

Eye on Economics: Do the Math

BY
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Private labels add up

Members of the food supply chain have competed in one of the toughest economic downturns in decades. Restaurants lost sales as did many fast food chains as consumers stayed home. Supermarkets, too, felt the pinch as customers cut back and sought bargains wherever possible.

In the first quarter of 2010, slight upticks in the economy allowed foodservice, retailers, wholesalers, and growers a collective sigh of relief as consumers began spending somewhat more—though value was still at the top of their grocery lists. Value equations can vary substantially since they include consumers' own perceptions and the relative weights they apply to not only price but quality, convenience, safety, freshness, and other attributes. Value does not necessarily mean the lowest price.

The Hartman Group has found that consumers are not consistently trading down but rather are more sharply focused on what represents value to them for specific products. They are increasingly concerned about food waste, especially of fresh produce, causing some consumers to cut back purchases. This emerging issue must be confronted by the fresh produce industry.

Background

For most of 2009 there were substantial declines for many restaurant chains. This was not, however, the boon food retailers expected as some shoppers simultaneously traded down in product categories (e.g., buying private label salads instead of major brands) or changed product categories altogether to save money (e.g., moving from fresh to frozen or canned or away from convenience items).

In addition, many consumers shifted some of their purchases away from conventional grocery channels to value-oriented retailers such as Walmart, limited assortment stores



like Aldi and Save-A-Lot, and dollar stores. Still, according to Nielsen, during the latter part of 2009 same store sales declined in both key conventional grocery retailers and Walmart, before starting to rebound in early 2010.

Sharing Information

With all levels of the food supply chain focusing on cost control, it is more important than ever to deliver the right product, at the right price, at the right place, and at the right time. To achieve this objective, more real-time data-based information management systems are needed.

The use of information technology to improve the supply chain has been slower than many expected, but the rate of adoption and application has been increasing, given the incentives and potential rewards in efficiency. This goes beyond firms adopting technology to improve business intelligence and internal efficiency; to streamline the supply chain and compete on thinner margins, information must be shared between suppliers and retailers.

Information sharing between retailers and vendor partners has become widespread for consumer packaged goods

Key Elements

The economy took its toll on the food supply chain, so retailers and suppliers hope to build customer loyalty with private labels and information sharing:

- when consumers spend less, retailers and suppliers have to find ways to recoup lost market share
 - sharing consumer data can help growers, wholesalers, and grocers reduce costs
 - consumer loyalty relies more on value than preferred brands
 - sales of private label bagged salad mixes continue to increase.
- To learn more about each key element, look for the symbols throughout the article.



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(CPGs), with approximately 70 percent of retailers stating they now share information and generally without charging. Retailers have increasingly understood that sharing data with suppliers is not about generating revenue but rather about working more closely to better understand the right assortment, product, pricing, and promotion strategies at the individual product and store level. This trend is only

beginning to unfold in the fresh produce department.

Fresh-cut processors and their foodservice customers, such as fast food chains, have long shared information in what some refer to more as a “cost chain” than a supply chain. By sharing information on costs and price points, both parties have been able to work together to improve products and value in a mutually beneficial arrangement. This transparency has likely been partly responsible for driving

more costs out of the supply chain relative to retail channels.

Private Labels

🔑 The growth in private labels that started pre-recession has since accelerated as retailers attempt to offer more value-oriented options to consumers and/or differentiate high quality products to increase consumer loyalty. Private label products represented just over 17 percent



CASE STUDY – KROGER & CUSTOMER LOYALTY

The case of Kroger is worth examining, due to both its emphasis on private labels and exploiting information technology to better understand its consumers as a strategy to improve profitability. With \$12.5 billion annually in sales of private label products alone, Kroger is benefiting from the economic downturn, according to the *Los Angeles Times*. Industry analysts believe Kroger’s success is tied to its efforts to attract bargain hunters, aided by its exhaustive electronic tracking of customer shopping patterns (using data from its customer loyalty cards) and a push into marketing its own brands. In terms of private labels, the company uses advertising tactics most often seen used with brand names, such as members of Kroger’s loyalty club receiving coupons and special offers for Kroger goods.

“We send our very best customers coupon books specifically targeted at what they actually buy,” explained Kroger CEO David Dillon. “The redemption rate of these coupons is significantly higher than other coupons.” At the same time, the chain also uses consumer data to divide its stores into three tiers, and “stock them accordingly.”

Fresh-cut processors have already benefited from access to Kroger’s consumer data. Some firms are also finding they can get product feedback from Kroger shoppers (via the loyalty card data) and learn interesting lessons. This increased integration between shoppers, retailers, and suppliers can benefit all, and is likely to provide a competitive advantage to those engaged in these practices.



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of CPG sales, and more than one-fifth of the CPGs purchased through retail outlets in 2009. For some retailers, store brands hold a much higher share of sales. For example, private labels represented 35 percent of 2009 Kroger unit sales, according to the *Wall Street Journal* (for further information on Kroger, see the case study on page 82).

In recent months, many major food retailing chains announced aggressive private label revenue goals as an important component of their positioning strategies. While fresh produce departments traditionally have not offered many private labels, they have become a significant part of many retailers' private label growth—especially with the ever popular bagged salad mixes and new varieties of fresh-cut fruit and vegetables. While not specific to fresh produce, the National Grocers Association SupermarketGuru survey found that over two-thirds of respondents reported that store brands/private labels were a determining factor in where they shopped; 52 percent wanted their local grocer to carry more private labels.

According to the Food Institute, by 2008 private label fresh produce sales in supermarkets (not including warehouse clubs or mass merchandisers like Walmart) surpassed \$2.3 billion and were ninth among the top 10 categories in supermarkets with the highest unit gains. Private label fresh produce units sold grew by 11.3 percent and were estimated to represent 16.3 percent of fresh produce unit sales in U.S. supermarkets in 2008. Value-added fresh-cut items figured most prominently in fresh produce private label sales, accounting for \$1.3 billion in 2008 supermarket sales according to *Progressive Grocer*.

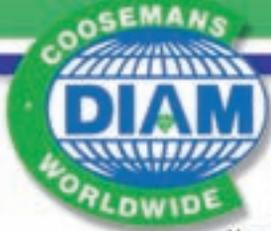
Some wonder whether consumer response to private labels will weaken as we emerge from the recession; this likely will vary across categories depending in part on brand loyalty. Data for the latter half of 2009 from Nielsen Scantrack shows the sales growth rate of branded CPG products had started to recover from earlier negative rates while the sales growth rate for private labels had peaked.

In the fresh produce department there is little consumer brand loyalty, even for many fresh-cut products marketed largely on a branded basis for the past 20 years. Low consumer brand loyalty is an important attribute retailers seek when selecting categories with good private label potential.

According to market research firm Information Resources, Inc.'s retail scanner data, in the last year private label sales of bagged salads have been building rapidly; as of the 12-week period ending December 27, 2009, for the first time combined private label sales surpassed all branded players with the exception of one. Total private label sales of organic bagged salads grew even more rapidly and surpassed sales of the top brand some time ago.

Conclusion

Consumer demand for healthy fresh produce continues to grow, albeit slowly. Consumers have proven their growing interest in a wide range of private label goods and healthier value-added products, with the emphasis clearly remaining on the *value* portion of the equation. Improved application of information technology will enable firms to do a better job of delivering the right product to customers, ultimately matching the right SKUs to the right stores, reducing waste and increasing supply chain efficiency. 



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Industry Indicators

Metrics provide a quick and interesting look at industry-specific and general business trends. Each issue of *Blueprints* provides metrics at a glance to help keep you informed and assist you in formulating business decisions.

The Industry and Beyond



Consumers Measure Value One Dollar at a Time

What do buyers want most when shopping for food? According to the 2010 National Grocers Association-SupermarketGuru's consumer survey, shoppers rated the following features as "very important" in a grocery store.

	2009 %	2010 %
Fresh fruit and vegetables	86	91
A clean, neat store	83	83
Accurate shelf tags	74	76
Low prices	52	52
Offer locally grown	36	41
Good ethnic selections	20	21
Organics	22	26

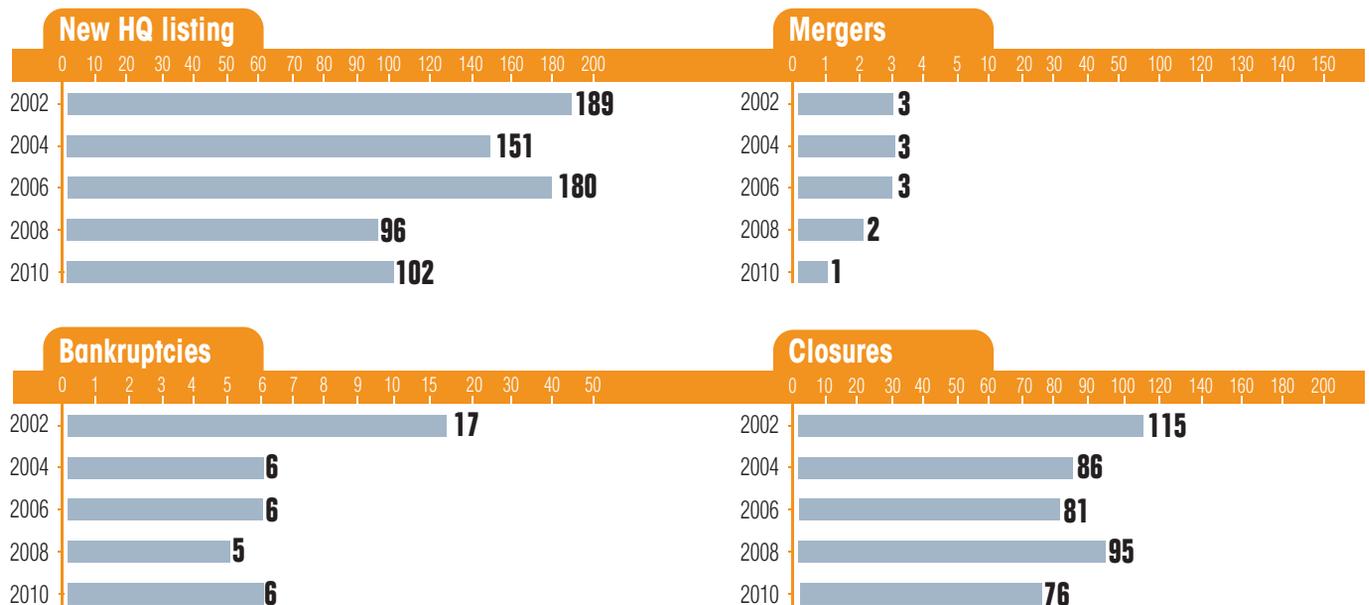
In addition, when asked what supermarkets could do to improve shopping, 41 percent of the survey's respondents wanted more locally grown offerings; 20 percent requested additional ethnic produce and packaged items; and 20 percent wanted a wider variety of organics.

Within The Industry



First Quarter Comparisons

Here's a quick look at first quarter results during the last decade—new headquarter locations, mergers, bankruptcies, and closures.



Note: The *Blue Book* lists and rates active wholesale fresh fruit and vegetable businesses, which typically handle significant volumes and/or are involved, at minimum, in interstate or interprovincial produce transactions. Hence the metrics reported here in may not necessarily reflect trends representative of the entire industry in composite or specific subsets thereof.