PRODUCER RESPONSE TO CHANGES IN RETAIL FOOD MARKET

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One of the reasons that the produce industry is so healthy today (no pun intended), is because it is also resilient. Yes, there have been changes in the structure of the retail industry, such as consolidation and new technologies and formats, but such trends are likely to continue to one degree or another, and producers/suppliers are finding just as many opportunities as they are challenges as a result of these changes.

The first thing to recognize is that fresh fruits and vegetables differ somewhat from the overall trend of streamlining products lines, in that many of the so-called traditional outlets, such as smaller grocery stores, convenience stores, and specialized foodstores, are actually <u>increasing</u> their <u>produce</u> offerings. For example, in just the ten years between 1987 and 1997 the number of produce offerings in supermarkets nearly doubled to 335 items per store; and, albeit the volume is much lower, the number of fresh produce offerings in convenience stores and delis has increased in the same fashion in just the last five years. In addition, the national obesity crisis, the increase in away-from-home eating, and technological advances in the produce industry have opened up opportunities for produce producers/suppliers to provide healthy, safe produce in more convenient forms and in more non-traditional outlets than was previously possible.

So what <u>are</u> producers doing to meet the challenges and take advantage of the opportunities that the changes in retail formats, consumption trends, health concerns, and technology have presented? Recognizing that responses vary among commodities, fresh fruit and vegetable producers/suppliers are responding to these market conditions with a number of innovations and forward-looking changes in their operations.

In response to the changing retail structure:

1. Producers/suppliers often join with other producers in order to have a larger market presence. This isn't entirely new, but it has become more common as consolidation at the retail level puts pressure on suppliers to provide year-round supplies at competitive prices. These marketing companies are increasingly used as a tool to consolidate and market products from multiple producers under one name or marketing desk. This consolidation not only allows producers to provide larger, more stable volumes, but it also can expand their product offerings and thus, their marketing leverage.

2. In addition, producers/suppliers have much closer relationships with retail buyer than ever before. For example, producers/suppliers often work closely with their retail partners to get involved with the retailers' inventory and category management programs. That is, the producer plays an active role in improving category profitability, not just in providing the product.

3. Producers/suppliers are also providing various, more cost-effective services such as using plastic returnable cartons, implementing automatic inventory replenishment programs, and utilizing third party food-safety certifications in order to be more competitive.

4. Other producers are targeting niche or non-traditional produce markets such as the hydroponic, organic or farmer's markets, dollar stores, convenience stores, institutional programs and even vending machines. And still other farmers have ventured into agri-tourism, on-the-farm produce stands, mail order sales, and pay-to-pick arrangements.

In response to changing consumption trends and health concerns:

1. Many producers are also providing more variety and more convenience. This includes importing exotic items such as the pink dragon fruit and developing variations on standard products such as the low-carb potato and purple cauliflower. And the personal-sized watermelon is a good example of how producers are responding to changing lifestyles and consumer needs.

2. One can not overstate the importance of convenience in the producers'/suppliers' ability to respond to the market changes. Producers are using technology in packing and processing to provide more convenient fresh products. The number of fresh cut items available at virtually all of the traditional and non traditional retail formats mentioned thus far has doubled since 1997, and it continues to grow primarily because of the convenience factor. Fresh cut is of course what most people think of when they think convenience in produce, but on a more basic level, a simple thing like packing grapes in a zip lock bag or putting a rubber band around two broccoli stalks can have a significant impact on consumption because it responds to the consumer demand for convenience.

3. Also driven by convenience is the increase in away-from-home food expenditures. While the percentages of fresh fruits and vegetables that are consumed away from home are still relatively small (less than 30%), this sector represents a growth market because, while people are eating out more, they still want healthy meals. Annual produce consumption has hovered around 320-325 lbs. per capita with about 10% in away-from-home expenditures for fruits and approximately 20% for vegetables. So, producers are investing in the foodservice industry – getting to know their foodservice partners much like they are their retail partners, learning about the foodservice distribution channel and challenges that it presents, as well as educating the foodservice industry about growing, handling, and storing produce more efficiently and effectively. These are all goals of the joint United/National Restaurant Association meeting in October.

4. Finally, producers are supporting organizations like United that work to increase consumption by strengthening and expanding the presence of fresh fruit & vegetables in the government's dietary guidelines and federal nutrition programs such as the school snack program, WIC program, and the Senior Farmer's Market Nutrition Program. Not only to such efforts work to improve public health, they also help producers/suppliers create demand now and in the future, which in turn will help them weather future changes in the retail structure.

So producer-suppliers of fresh fruit & vegetables have felt the market changes, and they've responded by both adapting and meeting the challenges in traditional outlets, and by creating their own opportunities and meeting demand in niche and non-traditional produce outlets.

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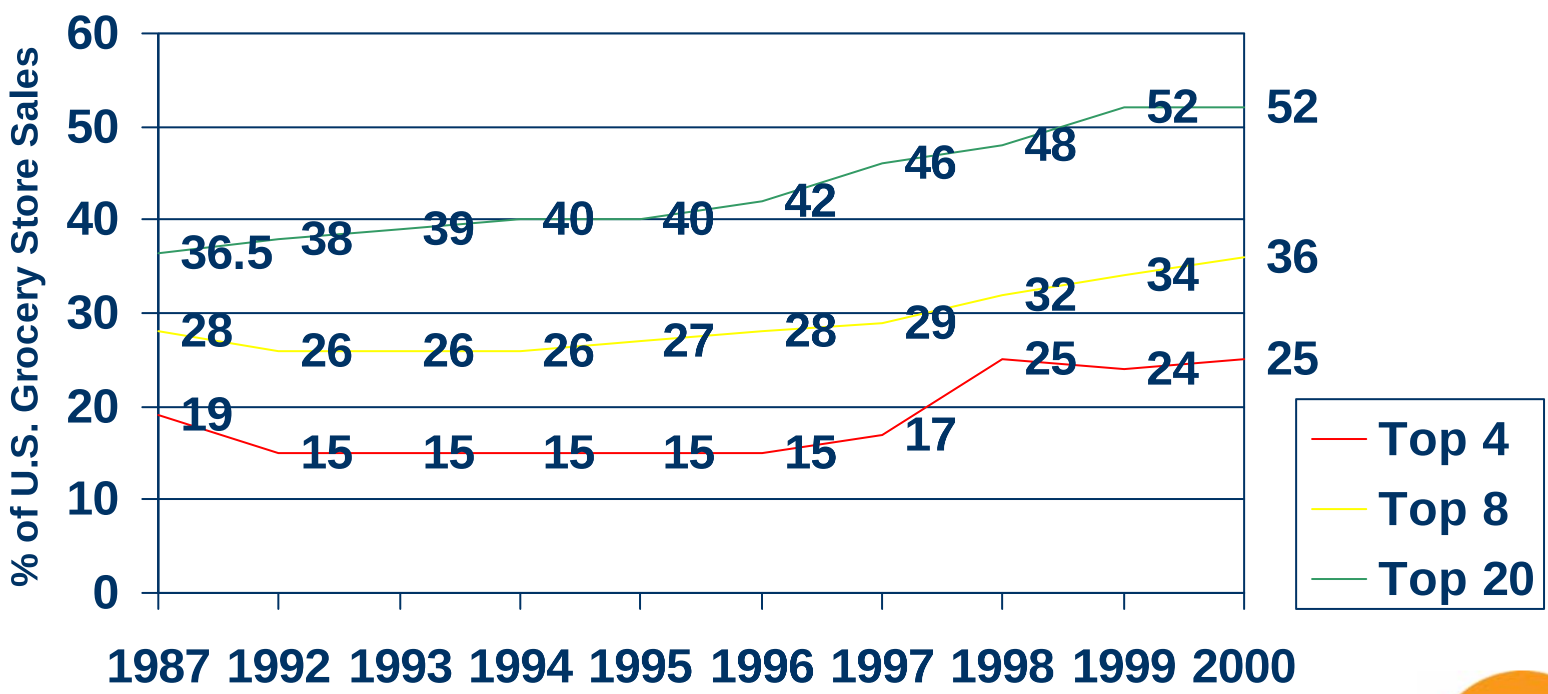
Structural Changes Impacting Produce

- Retail Structure
  - New store formats
  - “traditional” retail outlets not always traditional for produce
  - Consolidation

Grocery Store Concentration



Source: USDA/ERS

Consumption Changes Impacting Produce

- National Health Concerns/Obesity Crisis
- Demand for Convenience
- Increase in away-from-home food expenditures

Producer Responses to Changes in Retail Structure

- Entering joint marketing efforts
  - Economy of scale
  - Stable supplier
  - Expand product offerings
- Establishing closer relationships with retailer
  - Inventory management
  - Active role in improving profitability

Producer Responses to Changes in Retail Structure (cont'd)

- Providing other services
  - Plastic returnable containers (PRCs)
  - Automatic inventory programs
  - Third-party certifications
- Targeting niche markets
  - Organic, Farmer's, Hydroponics
  - Low volume, high growth retail outlets
  - Agri-tourism, on-the-farm activities, mail order sales, pay-to-pick

Producer Responses to Consumption Changes

- Providing Variety
  - New produce offerings
  - New touch to well-known offerings
- Convenience

Answering to Convenience

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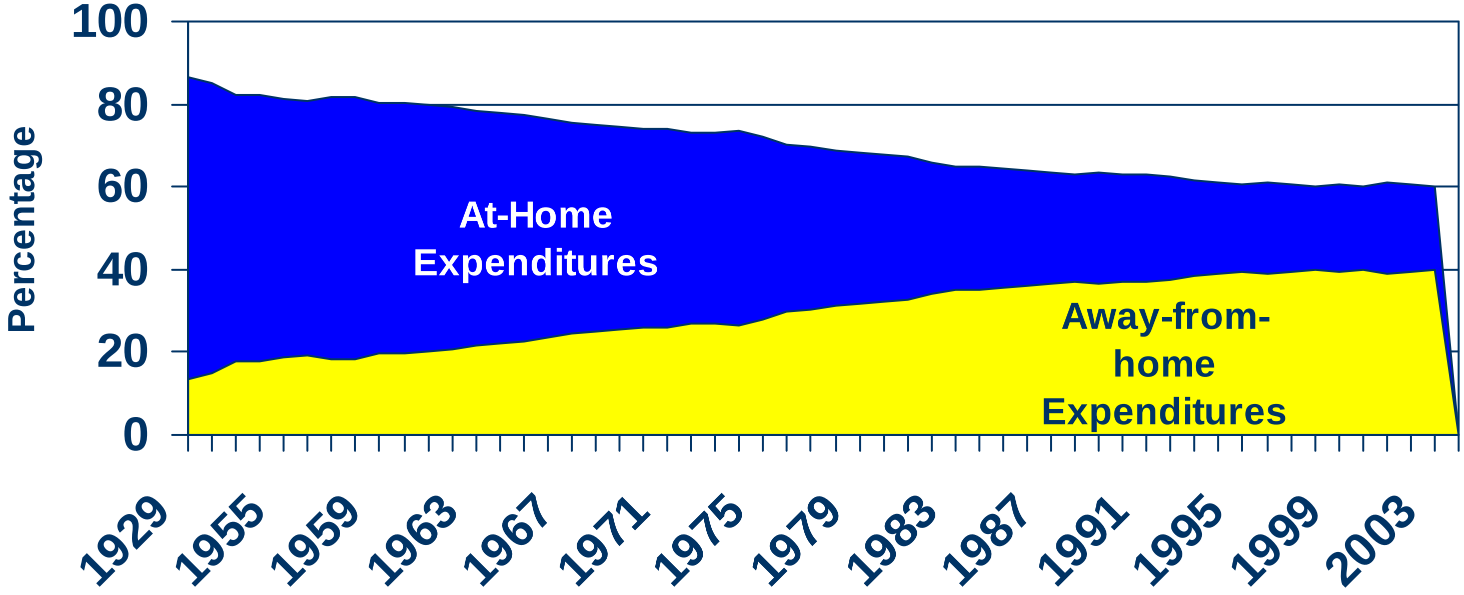
Answering to Convenience

Producer Responses to Consumption Changes (cont'd)

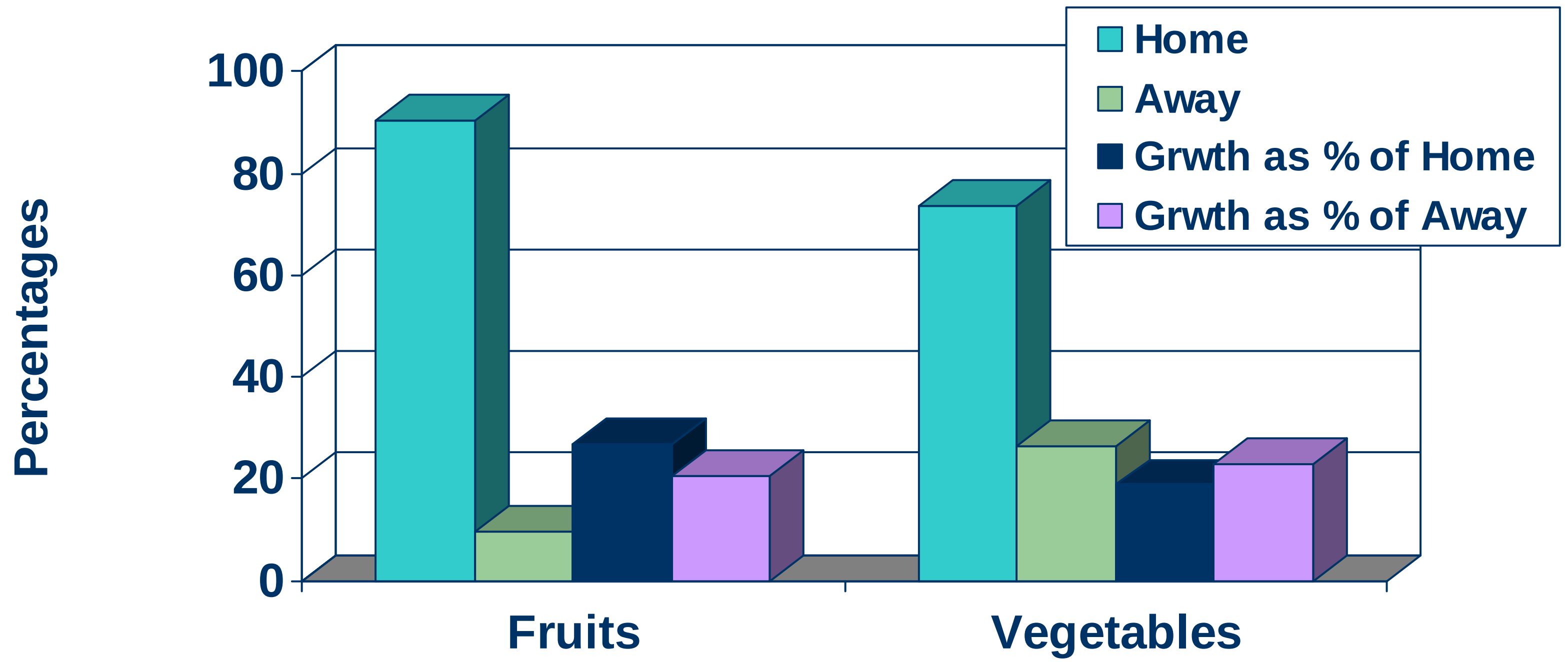
- Increasing attention to foodservice
  - Outreach
  - October 2005 UFFVA/National Restaurant Assn

Food Expenditure Trends



Source: USDA Economic Research Service

Avg. Produce Expenditures & Est. Market Growth Over Next 15 years



Source: USDA Economic Research Center

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Producer Responses to Consumption Changes (cont'd)

- Supporting industry-wide efforts to educate
  - School snack program
  - Federal dietary guidelines
  - WIC
  - PBH Partner - 5 A Day campaign

Summary

- Adapting to & meeting challenges
  - Consolidating marketing efforts
  - Establishing active relationships with customers
  - Providing new services to stay competitive
  - Targeting niche markets

Summary

- Creating Opportunities
  - Providing variety
  - Convenience
  - Foodservice
  - Education