Forces Driving Change in Fresh Produce Marketing: Implications for Avocados

Dr. Roberta Cook
Dept. of Ag and Resource Economics
UC Davis
September 2003
US Avocado Production and Imports 1994-2002 Metric Tons

Source: USDA/ERS, Oct. 2002 and Dept. of Commerce, imports CY, production crop year

Import Share
38% in '02 vs. 18% in '94
TOTAL 2002 U.S. FOOD SYSTEM*: $900.109 BILLION

$485.152 billion food retailing (excluding non-food grocery store sales)
- 54% of total
- 32,981 supermarkets
- 127,000 total stores selling food including 83,500 convenience stores; 1148 membership club stores; and 1777 Supercenters
- Supercenters contributed 11% of retail food sales

$414.957 billion food service
- 46% of total
- 844,000 outlets

*Excludes alcoholic beverages
Sources: ERS/USDA and The Food Institute
U.S. Fresh Fruit and Vegetable Value Chain, 2002 Estimated Billions of Dollars

- **Imports**: $5.9 billion
- **Farms**: $19.2 billion
  - **Exports**: $3.4 billion
  - **Shipper**: $3.4 billion
  - **Produce and General-Line Wholesalers**: $5.9 billion
  - **Integrated Wholesale-Retailers**: $39.7 billion
  - **Supermarkets and Other Retail Outlets**: $81 billion
  - **Farm & Public Markets**: $1.3 billion
  - **Food Service Establishments**: $40.0 billion

Source: Estimated by Dr. Roberta Cook, UCDavis
### Top 2002 Global Food Retailers

<table>
<thead>
<tr>
<th>Sales Company</th>
<th>Sales ($ billion)</th>
<th>Net Grocery Sales ($ billion)</th>
<th>Net Grocery Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart</td>
<td>244.52</td>
<td>83.14</td>
<td>1</td>
</tr>
<tr>
<td>Carrefour/Promodès France</td>
<td>64.77</td>
<td>45.34</td>
<td>3</td>
</tr>
<tr>
<td>Ahold</td>
<td>59.27</td>
<td>49.78</td>
<td>2</td>
</tr>
<tr>
<td>Kroger U.S.</td>
<td>51.76</td>
<td>43.48</td>
<td>4</td>
</tr>
<tr>
<td>METRO AG Germany/Switz.</td>
<td>48.56</td>
<td>24.28</td>
<td>11</td>
</tr>
<tr>
<td>Target U.S.</td>
<td>43.92</td>
<td>7.47</td>
<td>27</td>
</tr>
<tr>
<td>TESCO U.K.</td>
<td>39.52</td>
<td>28.46</td>
<td>8</td>
</tr>
<tr>
<td>Costco U.S.</td>
<td>37.99</td>
<td>23.18</td>
<td>12</td>
</tr>
</tbody>
</table>

30 grocery retailers account for over 10% of global food retail sales.
## Top 2002 Global Food Retailers

<table>
<thead>
<tr>
<th>Sales Company</th>
<th>U.S.</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong> ($ billion)</td>
<td>35.63</td>
<td>35.28</td>
</tr>
<tr>
<td><strong>Net Grocery Sales</strong> ($ billion)</td>
<td>29.93</td>
<td>26.10</td>
</tr>
<tr>
<td><strong>Net Grocery Rank</strong></td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td><strong>Source:</strong> M+M PlanetRetail, May 2003</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Top 2002 Global Food Retailers

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<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ito-Yokado <em>Japan</em></td>
<td>27.24</td>
<td>19.34</td>
<td>14</td>
</tr>
<tr>
<td>Edeka/AVA <em>Germany</em></td>
<td>27.08</td>
<td>23.02</td>
<td>13</td>
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<tr>
<td>Auchan <em>France</em></td>
<td>25.98</td>
<td>14.81</td>
<td>21</td>
</tr>
<tr>
<td>J. Sainsbury <em>U.K.</em></td>
<td>25.96</td>
<td>18.95</td>
<td>15</td>
</tr>
<tr>
<td>Aeon/Jusco <em>Japan</em></td>
<td>24.68</td>
<td>15.55</td>
<td>19</td>
</tr>
<tr>
<td>Tengelmann <em>Germany</em></td>
<td>24.41</td>
<td>17.58</td>
<td>17</td>
</tr>
<tr>
<td>CVS <em>U.S.</em></td>
<td>24.18</td>
<td>7.74</td>
<td>26</td>
</tr>
<tr>
<td>E. Leclerc <em>France</em></td>
<td>22.15</td>
<td>13.29</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: M+M PlanetRetail, May 2003
## Top 2002 Global Food Retailers

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<thead>
<tr>
<th>Sales Company</th>
<th>Sales ($ billion)</th>
<th>Net Grocery Sales ($ billion)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schwarz Group (Lidl) Germany</td>
<td>21.65</td>
<td>17.97</td>
<td>16</td>
</tr>
<tr>
<td>Casino France</td>
<td>21.54</td>
<td>15.73</td>
<td>18</td>
</tr>
<tr>
<td>Delhaize “Le Lion” Belgium</td>
<td>19.50</td>
<td>15.01</td>
<td>20</td>
</tr>
<tr>
<td>Daiei Japan</td>
<td>17.72</td>
<td>9.39</td>
<td>25</td>
</tr>
<tr>
<td>Publix U.S.</td>
<td>15.93</td>
<td>12.74</td>
<td>23</td>
</tr>
<tr>
<td>Rite Aid U.S.</td>
<td>15.78</td>
<td>5.84</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: M+M PlanetRetail, May 2003
Implications of Global Retail Consolidation

• Ahold’s former chairman predicted that 5 to 8 supermarket leaders would survive globally.

• The pre-qualified chains are Wal-Mart, Carrefour-Promodes, Ahold and Metro.

• Among traditional U.S. retailers none is even in the race.

• i.e., global sales ranking does not mean you are a global player.
The existence of global retailers has not yet meant true global sourcing (joint ordering of stores belonging to the same chain). This is changing—especially for key products with more consolidated supply. Expect moves in bananas, citrus and melons by Ahold, maybe Carrefour-Promodes and others. Ahold has already done global promotions for mangoes and some other items, using shippers in one country as a source for all of its stores around the world.
Supermarkets lead to year-round demand for fresh produce and international trade to assure consistent supplies in the off-season.
Few retail markets have experienced the type of growth, or as much attention, as that seen in China in 2002. Barely a week goes by without some announcement regarding ambitious expansion plans, new market entrants or rapid sales growth. According to official statistics released April 2003, total sales of the 30 largest retail companies rose by 53% during 2002, with some firms registering a two-fold increase in sales. No wonder the major foreign multiples are scrambling over themselves to get a piece of the action. Rapid expansion ensures Lianhua is still the leader.

Source: M+MPlanetRetail
Key Characteristics of the Fresh Produce Industry

- Special characteristics...
  - Perishability, limited storability, harvested and shipped daily.
  - So constantly subject to weather shocks affecting supply and demand.
  - Price volatility made firms very reliant on the spot market (vs. list price sales) with few risk management tools beyond geographic and product diversification.
Key Drivers

• global retail players
• global retail brands
• growing role of private labels
• retailer-supplier contracts/partnerships
• declining role of spot market
2002 Market Share of the Top 5 Retail Chains Per Selected Country, % of Supermarket Sales

USA: 36%
Brazil: 47%
UK: 64%
Spain: 67%
Germany: 73%
Argentina and Portugal: 76%
Hungary: 77%
Mexico: 80%
France: 81%
Belgium: 85%
Netherlands: 87%
Switzerland: 93%
Norway: 97%
Guatemala, Sweden, New Zealand: 99%

Source: M+M PlanetRetail, Cook and Reardon

Top 20 Europe-wide share about 60% in 2002
Twenty largest food retailers captured 57% of total grocery store sales in 2002

Source: ERS/USDA and Census, modified by Cook

P Preliminary
# The Revealing Percentages

<table>
<thead>
<tr>
<th></th>
<th>Conven’l Grocery</th>
<th>Super Center</th>
<th>Disc. Drug</th>
<th>Club Store</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross</strong></td>
<td>25.3</td>
<td>25.0</td>
<td>20.0</td>
<td>11.0</td>
</tr>
<tr>
<td><strong>Oper Exp</strong></td>
<td>21.8</td>
<td>17.5</td>
<td>16.0</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Net Margin</strong></td>
<td>3.5</td>
<td>7.5</td>
<td>4.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

(Before taxes)

Source: Glen Terbeek

Source: The Food Institute's Food Industry Review, 2002
The consumer shift to value

- Consumers no longer view supermarkets as the “One Stop Shopping” outlet for groceries.
- Now even Value Retailers like club stores and supercenters have become frequented as more than stock-up shopping opportunities.
The consumer shift to value

- Value retailers have out-executed their competition and moved beyond price as the sole point of differentiation.

- Value retailers (including dollar stores) now represent 17% of the entire US retailing sector, excluding autos, the fastest growing part of all retailing.
Competing in a Value-Driven Market

- Channel blurring has caused the retail landscape to be overstored.
- Plus, foodservice channels compete with all forms of food retailing which tend to offer ingredients to prepare instead of meals to eat.
- Retail Home Meal Replacement is helping somewhat and fresh produce value-added products are benefiting.
Competing in a Value-Driven Market

• Grocery retailers have been losing share to foodservice for decades, now to value retailers

• Conventional grocery retailers must identify value propositions they can own if they are to remain competitive! (fresh produce can be a point of differentiation)

• Bottom line: more structural change expected in the US grocery industry and more pressure on suppliers!
New players playing by new rules drove retail acquisition trend

- *Mass Merchandisers, especially Supercenters, led by Wal-Mart:*
  - Driving non-value-adding costs out of the system
  - Contracting with preferred suppliers
  - Co-Vendor-managed Automatic Inventory Replenishment - shared responsibility for growing the category
Wal-Mart plays a Dominant Role in Global Grocery Industry

- Operates in 10 countries, largest retailer in world, $244.5 billion in 2002 sales
- Wal-Mart has 75% share of US 2002 supercenter sales
- Over 1333 supercenters in US in 2003
- Opening 200/yr supercenters.; projected to reach 2000 by 2006 in the US
- Plus 52 neighborhood markets in 2002
- Opening 40 supercenters in Ca. over the next 4 to 6 years
SUPERCENTER INDUSTRY
SALES and UNITS, 1993-2007

Source: The Food Institute's Food Industry Review 2003
Supercenter Industry
Estimated Food & Sundries Sales for 2002

Source: Food Industry Review 2003

Total Sales = $45.5-$50.3 billion

- Paper, household cleaning: 9%
- Frozen foods: 7%
- Dairy: 9%
- Produce: 10%
- HBC: 13%
- Meat, poultry, seafood: 14%
- 27% dry groceries
- 3% deli
- 5% other
- 2% bakery/baked goods

Estimated Sales:
- Paper, household cleaning: 9%
- Dairy: 9%
- Produce: 10%
- HBC: 13%
- Meat, poultry, seafood: 14%
- 27% dry groceries
- 3% deli
- 5% other
- 2% bakery/baked goods

Source: Food Industry Review 2003
<table>
<thead>
<tr>
<th>Store</th>
<th>Sales ($ billions)</th>
<th>% Share</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>$87,757</td>
<td>75.2</td>
<td>1,244</td>
</tr>
<tr>
<td>Meijer</td>
<td>$12,650</td>
<td>10.8</td>
<td>158</td>
</tr>
<tr>
<td>Super Kmart</td>
<td>$6,258</td>
<td>5.4</td>
<td>113</td>
</tr>
<tr>
<td>Fred Meyer*</td>
<td>$4,695</td>
<td>4.0</td>
<td>130</td>
</tr>
<tr>
<td>Super Target</td>
<td>$3,535</td>
<td>3.0</td>
<td>94</td>
</tr>
<tr>
<td>Other</td>
<td>$1,820</td>
<td>0.2</td>
<td>38</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$116,715</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,777</strong></td>
</tr>
</tbody>
</table>

Source: Food Industry Review 2003

*Combination food/gen'l merch. stores only
### U.S. Fruit and Vegetable Supply-Side Marketing Structure Becoming Less Fragmented

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruit, berry and nut farms*</td>
<td>85,973</td>
</tr>
<tr>
<td>Vegetable and melon farms*</td>
<td>53,641</td>
</tr>
<tr>
<td>Number of fresh shippers</td>
<td>5,000</td>
</tr>
<tr>
<td>Total chains, grocers and wholesalers</td>
<td>1,079</td>
</tr>
<tr>
<td>Retail chains</td>
<td>267</td>
</tr>
<tr>
<td>Produce wholesalers</td>
<td>188</td>
</tr>
</tbody>
</table>

*16,500 growers in Ca. contribute about half of total production.
## US Fresh Fruit and Vegetable Suppliers, Estimated Fresh Produce Sales of Selected Key Firms, 2001 or '02

<table>
<thead>
<tr>
<th>Company</th>
<th>Fresh produce sales, $ billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dole</td>
<td>3.547</td>
</tr>
<tr>
<td>Chiquita</td>
<td>2.2</td>
</tr>
<tr>
<td>Del Monte</td>
<td>1.928</td>
</tr>
<tr>
<td>Sunkist</td>
<td>.821</td>
</tr>
<tr>
<td>Fresh Express</td>
<td>.800*</td>
</tr>
<tr>
<td>Grimmway</td>
<td>.400</td>
</tr>
<tr>
<td>Duda</td>
<td>.369</td>
</tr>
<tr>
<td>Calavo</td>
<td>.243*</td>
</tr>
<tr>
<td>Pandol**</td>
<td>.128</td>
</tr>
</tbody>
</table>

Many shippers have sales under $50 million.

*2002

**Large for family-owned non fresh-cut firms.
## Largest U.S. Food Retailers, 2002

<table>
<thead>
<tr>
<th>rank</th>
<th>company</th>
<th># stores</th>
<th>sales ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kroger Co.</td>
<td>2,461</td>
<td>$51.8</td>
</tr>
<tr>
<td>2</td>
<td>Albertson’s</td>
<td>1,346</td>
<td>$35.7</td>
</tr>
<tr>
<td>3</td>
<td>Safeway</td>
<td>1,793</td>
<td>$32.4</td>
</tr>
<tr>
<td>4</td>
<td>Wal-Mart Supercenters</td>
<td>1,243</td>
<td>$29.3¹</td>
</tr>
<tr>
<td>5</td>
<td>Ahold USA</td>
<td>1,633</td>
<td>$25.1</td>
</tr>
<tr>
<td>6</td>
<td>Publix</td>
<td>739</td>
<td>$15.9</td>
</tr>
</tbody>
</table>

¹Groceries only; Italics = foreign-owned

*Source: Supermarket News, March 2003*
<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th># Stores</th>
<th>Sales (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Del Haize America</td>
<td>1,485</td>
<td>$15.0</td>
</tr>
<tr>
<td>8</td>
<td>Winn-Dixie</td>
<td>1,073</td>
<td>$12.2</td>
</tr>
<tr>
<td>9</td>
<td>Supervalu(^1)</td>
<td>1,395</td>
<td>$9.8(^1)</td>
</tr>
<tr>
<td>10</td>
<td>Great A &amp; P(^2)</td>
<td>626</td>
<td>$8.3</td>
</tr>
<tr>
<td>11</td>
<td>H.E. Butt(^2)</td>
<td>284</td>
<td>$9.0</td>
</tr>
<tr>
<td>12</td>
<td>Meijer(^3)</td>
<td>156</td>
<td>$5.0</td>
</tr>
</tbody>
</table>

\(^1\) Corporate and licensed stores only; italics = foreign-owned  
\(^2\) Excludes Canada or Mexico  
\(^3\) Groceries only  

Source: Supermarket News, March 2003
US Chains: Impact of Retail Consolidation on The Buying Process

- Multiple buying offices now merging into fewer or one
  - Purchase from shipper without seeing the product
  - More emphasis on standards, less on price
  - Synergy contract buying
  - More emphasis on forward planning
  - Buy more directly from shippers
  - Implications for importers!

Sources: PMA Fresh Track 2001; Cook and misc.
US Chains: Impact of Retail Consolidation on The Buying Process

**Ahold** - ending Division buying, centralizing to 2 or 3 preferred suppliers chain wide

**Safeway** - centralizing merchandising to Pleasanton, Ca. buying to Phoenix

**Kroger** - consolidating divisions and centralizing buying to Cincinnati
Produce Business Model 1960 to mid-90s: “Distribution-Based Strategy”

Commodity Approach

- Relationship selling.
- Fight for best position.
- Exploit seasonality.
- Uniform offers. Focus on food ads to boost short-term sales, respond to inventory issues.

Retailer or Wholesaler

1 2 3 4 5 ...

Fax Machine Marketing

Source: Adapted from The Perishables Group
Special Characteristics of the Fresh Produce Industry

Primarily sold in bulk (unscanned), slowing category management.
- PLU codes come to the rescue - sort of!
  - but data quality is improving and category management is beginning to influence the balance of power - lagging Consumer Packaged Goods (CPGs).
- More pressure on shippers to assist in category management.
Suppliers

Retailers know the value of ads, space, location, etc. Expect suppliers to know consumers:
- Right product
- Right stores
- Right time
- Right price

New Strategy--Cover Both

TRADITIONAL “A” RETAILERS
Bid for orders.
Buy ads, fight for space.
Tactical approach.

Source: Adapted from The Perishables Group

NEW MODEL “B” RETAILERS
Consumer Information.
Category Expertise.
Category Development.
Sales mechanisms for each fresh produce* marketing channel -1994 & 1999-%: Mass merchandisers abandon spot market!

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily Sales</td>
<td>72</td>
<td>58</td>
<td>57</td>
<td>43</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Advance Sale</td>
<td>19</td>
<td>24</td>
<td>30</td>
<td>42</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Sht-t. Contract</td>
<td>7</td>
<td>11</td>
<td>12</td>
<td>11</td>
<td>48</td>
<td>41</td>
</tr>
<tr>
<td>Lng-t. Contract</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>4</td>
<td>13</td>
<td>29</td>
</tr>
</tbody>
</table>

*Grapes, oranges, grapefruit and CA/FL tomatoes

Types of Fees & Services Requested

Slotting  
Volume Rebates  
Non-volume Rebates  
Promotional Ads  
E-commerce fees  
Capital Improvement  
EDI  
Displays  
Private Labels  
Returnable Containers  
Special Packs  
Food Safety Certification
Fees are increasing for all fresh produce but commodities are still different

**Commodities**

- No slotting fees
- Other fees well under 2 percent of sales
- Volume incentives, promotional allowances and rebates

**Fresh-Cut**

- All fees approximately 1 to 8 percent of sales
- Slotting fees, promotional allowances, volume incentives, and rebates – firms offer options
- Can cost up to $2 million to acquire the business of a national chain; $500,000/division: *stimulating Private Labels*
**Ave. Item Number in the Ave. US Fresh Produce Department**

- **1987:** 173 items
- **2001:** 350 items

**Pma study:**
574 SKU’s in 2001

US PER CAPITA FRUIT CONSUMPTION, POUNDS 1977-2001

Source: USDA/ERS, Oct. 2002

Total for 2001 reaches 279 including some berries and olives.
US PER CAPITA VEGETABLE CONSUMPTION, POUNDS, 1976-2003

- Processed Vegetables
- Processed Potatoes
- Fresh Potatoes
- Fresh Vegetables

Source: USDA/ERS, Vegetables and Specialties Outlook, July 2003
US Fresh-cut Produce Sales Trend, All Marketing Channels, $ Billion

60% sold via foodservice channels vs. 40% via retail

Source: IFPA
Share of US Produce Dept. Sales, Key Items, June 2002-June 2003

Source: The Perishables Group
U.S. Fruit and Vegetable Expenditures, 2000 (average per household by region)

Source: Demographics of Consumer Food Spending 2002, The Food Institute
US Fresh Produce Consumption by Race 2000, $ Per Household

- **Hispanic**
  - Vegetables: $228
  - Fruits: $228

- **African-American**
  - Vegetables: $129
  - Fruits: $131

- **White/Other**
  - Vegetables: $163
  - Fruits: $168

*Source: Demographics of Consumer Food Spending 2002, The Food Institute*
U.S. Hispanic Population Projections, Millions

Source: Census 2000, U.S. Census Bureau
U.S. Per Capita Consumption of Selected Fresh Produce, 1985-2002

Pounds per capita

Source: USDA/ERS, July 2003 Vegetable Yearbook; Oct. 2002 Fruit Yearbook
<table>
<thead>
<tr>
<th>Percent of Shoppers</th>
<th>3+ times weekly</th>
<th>1-2 times weekly</th>
<th>1-3 times mo'ly</th>
<th>&lt; than once a month</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eat home cooked meals at home</td>
<td>83</td>
<td>9</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Dine out at full-service restaurants</td>
<td>8</td>
<td>27</td>
<td>42</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Eat meals at home that aren’t prepared at home - takeout and delivery</td>
<td>5</td>
<td>20</td>
<td>36</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Eat out at fast-food establishments</td>
<td>9</td>
<td>23</td>
<td>35</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Just-heat main dishes at home*</td>
<td>12</td>
<td>26</td>
<td>26</td>
<td>19</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: FMI Trends in the Supermarket 2003  *2001
Shoppers’ concern about nutritional content and evaluation of diet

- Very concerned about nutritional content
- My diet could be healthier

Source: FMI Trends in the US Consumer Attitudes and the Supermarket 2003
Factors indicated by US consumers as influencing fresh produce purchases, 1990 vs. 2000

<table>
<thead>
<tr>
<th>Factor</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taste/flavor</td>
<td>96</td>
<td>87</td>
</tr>
<tr>
<td>Ripeness</td>
<td>96</td>
<td>70</td>
</tr>
<tr>
<td>Appearance/condition</td>
<td>94</td>
<td>83</td>
</tr>
<tr>
<td>Nutritional value</td>
<td>65</td>
<td>57</td>
</tr>
<tr>
<td>Price</td>
<td>63</td>
<td>47</td>
</tr>
<tr>
<td>In-season</td>
<td>38</td>
<td>41</td>
</tr>
<tr>
<td>Growing region/country of origin</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>Organically grown</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Brand name</td>
<td>9</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Rating of extremely or very important %

n/a = Not available

Source: Fresh Trends '90 and 2001
Changes for healthier diet

Source: FMI Trends 2003

- More fruits/vegetables
- Less fats/oils
- Less meats/red meats
- Less sugar
- More chicken/turkey/white meat
- More fish
- More low fat
Nutrition and Fruits and Vegetables

- In 2000 Americans consumed 3.83 (4 are recommended) servings per day of vegetables including 2.03 servings in fresh form; this compares to 2.04 total servings in 1970-74.
- 1.23 of the vegetable servings were potatoes; .13 were fresh tomatoes while .25 were processed tomatoes.
- Americans consumed 1.36 servings per day (3 are recommended) of fruit, including .64 fresh; this compares to 1.11 total servings in 1970-74.

Source: USDA January 2003, Food Review
Avocado Outlook

- Avocados will now be included in the National 5 A Day Program due to recent changes in the NCI criteria!
- This should help improve their nutritional/health image
Nature of concern about nutritional content

Source: FMI

- Fat content, low fat
- Salt/sodium content/less salt
- Cholesterol levels
- Sugar content/less sugar
- Calories/low calorie
- Preservatives
- Chemical
Avocado Outlook

- Demand for avocados will continue to rise due to favorable demographics and consumer preferences
- HAPO should help stimulate year-round demand and retailer attention, important for managing the expansion in imports
Avocado Outlook

• Greater Mexican imports will partly cannibalize Chilean volume in Aug. and Sept., mitigating the net import effect

• Any lower prices for Ca. avocados will be partially offset by higher consumption/demand, in part stimulated by lower prices
Conclusions
Two Basic Strategies

• Low-cost producer/shipper
• Differentiated producer/shipper marketing a premium product or product with identifiable preferred characteristics that are commercially perceived and valued
• First strategy increasingly difficult as buyers push more demands and services upstream to suppliers
Fierce competition places multiple demands on fresh produce suppliers while product perishability continues to limit bargaining power...

Quality:
- taste
- freshness
- temperature
- shelf-life
- nutrition value
- consistency

Specific requirements
- packaging
- pallets
- size
- tailor-made

Quantity

Costs

Flexibility

Safety: microbial and pesticides

On-time delivery

Tracking and tracing

Source: Adapted from Rabobank Mexico
Conclusions

• While retailer buying power is increasing, partly expressed in new demands for fees and services, the huge physical volumes they now procure also make them even more dependent on shippers for stable, consistent yr-ryd volumes.

• This may limit the exercise of market power in the fresh produce sector.

• Retailers and shippers will feel more incentives to focus on supply chain management, despite the special challenges presented by the dominance of weather factors in fresh produce supply and demand.
CONCLUSIONS: The Future?

• More and more, large year-round grower-shippers may become the sourcing entities for retailers, procuring volume above and beyond their own via geographic diversification, including imports.

• Smaller seasonal players will need to find niche markets.
CONCLUSIONS: The Future?

- Supply side consolidation and year-round marketing presence may make large shippers more susceptible to fees, including slotting fees. This will depend in part on shipper strategies (inter-firm rivalry and market share issues). A dominant firm model increases the likelihood of greater fees on the commodity side of the business.
CONCLUSIONS: The Future?

- Future trade practices also partly depend on whether the partnership model of supply chain management (led by Wal-Mart) is adopted more aggressively by conventional retailers.

- More conventional chains are moving to preferred suppliers for more than one division, strengthening the partnership-account oriented approach, as well as the incentives for shipper consolidation. This already happened in Europe.