Three Part Series: Fundamental Forces Affecting Growers and Marketers
Part 2: The dynamic U.S. berry sector

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This article is the second of a three-part series discussing fundamental forces that affect U.S. produce growers and marketers. The first article covered value chain basics and category management affecting the fresh fruit and vegetable industry as a whole, while this article analyzes forces at work within the rapidly growing berry sector.

Relative to many other fresh produce crops, berries represent greater diversity than the norm in production locations and grower structure. A complicating factor is that bushberries (blueberries, raspberries, and blackberries) are perennials, while strawberries are not. Traditionally, these factors contributed to the existence of separate berry markets; only recently has a true berry subsector emerged.

Demand for all berries has grown rapidly in the United States, driven in part by health benefits as well as improved quality, year-round availability, and convenient packaging. The berry category recently became the number-one dollar category in fresh produce departments, with national supermarket sales (excluding club stores, supercenters, and some other formats) projected to surpass $5.3 billion annually by June 2011.

Blueberries

Rapid expansion in U.S., Canadian, and European demand for blueberries has stimulated a major increase in both North American and global acreage. Blueberries are much less perishable than other berries, which facilitates long-distance international trade, including between hemispheres.

Both exporters to the U.S. market and domestic growers benefited from strong consumer demand, with U.S. production climbing by 217 percent between 1999 and 2010, reaching 246.4 million pounds. Although blueberries are grown in many U.S. states, demand is increasingly supplemented by imports from Canada, during the off-season from Chile, and to a lesser extent, Argentina. According to the U.S. Department of Agriculture (USDA), in 2010 imports accounted for 49 percent of U.S. domestic fresh blueberry utilization (production plus imports minus exports) as compared with 37 percent in 1999. Total U.S. utilization grew from 87.1 to 345.4 million pounds over this same period.

Four shippers now control around one-third of shipments in the U.S. market. Marketing fragmentation in newly developing production regions, such as Argentina, may be adding to market uncertainty and placing downward pressure on prices. Future pricing depends not only on the relative growth rates in global demand and supply, but also on the rate of marketer/handler consolidation. Consolidation increases the potential for orderly marketing.

So far, demand has been sufficiently robust for the global supply response to continue. However, with perennial crops there is a lag between plantings and when acreage comes into full production, adding to grower risk and uncertainty over future prices. Not only is acreage expanding in longstanding production regions, but new blueberry supply regions continue to emerge. Some U.S. blueberry shippers are beginning to invest in production in central Mexico, which could, if successful, partially displace some southern hemisphere winter imports into the U.S., given the closer proximity to market.
Fortunately, in the United States, blueberry demand benefits from the U.S. Highbush Blueberry Council’s mandated marketing programs, which promote all blueberries, both domestic and imported, sold in the United States. In 2011, growers and handlers voted to increase assessment rates, anticipating the need for further investment in demand expansion programs in light of growing global supply.

Strawberries

In contrast to blueberries, U.S. strawberries are grown principally in California almost year-round, with Florida supplementing low volume during the winter. Good production locations are quite specific by season, and in California their proximity to high value coastal locations may somewhat limit long-term expansion. From 1999 to 2010 U.S. production expanded by 78 percent to 2.3 billion pounds, with imports representing only 8 percent of 2010 supply according to the USDA Economic Research Service. Imports came primarily from the Baja California region of Mexico, but central Mexico is beginning to export as well.

The number of both growers and marketers selling into the U.S. and Canadian markets is far less than for blueberries and blackberries, tending to make markets more predictable and organized. With four firms accounting for about half of domestic strawberry shipments, the subsector benefits from strong and innovative leaders acting as category ‘captains’ and raising the competitive benchmark over time. The strawberry industry also benefits from a long-standing generic promotion program from the California Strawberry Commission.

MARKET STRUCTURE & COMPETITION

In the past, there were separate commodity markets for each berry, with strawberries representing the lion’s share of sales. While strawberries still dominate, robust demand for all berries has contributed to the development of wide-line berry shippers.

Blackberries were formerly more of a short-season specialty crop, but a few shippers of other berries invested in central Mexico production to complement U.S. supply, helping create a winter blackberry market and year-round demand. Supply essentially drove demand in the sense that availability and quality allowed retailers—led by Costco—to commit to shelf-space for blackberries. Such exposure led to product acceptance and purchasing by consumers.

Strong demand and the model set by these firms caused others to attempt to become year-round suppliers, jointly creating what is now a wide-line berry subsector. It has become increasingly difficult to compete as a single-berry shipper, despite disparities in seasonal production locations by berry, as well as perishability. There are still major differences in market share by berry type even among the wide-line berry shippers, depending on their original strengths and ability to develop new sources of supply.

THE THREAT OF NEW ENTRANTS

Since perishability limits long distance international shipping, the future outlook for strawberries depends primarily on consumer demand in the United States and Canada, rather than global demand, and on the actions of California grower-shippers.

Recently, some California shippers began investing in strawberry variety trials in central Mexico, attracted to the region’s success in other berry production. Historically, U.S. interest in fresh-market strawberry production in Mexico had been limited by agronomic, technological, postharvest, and know-how barriers—despite the long-standing existence of Mexico’s own fresh market strawberry industry and frozen export market.

The emerging Mexican berry cluster may help to reduce some of the barriers to entry by attracting more technology providers and breeders, and by improving postharvest handling and other infrastructure. Concerns over the availability of labor in the United States might also increase incentives to invest in Mexico.

In the long term, if U.S. shippers pursued a fall/winter strawberry export industry in central Mexico, it could gradually substitute for production in high-cost areas of Southern California threatened by urbanization. The principal production region in northern California, Watsonville/Salinas, which produces for the spring and summer, would be much less affected.

Other potential new entrants exist in California. Despite innovative strawberry marketing and promotion programs from...
growers and shippers, the domestic competitive playing field is beginning to change. When California leafy greens shippers found that strawberries fit into their crop rotation patterns, some began producing strawberries, not only adding to supply but also to the number of handlers competing for sales.

Clearly, production-driven decisions grounded in one commodity can threaten the profitability of existing players in another. This is particularly the case if the new volume is channeled through spot market sellers, as opposed to the berry shippers invested in year-round marketing programs and acting as preferred suppliers to large buyers.

SHIPPER RIVALRY

In recent years, the top berry shippers expanded the dimensions of competition beyond price by adding marketing (such as category development) and other services to their year-round, wide-line supplies, giving them a competitive “leg up.” However, now that more previously seasonal or berry-specific shippers are adopting similar models, competition may be stronger than ever. Rivalry will further intensify if demand slows, as it is unlikely the berry category’s rapid growth rates can be sustained indefinitely.

Berry shippers recognize that in order for demand to continue to rise for all varieties, the underdeveloped foodservice channel must be tapped. This requires packaging-related product differentiation since foodservice needs differ from those of retailers.

The ready-to-eat (RTE) market holds great potential for both foodservice and retail markets. Blueberries are the easiest to package as RTE, given their greater shelf-life and need to only be washed rather than cut like strawberries. The recent launch of RTE blueberries on fast food menus and in retail channels is an indicator that investment in new product development is a growing factor in the increasingly competitive berry subsector.

Improved promotional strategies may be achieved through greater retailer-supplier information sharing and collaboration. It is vital that promotions be designed to stimulate incremental demand. Some berry shippers are also attempting to engage consumers more directly, upgrading websites and using social media platforms to keep berries top of mind. Shippers will likely need to increase their marketing budgets to remain competitive and support consumer demand. The good news is that today’s consumer marketing can be well-targeted and cost-effective.

SUBSTITUTION EFFECTS

To date, substitution between berries has not involved excessive cannibalization—sales have continued to grow for each berry, albeit at different rates and from very different levels. While the strawberry share of total berry sales has eroded, along with the explosion in blueberry and to a lesser extent, blackberry demand, it is still the dominant berry with per capita consumption up from 4.5 pounds in 1999 to 7.2 pounds in 2010. Simultaneously, blueberry consumption grew from 2.5 to 3.5 pounds per capita.

While substitution effects between berries do exist for many usage occasions, consumers often view them as complements, serving mixed berries. This symbiotic relationship has made them especially attractive to shipper investment.

CLOSING COMMENTS

Both generic and shipper promotion programs have contributed to growing consumer interest in the healthful, convenient berry category. Grower-shippers continue to actively seek new production locations to extend seasons on a cost-competitive basis, with proximity to market always an important consideration.

Further, with markets becoming increasingly integrated, more firms are operating multinationally and selling the full berry line. Shipper size has grown alongside the level of capital required to be competitive in an increasingly complex and dynamic marketplace; it remains to be seen whether supply can continue to expand as rapidly as in the past without outpacing consumer demand and depressing grower prices.

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