut order.

Finally, there was concern expressed on the part of suppliers who relied heavily on sales of traditional produce items regarding the potential for cannibalism of their sales by fresh cut sales. For example, Michigan cello carrot sales are likely to suffer because of the increasing popularity of whole baby peeled carrots from California.

5.8.5 Implications regarding the impact of fresh cut produce on sales of traditional produce

Sales of traditional produce items were holding their own at the time this study was conducted. However, there are signs that fresh cut sales are beginning to cannibalize sales of traditional produce items. The future looks bright for those companies that can find ways to add value to their products and services. There will always be a need for a given amount of bulk produce, as well as the need to address consumer needs driving fresh cut produce.

5.9 Past Experience with Michigan Celery

Of the 68 firms interviewed in this study, 35 firms were qualified to respond to the question asking if they have ever purchased Michigan celery in the past and if they had purchased Michigan celery during the 1996 Michigan marketing season. The remaining 33 firms that did not respond to this question were located in non-Michigan markets (e.g., the west coast), were professionals associated with the produce industry, or were some combination of growers and/or shippers.

31 of the qualified respondents (89%) said they had purchased Michigan celery in the past, while only 21 respondents (60%) indicated that they purchased Michigan celery during the 1996 Summer Michigan marketing season. These numbers point out what Michigan celery shippers have been painfully aware of for a number of years...that just because you have sold Michigan celery to a customer in the past, there is no guarantee you will sell them in the future.

The following subsections highlight the responses according to: (1) reasons for purchasing Michigan celery unique to brokers, wholesalers, and retailers, (2) reasons for not purchasing Michigan celery unique to brokers, wholesalers, and retailers, (3) reasons for purchasing Michigan celery unique to firms involved in food service and fresh cut produce, (4) reasons for not purchasing Michigan celery unique to firms involved in food service and fresh cut produce, and (5) implications regarding buyers' past experience with Michigan celery.

5.9.1 Reasons for purchasing Michigan celery unique to brokers, wholesalers, and retailers

Some buyers evaluate Michigan celery on a year-to-year basis. For one particular retailer, 1996 Michigan celery was of acceptable size and consistency to carry on a regular basis in their stores. This is indicative of the yearly struggle that growers and shippers of Michigan celery have. That is, every year Michigan shippers have to break into the market and convince buyers why they should purchase Michigan celery.

While wholesalers and warehouses may decide where to source the produce they offer their customers, it is possible that wholesale and warehouse customers may demand Michigan produce at certain times of the year (e.g., Michigan apples when available). Sometimes retailers buy "locally"

out of a defensive position. If their competition is offering local produce they may feel obligated to do the same.

There are some examples of where relationship selling is still important. This doesn't mean that Michigan celery is allowed to under perform. On the contrary, Michigan celery is judged according to California standards. These buyers are only willing to buy Michigan celery if it is of comparable quality to California and is priced less than California. Having a good working relationship with a buyer allows the seller better access to the celery order when the Michigan season gets underway.

5.9.2 Reasons for not purchasing Michigan celery unique to brokers, wholesalers, and retailers

Lack of consistency regarding quality (stinginess, bitter taste, dirtiness etc.), especially in relation to California celery was cited as a reason not to purchase Michigan celery. California is the standard by which all celery is judged. California growers continue to find new ways to improve produce quality and service. In a sense, one might say the price of admission is constantly being raised.

Some respondents indicated their decision to not purchase Michigan celery was based on promotions and incentives offered by their regular California produce suppliers. For example, it is common for Dole to offer price and promotional incentives to retail buyers based on the volume and/or number of produce items purchased over an agreed upon time period. Many buyers are willing to trade paying a higher cost for produce, including celery, in exchange for consistent quality, service and pricing programs that reduce the high and low produce price swings.

One firm indicated that they did not purchase Michigan celery in 1996 because no one approached them about buying Michigan celery. Further questioning revealed that the particular buyer had quality problems in 1995, so it was unclear if they would have purchased celery in 1996 anyway.

A limited number of respondents indicated that whenever they have carried Michigan celery their customers have noticed and complained, ultimately resulting in a corporate policy to only carry California celery. It would be difficult to pin down any specific customer complaints. However, it is reasonable to assume that consumers react to anything that appears to differ from what they perceive as normal (e.g., different color, stalk length, or amount of celery leaves left on the stalk).

It is ironic in today's environment of just in time inventory and the need for efficient supply chain management that keeping a high level of freshness by limiting inventories could actually work to the disadvantage of relationships between suppliers and local buyers. For example, a local retailer may become dependent on daily delivery of local produce only to find itself out-of stock if local weather problems persist, preventing the local growers from harvesting.

5.9.3 Reasons for purchasing Michigan celery unique to firms involved in food service and fresh cut produce

Fresh cut and food service respondents offered a number of reasons for purchasing Michigan celery including: (1) the desire to purchase local produce, (2) the desire to lower the product cost by

saving on freight, presuming Michigan celery is of acceptable quality, (3) limited applications in for fresh cut mixes such as those used in soups (but not acceptable for making celery sticks), (4) use as a fill-in when a California shipment is late or there are unanticipated sales, and (5) some buyers believe the quality and consistency of Michigan celery is similar to California, and serves as a lower priced alternative (difference in freight rates) to California celery.

One additional comment regarding reasons for purchasing Michigan celery is that the decision to use Michigan celery in a restaurant chain is often left up to the local restaurant management and the local produce provider. More often than not, restaurant chains find themselves in a position where they feel compelled to set company-wide produce specifications in order to present a consistent meal to customers across the chain's geographic area.

5.9.4 Reasons for not purchasing Michigan celery unique to firms involved in food service and fresh cut produce

Food service wholesalers may buy California celery over Michigan for reasons unrelated to price and quality. Celery is a bulky item that is often used to fill out trucks loading produce in California. Some years find abundant supplies of California celery. This lessens the price spread between Michigan and California celery. When the price spread is small enough, buyers are likely to be indifferent between California and Michigan celery, and many in fact opt to stay with California celery because it is easier than dealing with another supplier.

5.9.5 Implications regarding buyers' past experience with Michigan celery

The short term nature of the Michigan celery deal is a problem because buyers are increasingly looking for ways to simplify their lives, and following local produce deals around the country does not simplify. Most California produce shippers offer a much wider variety of items for sale than the average Michigan produce shipper who handles primarily celery. The fact remains that every season, Michigan shippers must break back into the celery market and convince buyers why they should purchase Michigan celery.

For many smaller retailers, the decision of what geographic location to purchase produce from is based on decisions made at the wholesaler or at the firm's warehouse. One implication of this finding is the importance of understanding the needs and the buying practices of wholesalers and warehouses. Like it or not, Michigan celery is judged by California standards for quality, service, and price.

The main reasons offered by respondents for purchasing Michigan celery was based on price and other cost savings. Increasing sales will require Michigan celery producers to find new ways of adding value.

5.10 How Michigan Celery Producers Could Increase the Value of Their Products and Services

5.10.1 Responses common to all respondents

Many of the respondents suggested that the Michigan celery industry needs to work harder at understanding their customer's needs, and understanding that different customers have different needs and expectations. Work hard at creating value in the eyes of the customer. This is a function of many attributes, only one of which is the price of the celery. For example, the current pricing policy of the Michigan Celery Promotion Cooperative creates problems for food service distributors wishing to quote a celery price one week at a time. Other buyers would love to see some form of promotional support on celery. This could be in the form of cash, recipe ideas, other point of sale materials, contests, etc.

Michigan growers, shippers, and grower/shippers need to adopt more of a marketing approach to business, don't just grow for the sake of growing. For example, create a Michigan brand of celery called "The Heart of Michigan." Celery growers have improved Michigan celery dramatically over the last 20 years. The problem is that California celery has improved as well. Target non-traditional outlets for Michigan celery such as fresh cut and food service distributors, and niche produce outlets such as fruit stands. For example, plant varieties that produce longer stalks to be used in celery stick production. Be creative, develop the next blooming onion. Along these lines, a chef could be consulted for menu ideas to be promoted in the restaurant industry.

Work hard at selling to the regional market area in terms of "local" produce. For example, in Michigan, consumers are predisposed to purchasing Michigan product if the quality is acceptable. A few of the leading retailers utilize "home-grown" or "local" produce as an effective marketing tool. The bottom line is that Michigan celery growers and shippers need to service their regional market better than anyone else.

Michigan celery growers and shippers could align themselves with selected California grower/shippers. For example, Michigan celery could be offered as an additional service by the California grower/shipper to customers they deal with year-round. The willingness of California grower/shippers to engage in this type of activity is described in an upcoming section. Michigan celery growers could work strategically and cooperatively with other regional commodity groups in the same general produce category to promote the entire category. For example, joining forces with red onion and radish producers to capture economies of scale in advertising and promotion.

Strive to plant better varieties that are uniquely adapted to Michigan soil and climate, varieties that will more consistently resemble California grown varieties. For example, plant varieties that are less dark green and more of a light green. Plant varieties that have wider ribs, are less stringy, and less tart, and less spindly.

5.10.2 Responses unique to brokers, wholesalers, and retailers

Brokers, wholesalers, and retailers often suggested that Michigan celery grower develop additional outlets for celery, especially at the beginning and the end of the Michigan marketing season. This is traditionally the time when celery quality is not up to retail specifications.

Other ways that Michigan celery suppliers could add value to buyers is through innovative shipping practices such as banding the celery (perhaps with rubber bands) and adding PLU's (price look up codes) to fit the activity based costing systems of many retailers. One large local retailer would like to see all produce come in returnable shipping containers. This would reduce the amount of recycling the store needs to do and would create a sense of uniformity both in the produce back room and the store sales floor.

5.10.3 Responses from California grower/shippers regarding how to improve the Michigan celery industry

Many of the California grower/shipper respondents offered similar suggestion for improving the Michigan celery industry as the buyers did, including: improving buyer perception, consistency, taste, appearance, clearly identify Michigan's role in the celery industry (carve out a specific niche), and stick to a plan once it is developed.

Michigan celery growers need to stick to a certain quality standard. The current USDA standards allow too much room for variation that is not acceptable in today's marketplace. It is up to the celery grower to put up a good pack and to communicate the quality of his crop to the shipper. In addition to quality standards, Michigan celery producers need to utilize ad and promotions wisely. Ads and promotions are necessary, but they should only comprise 10-20% of the business. To this extent, one respondent wondered if there wasn't a better way than having producers so intimately involved in the marketing aspects. Perhaps utilizing a single marketer (shipper) for Michigan celery would be a good idea?

It would be an improvement if market information regarding prices of Canadian shipments were as readily available as Michigan celery prices and shipments. All too often, Michigan celery shippers are confronted with Canadian celery prices quoted by their customers.

A number of California grower/shippers suggested that Michigan could decide to quit growing and selling celery. While this was often said in jest, there was a tone of seriousness to this particular comment.

5.11 Interest in Partnering with Michigan Celery Producers

Interest in partnering with Michigan celery producers was lukewarm at best. A partnership will only take place if the situation is a win-win. That is, the non-Michigan produce marketer must receive benefit from the relationship as well as the Michigan celery producer. Among other things this means that Michigan producers would have to pack a consistent, high quality product which would most likely be packed under a the non-Michigan marketer's label. Other California

grower/shippers thought there would be too much hassle (e.g., lack of product consistency) and not enough benefit in entering relationships of this nature.

There is some precedence of these types of arrangements in the produce industry, especially in Texas and Florida. One thing is for sure; any relationship/partnership of this nature will have to be initiated by Michigan celery producers.

VI. THE IMPORTANCE OF SUPPLIER AND PRODUCT CHARACTERISTICS IN THE PURCHASING PROCESS

This section is divided into three perspectives regarding the importance of supplier and product characteristics in the purchasing process. These perspectives include: (1) the buyers' perspective, (2) the suppliers' perspective, and (3) a comparison of the buyers' and suppliers' perspectives.

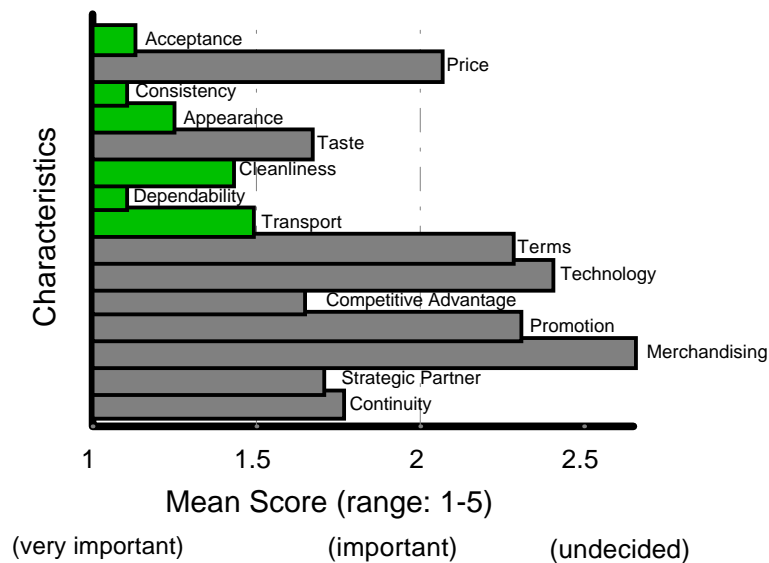
6.1 The Buyers' Perspective Regarding the Importance of Supplier and Product Characteristics in the Purchasing Process

Approximately 32 out of 39 buyer respondents provided answers regarding their ranking of the importance of 15 different supplier and product characteristics. Respondents were asked to rate these characteristics on a five point scale where 1=very important, 2= important, 3=undecided, 4=unimportant, and 5=very unimportant (refer to Exhibit 17, in the appendix, for a complete list of the characteristics).

Exhibit 20 is a bar chart showing the average mean or average score for each of the 15 characteristics. Buyers indicated six supplier and product characteristics that were considered to be very important (a mean score of less than 1.5). The six very important supplier and product characteristics included: customer acceptance of the product, consistency of the product, appearance of the product, cleanliness of the product, dependability of the supplier, and the effectiveness of transportation and logistics. Of these six very important characteristics, product consistency and supplier dependability had the lowest average scores of 1.09. This meant that almost every respondent rated these characteristics as very important. The buyer's desire to do business with suppliers capable of providing consistently clean, eye appealing and acceptable product, in a dependable manner was echoed through out the earlier analysis in this paper.

Buyers also identified eight other characteristics as important (see Exhibit 20). Price with an average score of 2.06 is somewhat of a surprise. Most buyers responded when asked why price wasn't considered very important, said that "price is important, but there are other characteristics that are more important." One other possible explanation for price taking on a role of important verses very important is that competition between produce suppliers is intense and buyers have many options regarding the purchasing of product which leads to the "market" setting the price parameters for the buyer.

Exhibit 20: Importance Factors
(Buyers' Perspective)



Only one characteristic had a mean score of greater than 2.5, which was product merchandising support with an average score of 2.73. This meant buyers were undecided on the importance of product merchandising support. This type of support has not traditionally been common in the produce industry. However, with the sales of fresh cut produce increasing, fresh cut producers have looked for ways to differentiate their product from one another, including the use of product merchandising support.

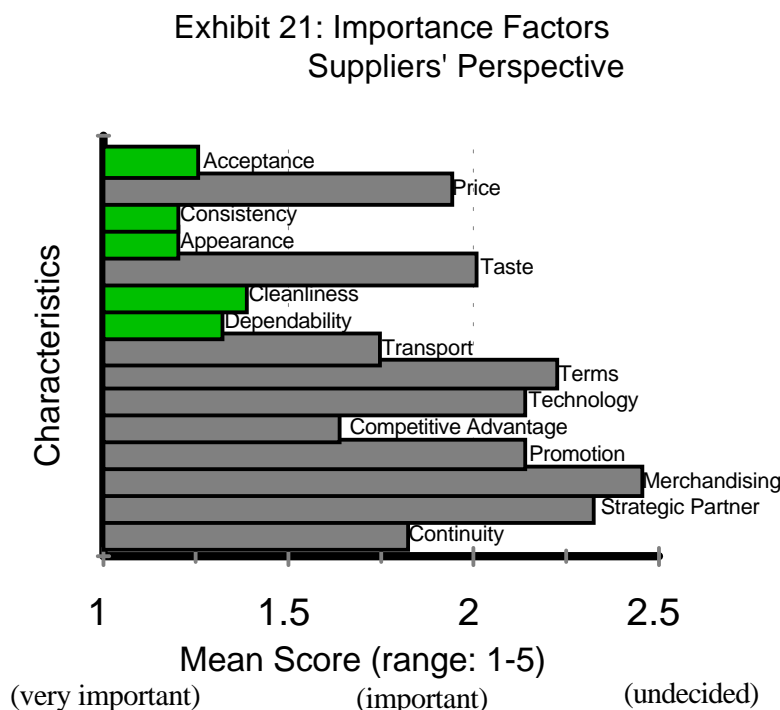
6.2 The Suppliers' Perspective Regarding the Importance of Supplier and Product Characteristics in the Purchasing Process

Approximately 16 out of 19 supplier respondents provided answers regarding their ranking of the importance of 15 different supplier and product characteristics. Respondents were asked to rate these characteristics on a five point scale where 1=very important, 2= important, 3=undecided, 4=unimportant, and 5=very unimportant (refer to Exhibit 17, in the appendix, for a complete list of the characteristics).

Exhibit 21 is a bar chart showing the average mean or average score for each of the 15 characteristics. Suppliers indicated five supplier and product characteristics that were considered to be very important (a mean score of less than 1.5). The five very important supplier and product characteristics included: customer acceptance of the product, consistency of the product, appearance of the product, cleanliness of the product, and dependability of the supplier. Of these five very important characteristics, product consistency and product appearance had the lowest average scores of 1.19. This meant that almost every supplier rated these characteristics as very important. Again the theme of the buyer's desire to do business with suppliers capable of providing

consistently clean, eye appealing and acceptable product, in a dependable manner was echoed through out this paper.

Buyers also identified all remaining characteristics (ten in total) as important (see Exhibit 21). Again, price with an average score of 1.93 is somewhat of a surprise, especially to growers, shippers, and grower shippers who engage in daily price discussions with buyers. In general, suppliers identified the same “very important” characteristics as the buyers in this research.



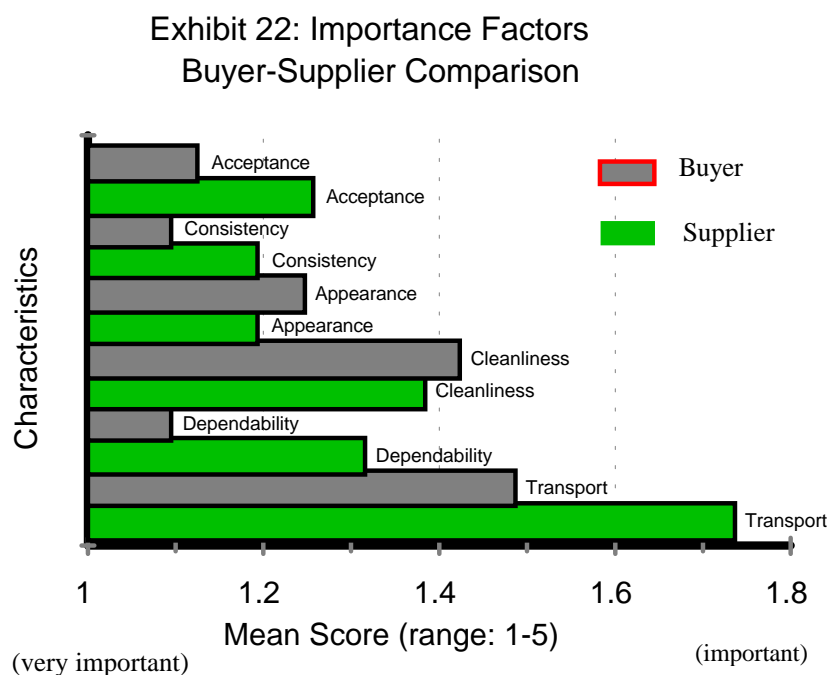
6.3 A Comparison Between Buyers' and Suppliers' Perspective Regarding the Importance of Supplier and Product Characteristics in the Purchasing Process

Buyer and supplier ratings regarding the importance of supplier and product characteristics in the purchasing process are compared in Exhibit 22. Only those characteristics that either buyers or suppliers rated as very important (a mean of less than 1.50) are analyzed here. Using the mean ratings for importance, buyers rated four out of the six characteristics higher in relative importance than the suppliers. These characteristics included: acceptance of the product, consistency of the product, dependability of the supplier, and effectiveness of the transportation and logistics. Product appearance and cleanliness of the product were rated slightly more important by suppliers than

buyers. The effectiveness of transportation and logistics had the greatest difference in ratings between buyers and suppliers.

Exhibit 22 is designed to compare the responses of buyers and suppliers based on differences in the **average** responses or the mean scores for each group. One other method was used to compare the responses between buyers and suppliers. These responses were also analyzed according to whether they belong to one of two categories: (1) very important, and (2) important or undecided (no respondent gave an importance rating of unimportant or very unimportant to any characteristic). These recategorized responses were then used to compare the responses of buyers against suppliers. Only those characteristics that were significantly different between these two groups will be discussed.

There were two categories where the percentage of very important responses was substantially lower for grower/shippers than for buyers. Only 69 percent of the suppliers said supplier dependability was very important compared to 94 percent of buyers who said this characteristic was very important. This is also shown to a lesser extent in Exhibit 22. Ability to be a strategic partner was the second category. Only 6 percent of the suppliers said this was very important, while 53 percent of the buyers indicated this characteristic is very important. The reader should be careful not to read too much into these differences, except to say that suppliers may be wise to pay more attention to creating an image of dependability and the ability to be a strategic partner.



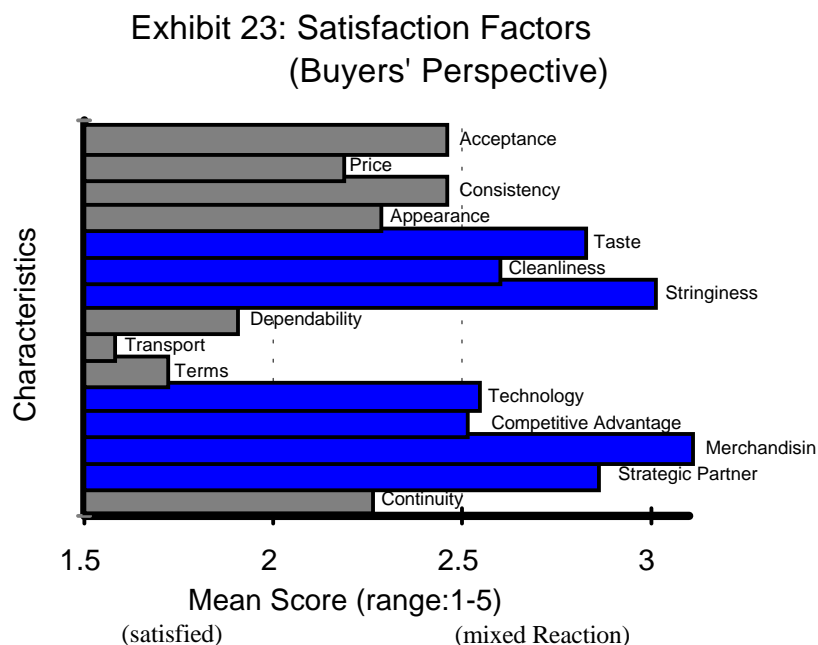
VII. SATISFACTION WITH MICHIGAN CELERY SUPPLIER AND PRODUCT CHARACTERISTICS

This section is divided into three perspectives regarding the satisfaction of Michigan supplier and product characteristics. These perspectives include: (1) the buyers' perspective, (2) the suppliers' perspective, and (3) a comparison of the buyers' and suppliers' perspectives.

7.1 The Buyers' Perspective Regarding Satisfaction with Michigan Supplier and Product Characteristics

Approximately 22 out of 39 buyer respondents provided answers regarding their ranking of their satisfaction with 15 different Michigan supplier and product characteristics. The other 17 buyers did not purchase Michigan celery. Respondents were asked to rate these characteristics on a five point scale where 1=very satisfied, 2= satisfied, 3=mixed reaction, 4=unsatisfied, and 5=very unsatisfied (refer to Exhibit 18, in the appendix, for a complete list of the characteristics).

Exhibit 23 is a bar chart showing the average mean or average score for each of the 15 characteristics. Buyers indicated eight supplier and product characteristics that were considered to be satisfactory (a mean score between 1.5 and 2.49). The eight characteristics that were deemed to be satisfactory are the acceptance of the product, price, consistency of the product, appearance, supplier dependability, ability to use transportation and logistics effectively, terms of trade, and the continuity of the business relationship. Reliability of transportation and logistics received the lowest mean score of any of the 15 characteristics with an average rating of 1.67.



Buyers, and in particular brokers, had difficulty answering some of the satisfaction questions because they said those customers who liked Michigan celery were generally satisfied with many of the characteristics, while other customers who refused to buy Michigan celery could be said to be generally unsatisfied. These respondents were instructed to answer the questions based on those customers who wanted Michigan celery. Seven characteristics were identified as mixed reaction or unsatisfied (see Exhibit 23). The mean ratings for these seven characteristics were between 2.5 and 3.49. In general, a mixed reaction indicated that the respondent had both satisfactory and unsatisfactory experience with Michigan supplier and product characteristics. None of the 15 Michigan celery supplier and product characteristics received a mean score of less than 1.57. That is, no single Michigan celery characteristic caused respondents to be very satisfied.

7.2 The Suppliers' Perspective Regarding Satisfaction with Michigan Supplier and Product Characteristics

Approximately 11 out of 19 supplier respondents provided answers regarding their ranking of their satisfaction with 15 different Michigan supplier and product characteristics. The other 8 suppliers were California firms that did not have experience with Michigan celery. Respondents were asked to rate these characteristics on a five point scale (see Exhibit 24) where 1=very satisfied, 2= satisfied, 3=mixed reaction, 4=unsatisfied, and 5=very unsatisfied (refer to Exhibit 18, in the appendix, for a complete list of the characteristics).

Exhibit 24: Satisfaction Factors
(Suppliers' Perspective)

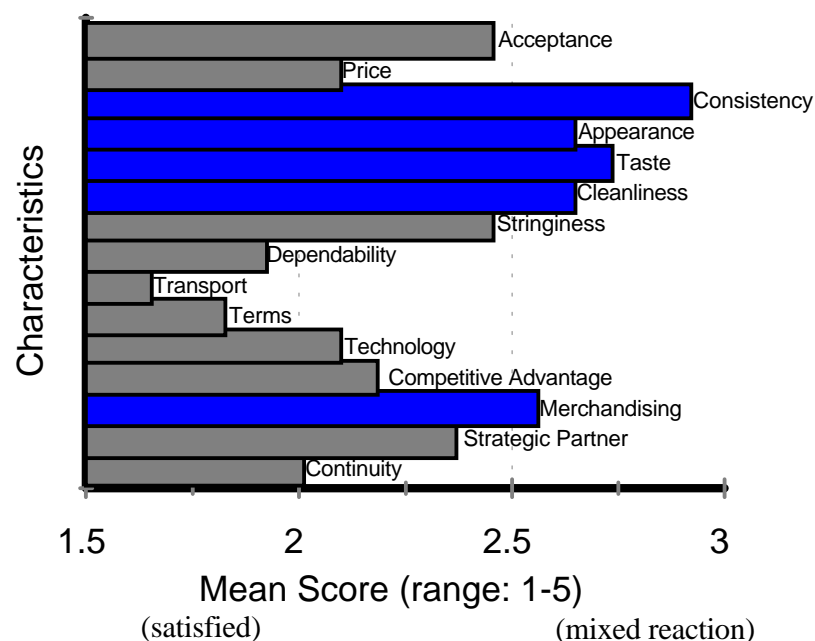


Exhibit 24 is a bar chart showing the average mean or average score for each of the 15 characteristics. Suppliers indicated ten supplier and product characteristics that were considered to be satisfactory (a mean score between 1.5 and 2.49). The ten characteristics that were deemed to be satisfactory are the acceptance of the product, price, the stringiness of the product, supplier dependability, ability to use transportation and logistics effectively, terms of trade, the ability to use technology, the provision of product that gives competitive advantage to the buyer, the ability of the supplier to be a strategic partner, and the continuity of the business relationship. Reliability of transportation and logistics received the lowest mean score of any of the 15 characteristics with an average rating of 1.64. Suppliers rated the remaining five characteristics in Exhibit 24 as mixed reaction. These mixed reaction characteristics include: consistency, appearance, taste, cleanliness, and merchandising support.

7.3 A Comparison Between Buyers' and Suppliers' Perspective Regarding Satisfaction of Michigan Supplier and Product Characteristics

Buyer and supplier ratings regarding the satisfaction of Michigan supplier and product characteristics are compared in Exhibit 25. Only those characteristics that either buyers or suppliers rated as satisfactory (no mean scores were less than 1.5 or very satisfied) are analyzed here. Using the mean ratings for satisfaction, eleven common characteristics were identified, but only six were different enough from each other to warrant discussion here. The findings illustrate that buyers rated consistency of product and appearance of product higher in relative satisfaction than the suppliers. This result is somewhat surprising. Perhaps suppliers so often hear buyers commenting on consistency and appearance that they were harder on these ratings than the buyers. There were three Michigan supplier and product characteristics that buyers were relatively less satisfied than suppliers. These include: the stringiness of Michigan celery, the ability to use technology, and the ability of Michigan celery to give competitive advantage to the buyer.

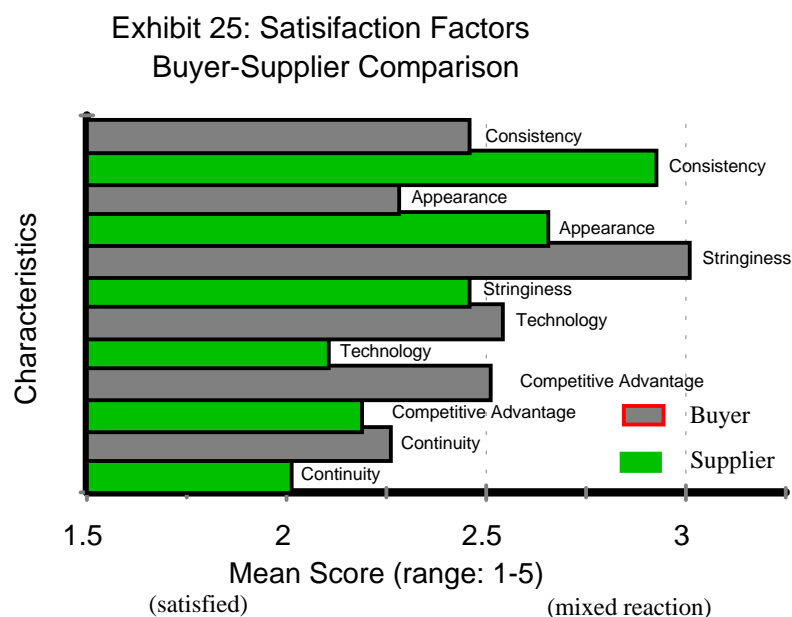


Exhibit 25 is designed to compare the responses of buyers and suppliers based on differences in the **average** responses or the mean scores for each group. One other method was used to compare the responses between buyers and suppliers. The responses were also analyzed according to whether or not they belonged to one of two categories: (1) satisfied, and (2) mixed reaction or unsatisfied (no respondent gave a satisfaction rating of very unsatisfied to any characteristic). These recategorized responses were then used to compare the responses of buyers against suppliers. Only those characteristics that were significantly different between these two groups will be discussed below.

There were two categories where the percentage of satisfied responses was substantially lower for Michigan growers and shippers than for buyers (see Exhibit 26). Only 27 percent of the growers and shippers said product appearance was satisfactory compared to 71 percent of buyers who said they were satisfied with Michigan celery. Michigan celery producers have improved greatly over the years regarding celery appearance. The second category was product consistency. Only 18 percent of the Michigan growers and shippers said their celery was consistent, while 57 percent of the buyers indicated Michigan celery was satisfactory. While Michigan celery producers should be heartened by the fact that 57 percent of the buyers in this study thought Michigan celery was satisfactory, they should keep in mind the high level of importance buyers place on product consistency, and Michigan celery producers would do well to strive for very satisfied when it comes to product consistency.

Exhibit 26: Comparison of Satisfaction Characteristics Between Michigan Growers and Shippers and Buyers

| Characteristic Respondents Were Satisfied With | Percentage of Michigan Growers and Shippers | Percentage of Buyers |
|---|--|-----------------------------|
| Product Appearance | 27% | 71% |
| Product Consistency | 18% | 57% |
| Stringiness of Celery | 64% | 29% |
| Ability to be a Strategic Partner | 64% | 26% |
| Merchandising Support | 46% | 21% |
| Pricing of Celery | 91% | 76% |

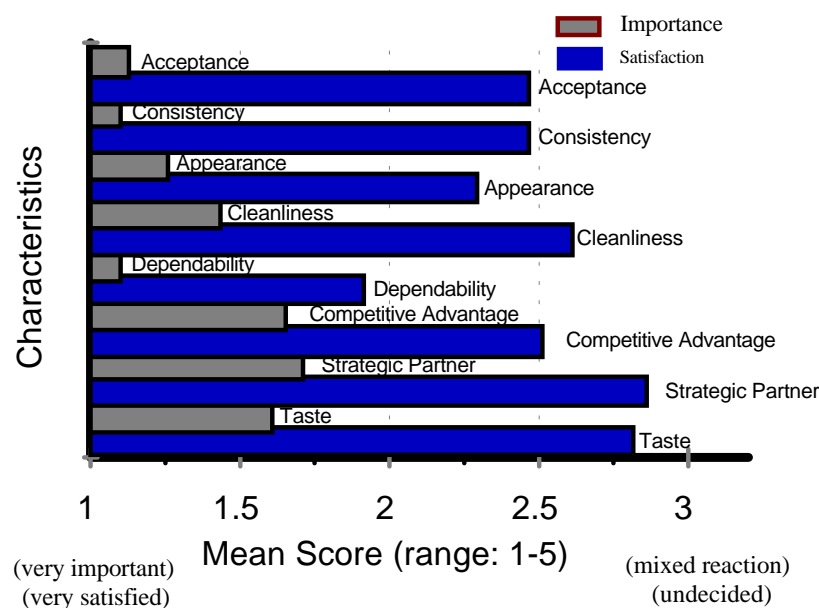
Michigan celery producers rated satisfaction substantially higher than buyers for the following characteristics: stringiness, ability to be a strategic partner, ability to give merchandising support, and the pricing of Michigan celery (see Exhibit 26). Stringiness of celery is a product characteristic that is often difficult to control from a producer's standpoint. Celery quality depends on seed selection, climatic conditions, and producer knowledge and experience. It should be noted that buyers may

hold on to perceptions due to past problems, such as stringiness, even when these problems may now be corrected. The ability to be a strategic partner is a broad term that means different things to different people. Michigan celery producers and shippers could improve their satisfaction rating here by working at understanding a potential partner's needs and communicating their abilities as a strategic partner. The emphasis on product merchandising support is likely to increase in the future as fresh cut produce continues to expand. It is not surprising that Michigan growers and shippers believe that buyers are satisfied with the pricing of celery. Many growers and shippers feel they are continually bombarded with requests from buyers to reduce the price.

7.4 A Comparison of the Buyers' Responses Regarding Importance and Satisfaction

Michigan celery producers would do well to compare the buyers' mean scores of those characteristics important to general produce purchasing decisions to the buyers' mean scores of those characteristics affecting satisfaction of Michigan celery and supplier characteristics. The results of this comparison are shown in Exhibit 27. Michigan celery producers should work on improving: (1) customer acceptance of celery (rated very important and barely satisfactory), (2) the consistency of Michigan celery (rated very important and barely satisfactory), (3) the appearance of Michigan celery (rated very important and satisfactory), (4) the cleanliness of Michigan celery (rated very important and mixed reaction), (5) the supplier dependability (rated very important and satisfactory), (6) the competitive advantage buyers receive from purchasing Michigan celery (rated important and mixed reaction), (7) the ability of Michigan celery producers to be strategic partners (rated important and mixed reaction), and (8) the taste of Michigan celery (rated as important and mixed reaction).

Exhibit 27: Comparison of Buyer Importance & Satisfaction



VIII. SUMMARY REMARKS

Buyers indicated that they strive to buy the best and to carry the best possible produce. To satisfy diverse customer needs, buyers will purchase multiple grades, lines, and individual commodities from multiple sources. Realistically, not all produce commodities are given the same buyer attention because of differences in the relative importance of various commodities. Buyers want to do business with suppliers that truly value the buyer's business. Suppliers must be willing to work with the buyer. These relationships involve give and take. That is, buyers want suppliers that are willing to work with them. A valued relationship exists when both parties understand and respect each other's needs and a valued buyer-supplier relationship can vary depending on the exact needs and circumstances of the relationship. The number one way a supplier can get into trouble with a buyer is to over promise and under deliver.

There are a multitude of buying and selling philosophies present in the produce industry today. Successful sellers know their individual business philosophies and they are able to communicate this philosophy in both words and actions across their company and to their customers. Consistency, reliability, and the ability to deliver a quality product were the most cited characteristics of what buyers look for in a supplier. Integrity, trustworthiness, honesty in growing, packaging, and general business dealings were also important to buyers. Credible growers, shippers, and grower/shippers who find ways to make the buyer's life easier will enjoy long-term success.

For better or worse, all produce suppliers are judged by California standards, whether the discussion centers on price, quality, or service. A product that only marginally makes grade and results in forcing the buyer to take the product may result in the seller winning the battle, but losing the customer's business and the war. Adversarial buyer-supplier relationships have given way to partnerships. Partnering can mean different things depending on your position in the produce system. Partners utilizing the appropriate technology will spend less time haggling over price, and more time on making sure they deliver the best produce possible, at the least possible cost.

Suppliers skilled in the art of "horse-trading" are no longer as valued as suppliers who understand partnering, negotiating, and the diplomacy involved in bringing groups of producers together to achieve common goals. Today's buyers are likely to have little produce background and even less time to spend on just buying produce. Buyers want to deal with suppliers who understand their needs and who offer products and services that fit the buyer's systems and in general make their lives easier.

The number one trend driving the grocery and produce industries today is the increased need American consumers are placing on convenience and meal solutions. One unfortunate trend is the increasing commodity mentality of both buyers and sellers, especially regarding fresh cut produce. This football mentality has a tendency to spill over into traditional produce sales. The recent emphasis on produce within category management varies greatly depending on the firm. Many produce firms have been implementing some form of category management for years. Category management will require suppliers to match up with category managers instead of produce buyers.

There were a number of reasons given why buyers purchase Michigan celery. Some buyers evaluate Michigan celery on a year-to-year basis. Each year Michigan shippers have to convince buyers why they should purchase Michigan celery. Having a good working relationship with a buyer is essential for gaining better access to the celery order when the Michigan season gets underway. Buyers will not generally purchase Michigan celery unless the quality, consistency, and price is similar to California celery.

Lack of consistency regarding quality (stinginess, bitter taste, dirtiness etc.), especially in relation to California celery was cited as a major reason not to purchase Michigan celery. Some respondents indicated their decision to not purchase Michigan celery was based on promotions and incentives offered by their regular California produce suppliers. Other respondents indicated their customers have noticed Michigan celery and complained, resulting in only carrying California celery. Some buyers purchase California celery over Michigan for reasons unrelated to price and quality. For example, celery is a bulky item that is often used to fill out trucks loading produce in California.

Respondents were asked to rate product and supplier characteristics according to their importance in the buying process. Price was not the single most important factor that buyers consider in their purchasing decision. The five product and supplier characteristics rated as very important by respondents were: consistency of the product, customer acceptance of the product, appearance of the product, cleanliness of the product, and dependability of the supplier.

Respondents were also asked to rate Michigan product and supplier characteristics and their effect on buyer satisfaction. The eight characteristics that were deemed satisfactory were: price, appearance, supplier dependability, ability to use transportation and logistics effectively, terms of trade, the ability to use technology and order processing systems, celery that gives the buyer a competitive advantage, and the ability to maintain continuity of relationships.

No single Michigan celery characteristic caused respondents to be very satisfied. Michigan celery producers need to work on improving: (1) customer acceptance of celery, (2) the consistency of Michigan celery, (3) the appearance of Michigan celery, (4) the cleanliness of Michigan celery, and (5) supplier dependability.

Respondents offered a number of suggestions that Michigan growers could implement to improve their competitive situation. The Michigan celery industry needs to improve their understanding of customer's needs, as well as realizing individual customers have unique needs and expectations.

Michigan growers, shippers, and grower/shippers need to adopt a marketing approach to business. Target non-traditional outlets for Michigan celery, and work hard to "own" the business in your back yard. Michigan celery growers must adopt and stick to high quality standards. That is, create value in the mind of the customer. Michigan celery growers and shippers need to develop additional outlets for celery, especially at the beginning and the end of the Michigan marketing season. Michigan growers and shippers may be able to align themselves with selected California grower/shippers if they take the initiative and offer a win-win scenario.

There are no easy answers or “silver bullets” that can be offered to the Michigan celery industry to get them out of the middle. The future is uncertain and Michigan celery growers and shippers have a great deal of control regarding their future. However, failure to take any action and to allow “business as usual” will surely result in a slow death for the Michigan celery industry.

APPENDIX

Exhibit 16:1996 Michigan Celery Promotion Cooperative Strategic Marketing Research: Face-To-Face & Phone Interview Questionnaire

1. Name of firm:_____
2. Date of interview:_____
3. Name of interviewees/positions held:_____
4. Location of the firm: *Northwest/California* *Southwest* *Central* *Northeast* *Southeast*
5. Type of firm: *Grower/Shipper* *Broker* *Wholesaler* *Retailer* *Fresh cut*
Food service *Meal Solutions* *Industry Professional*
6. Demographics of the firm (no. of stores, primary store format, sales volume, market share, what firm known for):_____

7. Describe your buying philosophy regarding fresh vegetables (including no. of suppliers):_____

8. What do you look for in a fresh vegetable supplier (price, quality, year round supply, depth of products and services, etc.):_____

9. Describe the relationship between a valued produce supplier and your firm:

10. Who best epitomizes this valued relationship?_____
11. How does a buyer become discouraged with a particular produce supplier (the case of the straw that broke the camel's back)?_____

12. How have produce buying practices changed over the past 10 years?_____

Exhibit 16 (cont'd)

13. What are the most important trends affecting the produce industry today? _____

14. How are your competitors reacting to these trends? _____

15. What will/does category management mean for produce in your firm? _____

16. What percentage of your produce sales is derived from fresh-cut produce? _____
Is this percentage growing, leveling off, or shrinking? _____
17. What are the implications of fresh-cut produce on the traditional sales of produce? _____

18. How does your firm decide which company to buy fresh cut produce from? _____

19. When you consider the current offering of salad kits is there anything lacking (i.e., celery)? _____

20. How much do you know or care about the fruit and vegetable consumption patterns of specific customers?

21. Would your company be receptive to celery in a form different from traditional offerings? _____

22. Have you purchased Michigan celery in the past? *Yes No Uncertain*
Did you purchase celery from Michigan during the past year? *Yes No Uncertain*
Why or why not? _____

23. How could Michigan celery producers increase the value of their products and services to your firm?

Exhibit 17: The Importance of Supplier and Product Characteristics in the Purchasing Process

State the *importance* of the following *supplier and product characteristics* to your buying decisions.

| Characteristic | Very Important | Important | Undecided | Unimportant | Very Unimportant |
|--|----------------|-----------|-----------|-------------|------------------|
| 1. Customer acceptance of the product | 1 | 2 | 3 | 4 | 5 |
| 2. Price of the product (relative to the market) | 1 | 2 | 3 | 4 | 5 |
| 3. Product consistency | 1 | 2 | 3 | 4 | 5 |
| 4. Product appearance | 1 | 2 | 3 | 4 | 5 |
| 5. Product taste | 1 | 2 | 3 | 4 | 5 |
| 6. Product cleanliness | 1 | 2 | 3 | 4 | 5 |
| 7. Supplier dependability | 1 | 2 | 3 | 4 | 5 |
| 8. Reliability of transport and logistics | 1 | 2 | 3 | 4 | 5 |
| 9. Terms of trade | 1 | 2 | 3 | 4 | 5 |
| 10. Supplier's ability to use technology & order systems | 1 | 2 | 3 | 4 | 5 |
| 11. Product gives competitive advantage | 1 | 2 | 3 | 4 | 5 |
| 12. Advertising and promotional support | 1 | 2 | 3 | 4 | 5 |
| 13. Product merchandising support | 1 | 2 | 3 | 4 | 5 |
| 14. Ability of supplier to be a strategic partner | 1 | 2 | 3 | 4 | 5 |
| 15. Continuity & tradition of relationships | 1 | 2 | 3 | 4 | 5 |
| 16. Other _____ | 1 | 2 | 3 | 4 | 5 |

Exhibit 18: Satisfaction with Michigan Celery Supplier and Product Characteristics

State your *satisfaction* with the following *Michigan celery* supplier and product characteristics.

| Characteristic | Very Satisfied | Satisfied | Mixed Reaction | Unsatisfied | Very Unsatisfied |
|---|----------------|-----------|----------------|-------------|------------------|
| 1. Customer acceptance of the celery | 1 | 2 | 3 | 4 | 5 |
| 2. Price of the celery (relative to the market) | 1 | 2 | 3 | 4 | 5 |
| 3. Consistency of the celery | 1 | 2 | 3 | 4 | 5 |
| 4. Appearance of the celery | 1 | 2 | 3 | 4 | 5 |
| 5. Celery taste (not bitter) | 1 | 2 | 3 | 4 | 5 |
| 6. Celery cleanliness (no dirt) | 1 | 2 | 3 | 4 | 5 |
| 7. Stringiness of the celery | 1 | 2 | 3 | 4 | 5 |
| 8. Supplier dependability | 1 | 2 | 3 | 4 | 5 |
| 9. Reliability of transport and logistics | 1 | 2 | 3 | 4 | 5 |
| 10. Terms of trade | 1 | 2 | 3 | 4 | 5 |
| 11. Supplier's ability to use technology & order processing systems | 1 | 2 | 3 | 4 | 5 |
| 12. Product gives competitive advantage | 1 | 2 | 3 | 4 | 5 |
| 13. Product merchandising support | 1 | 2 | 3 | 4 | 5 |
| 14. Ability of celery supplier to be a strategic partner | 1 | 2 | 3 | 4 | 5 |
| 15. Continuity & tradition of relationships | 1 | 2 | 3 | 4 | 5 |
| 16. Other _____ | 1 | 2 | 3 | 4 | 5 |

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