Growing Fresh Produce Use in Foodservice: Challenges, Opportunities and Strategies

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2007 USA Food Sales: $1,139.4 Billion Retail Sales Equivalent, and Channel Shares, Quantity and Value

**Dollar Sales**
- **Foodservice**: $557.2 Billion (48.9%)
- **Retail**: $582.2 Billion (51.1%)

**Quantity Sold**
- **Foodservice**: 27.2%
- **Retail**: 72.8%

Source: USDA for dollar sales and dollar share, 2007; Technomic, Inc. for share of quantity sold, 2006.
Fresh produce not getting its “fair” share of the rapidly growing foodservice channels

- USDA estimated that only around 10% of fresh fruit and 20% of veggies are purchased in foodservice channels (lettuce, tomatoes and potatoes are big exceptions).

- Seasonality, perishability, inconsistency, pricing, supplier size are obstacles.

- “Fresh” resonates with over 90% of consumers, “natural” becoming passé.

- Now is the right time for all segments of the foodservice industry to increase fresh produce use, CSR propels action and consumer health and wellness trends support it.

- 20% of consumers now consider food to be medicine.
Eating at Home = Eating Healthier than in Restaurants

- 53% Food at Home = Somewhat Healthier
- 39% Food at Home = Much Healthier
- 7% Food Away from Home = somewhat healthier
- 1% Food Away from Home = Much Healthier

Thoughts about Produce: Importance of Taste

87%
8%
1%
2%
2%

Very Somewhat Not Very Not at All Don't Know

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
Right Time for All Segments of the Foodservice Industry to Increase Fresh Produce Use

- School foodservice receiving new mandates - can impact future consumption habits
- Full-service restaurants must focus on even better tasting or unusual fresh produce - McDonald’s has field greens and grape tomatoes - no longer upscale
- Race to innovate!; including for retailers who are developing foodservice as takeout option (HEB, Publix, Wegman’s) - growing cross channel competition
Right Time for All Segments of the Foodservice Industry to Increase Fresh Produce Use

- Everyone must differentiate to successfully compete, fresh produce is a great way - color, “new” products such as broccolini, halved grilled artichokes with sauces moving into FSR chains, low plate cost, great flavor (anti-oxidant powerhouse); at high end foraged foods

- Menu development and placement takes time - on both ends, foodservice users must be assured of availability, quality, flavor and pricing - easier with fresh-cut than with commodity products
Fresh Produce Shipper Foodservice Strategies

- Making the investment required to hire foodservice experts (often outsourced) to work “long term”
- Overcome obstacles, consistency in grading, flavor, quality, pricing, packs, pricing
- Attempt to understand specific account needs, and what’s required to sell to them in windows, subwindows, or limited time offers (LTO's) - takes into account seasonality and makes it a plus, creating excitement for consumers
- Ensuring that their product offering is aligned with operations and marketing considerations for the chain in question – can it be executed?!
**Drenched Blueberry Cake**

A moist cake drenched in three sweet milks, layered with blueberries, blueberry mousse and topped with delicious cream. Sprinkled with fresh blueberries this cake offers you a little something special from south of the border.

**Sunshine Blue Chicken Salad Conewich**

It's our own homemade chunky chicken salad drizzled with blueberry shallot dressing surrounded by fresh blueberry fruit salad and topped with toasted almonds. We layer it all into a blueberry conewich for a chicken salad creation like you've never had before.
Leading US Fresh Market Vegetable States in 2007: Geographic concentration of production (due to climate) limits local sourcing potential, yet it is growing in the summer/fall.

<table>
<thead>
<tr>
<th>Area Harvested</th>
<th>Production</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>% of Total</td>
<td>State</td>
</tr>
<tr>
<td>CA</td>
<td>46</td>
<td>CA</td>
</tr>
<tr>
<td>FL</td>
<td>9</td>
<td>FL</td>
</tr>
<tr>
<td>GA</td>
<td>8</td>
<td>AZ</td>
</tr>
<tr>
<td>AZ</td>
<td>7</td>
<td>GA</td>
</tr>
<tr>
<td>NY</td>
<td>4</td>
<td>NY</td>
</tr>
</tbody>
</table>

US Fresh Produce Trade, $Million

Source: USDA/FAS
Consumption of fresh produce has grown and the product line has diversified, with winners and losers

- Gainers have typically been products available year-round, often due to imports; those benefiting from positive health claims, or convenience or use in ethnic cuisines, or “premium” items
- Per capita utilization of fresh vegetables, excluding potatoes, grew from 115 pounds in 1976 to 188 in 2007, whereas fresh potato utilization declined from 49 to 41 pounds
- Per capita utilization of fresh noncitrus fruit grew from 55 pounds in 1976 to 80 in 2006, whereas fresh citrus declined from 29 to 23 pounds
Fresh Produce Increasingly Differentiated by Variety

Many consumers’ desire to explore new flavors and cooking techniques, combined with the growing importance of health and wellness, celebrating ethnicity and “trading up” to higher quality food, for fresh produce translates into:

- Heirloom tomatoes, Brandy Wine, Green Zebra, Cherokee Purple; tomatillos, etc.
- Japanese, Rosa Blanca, white, etc. eggplant; beets, Chioggia (striped), gold, baby, Bulls Blood, etc.
- Yukon gold potatoes are no longer a novelty, purple potatoes, German butterballs, Russian banana fingerlings, etc.
- Many varieties of basil, thyme and other herbs
- Convenient packaging and presentation of many items encourage purchases - pre-washed veggies include turnip and other greens, chard, microwaveable French green beans, baby squash, etc.
Smaller Specialty Seasonal Growers
Gaining Broader Foodservice
Distribution, like:

- Pro-Act’s arrangement with Frog Hollow Farms allows FHF to gain national distribution for its’ high flavor short shelf-life, organic fruit, including utilizing Harvest Sensations Direct program to ship overnight to chefs in distant locations.
Foodservice contributes to the evolution of food trends and ethnicity leads the way, Authentic and Fusion

- Oaxacan
- Brazilian Churrascaria
- Peruvian
- Argentine

- Szechwan
- Thai
- Vietnamese
- Indonesian
- Taiwanese
- Cambodian
Foodservice contributes to the evolution of food trends and ethnicity leads the way, Authentic and Fusion

- Oaxacan
- Brazilian Churrascaria
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- Thai
- Vietnamese
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- Taiwanese
- Cambodian

- Fine Dining Chefs Creation
- Casual Theme Interpretation
- QSR Interpretation
- Non-Commercial Interpretation

Incorporated into Consumer Meal Mix
Fresh Produce Generic Promotion Strategies

- Generic promotion programs dedicating more resources to foodservice users, whereas used to focus mostly on retailers
- These programs support growers in specific production locations, but increasingly they are becoming international in coverage (avocados, watermelon, blueberries)
- Other countries also promote, like Chilean winter fruit
- Result, more support and expertise for menu development and overcoming obstacles than before and promo dollars can be available
Fresh strawberries can be both healthy and indulgent.
Fresh blueberries can cause consumers to associate the restaurant with quality and health.

We're Fresh on You
Blueberries

Fresh Blueberry Waffle
Light and fluffy and topped with fresh blueberries and whipped cream. Served with butter and syrup.

Fresh Blueberry Pancakes
Three of the best pancakes in town hot off the griddle and packed with fresh blueberries. Served with butter and syrup.

Fresh Blueberry Speckled Lemonade
Fresh blueberries blended with lemonade bring a twist to a classic.

Mythos, Universal Studios, Orlando, went from summer promo to yr-round.
Consumer trends are evolving ever more rapidly in the world of the internet.

- Environmental concern and the broader concept of sustainable production has been emerging for over 2 decades, and now we seem to be reaching a tipping point (in the post-Al Gore “An Inconvenient Truth” World).

- It took the organic movement 30 years to grow to about 3% of consumption, whereas the growing interest in local and seasonal food has emerged very rapidly – all are cues for quality/taste (local trumps organic).

- California growers, known for dominating US production of many fresh produce items, are noting enough growth in competition from other states during the summer/fall to contemplate strategic responses.
I am more interested in buying local fresh fruits and vegetables than organic.

Source: “Inside the Minds of Retailers and Consumers,” PMA/Cornell University
### California Organic Agriculture by Commodity Group, Number of Growers, 2000 - 2005

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Field Crops</th>
<th>Fruit &amp; Nut Crops</th>
<th>Livestock, Dairy, Poultry &amp; Apiary</th>
<th>Nursery, Greenhouse &amp; Floriculture</th>
<th>Vegetable Crops</th>
<th>Total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>245</td>
<td>1,365</td>
<td>57</td>
<td>186</td>
<td>643</td>
<td>1,903</td>
</tr>
<tr>
<td>2001</td>
<td>263</td>
<td>1,402</td>
<td>54</td>
<td>190</td>
<td>616</td>
<td>1,925</td>
</tr>
<tr>
<td>2002</td>
<td>261</td>
<td>1,332</td>
<td>65</td>
<td>194</td>
<td>585</td>
<td>1,847</td>
</tr>
<tr>
<td>2003</td>
<td>251</td>
<td>1,274</td>
<td>75</td>
<td>174</td>
<td>525</td>
<td>1,757</td>
</tr>
<tr>
<td>2004</td>
<td>210</td>
<td>1,248</td>
<td>103</td>
<td>177</td>
<td>499</td>
<td>1,722</td>
</tr>
<tr>
<td>2005</td>
<td>205</td>
<td>1,293</td>
<td>113</td>
<td>179</td>
<td>505</td>
<td>1,795</td>
</tr>
</tbody>
</table>

Row totals do not equal the sum of the columns because of growers in multiple categories.


76,500 total growers in Ca.
Hartman Organizes the World of US Organic Consumers, of the 69% that are users, 2008

- Consumption of organic foods and beverages
- Importance of organic vs. nonorganic when shopping for produce
- Knowledge and concern about how food affects health and the environment

Source: Organics 2008 Report, Hartman Group
Dimensions of Consumption: Hartman Organizes the World of Organics

- Core organic consumers are 14% of all US consumers – (and they are opinion leaders)
- 45% of US consumers are Mid-Level organic users
- and 10% of US consumers are Periphery organic users

Source: Organics 2008 Survey, The Hartman Group
Properties Suggested by “Organic” (Increasingly Defined as the Absence of)

- Absence of pesticides: 83%
- No artificial flavors/colors/preservatives: 78%
- Absence of herbicides: 78%
- Absence of growth hormones: 75%
- Absence of antibiotics: 69%
- Absence of genetically modified foods: 67%
- Safer for one’s health: 64%
- Environment-friendly: 63%
- Better for one’s health: 58%
- Absence of food irradiation: 57%
- Fresh: 48%
- Absence of Mad Cow Disease (BSE): 45%
- Higher nutritional content: 34%
- Premium product: 31%
- Better taste: 27%
- Better treatment of farm animals: 27%
- Locally grown: 24%
- Family (small-scale) farms: 22%
- Sustainable production: 17%

"Absence of growth hormones" increased from 67% in 2005 to 75% in 2008.

"Absence of antibiotics" increased from 49% in 2005 to 69% in 2008.

Source: Hartman Group, 2008
When selecting foods and beverages to purchase, how important are the following *labels or phrases* to you?

- **Fresh**: 76%
- **Pesticide-free**: 48%
- **Hormone-free**: 35%
- **Natural**: 32%
- **Certified humane**: 31%
- **Origin of**: 28%
- **Locally grown**: 23%
- **Sustainable**: 21%
- **USDA Organic**: 19%
- **Fair trade**: 18%
- **Seasonal**: 17%
- **Free range**: 16%
- **Organic**: 15%
- **Grass-fed**: 14%
- **Heirloom**: 5%

Top 2 Box based on 7-point scale ranging from “Not at all important” (=1) to “Extremely important” (=7).

All respondents (n=2,161)

Source: Organics 2008 Report, Hartman Group
Organic Users: Reasons for Not Using More Organics

- Too expensive: 69%
- Can't tell if really organic: 23%
- Only recently began purchasing organic foods/beverages: 20%
- Not readily available: 20%
- Don't really believe they're more nutritious: 11%
- Don't really believe they're safer: 8%
- Can't find brand(s) we like: 7%
- Don't want to change from products we're used to: 7%
- Don't stay fresh as long as nonorganics: 6%
- Often do not look appealing: 6%
- Requirements for organic certification are increasingly weakening: 6%

Limited organic buyers (Primary HH shoppers who have purchased organic, but fewer than 4 product categories, in past 3 months) (n=537)

Source: Organics 2008 Report, Hartman Group
More or less likely to order a fresh fruit or vegetable menu item if it is organically grown

More Likely: 35%
Less Likely: 28%
No Difference: 34%
Don't Know: 3%

Demographically, the most likely to order organics are consumers under the age of 30.

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthier</td>
<td>46%</td>
</tr>
<tr>
<td>Taste</td>
<td>24%</td>
</tr>
<tr>
<td>Overall nutritional value</td>
<td>24%</td>
</tr>
<tr>
<td>Environmentally friendly</td>
<td>20%</td>
</tr>
<tr>
<td>Less use of chemicals</td>
<td>5%</td>
</tr>
<tr>
<td>Recommended by friend / family</td>
<td>3%</td>
</tr>
<tr>
<td>Local origin / Home grown</td>
<td>1%</td>
</tr>
<tr>
<td>Other / Don't know / Refused</td>
<td>4%</td>
</tr>
</tbody>
</table>

If the organically grown fruit or vegetable menu item cost 20% more than a conventionally grown item, would you be more or less likely to order the organic item?

- More Likely: 23%
- Less Likely: 57%
- No: 17%
- Don't Know: 3%

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
Where do organics fit in foodservice?

- Organic is mainstreaming and plateauing as consumers become more selective about the product categories where they see value.
- Fresh produce is key point of entry for consumers into world of organics, where they begin to learn more about food, health and environmental issues.
- Taste and freshness are key perceived attributes among many users of organic fresh produce, often shorter time to market improves flavor, and organic producers grow specialties - differentiation!
- Consumers typically think indulgence when eating away from home and the only two foodservice categories important for organics are schools and fine dining - cues for health, and quality/taste/freshness, respectively.
- Consumers with household income >$100,000 are dominant among core organic users - so high end restaurants align better with organic.
- Households with kids are higher organic users and a key entry point, but often in select categories only, like milk and fruit.
Sustainability Definitions

www.EPA.gov/sustainability:

"Sustainable development is development that meets the needs of the present without compromising the needs of future generations"

-- Brundtland Report, 1987 (World Commission on Environment and Development)

• The Three E’s
  - Environment, Economics, Equity

• The Three P’s
  - Planet, Profit and People
The Consumer World of Sustainability

93% Inside the World of Sustainability

7% Outside the World of Sustainability

Core 18%
Mid-Level 65%
Periphery 17%

“Sustainability” Trend from the Consumer Vantage Point

• Most consumers have very limited understanding or usage of the concept of sustainability.
• In general, food terms as used by the food industry are not understood: functional foods, IPM, food miles.
• Sustainability is an umbrella term for health, wellness, organics, environmental consciousness, fair trade, simple living, buying local, etc.
• Personal sustainability linked to environmental sustainability for some.
• Consumers evolving from “earth-sustainable” products in the 80’s (which were not top of mind in purchasing decisions and only embraced by 7% of consumers) to how products affect health and wellness.
Changing US Culture of Food

Natural Organic Fresh Local Locale Sustainable?

What about safe? That used to be taken as a given for fresh produce.

Source: Hartman Group, adapted and expanded by Roberta Cook
Conclusions: Incentives More Aligned Between Grower-shipplers and Foodservice - but Challenges Remain

- Shipper structure more consolidated today - marketing alliances - helps better understand and serve foodservice
- Fresh-cut helps reduce labor use and provide greater value to foodservice and reduces food safety risk at the operator level
- Special cold chain challenges in foodservice (including operator storage capacity and facilities)
- Food safety is a challenge, especially for produce without a kilo step, risk mitigation responsibilities exist at all levels of the supply chain, and there needs to be a willingness to pay on the part of foodservice buyers for investments in food safety infrastructure and practices made at the grower-shipper level - breakeven grower costs are increasing in order to provide a higher level of safety assurance
Conclusions: The supply chain is becoming more market- and consumer-oriented as intense competition forces innovation and differentiation

- Quality is being redefined, consumers are becoming more sophisticated and while more are focusing on health it is NOT at the expense of pleasure
- Healthy-eating, organic and local are increasingly more secondary experiential attributes within the pursuit of “authentic quality eating experiences”
- Locale may trump local, if it is premium and has a story, e.g., Frog Hollow Farm summer fruits, Hood River pears, but not fully exploited by produce
- Health and wellness evolving to quality experiences and “living the good life” - mind, body, spirit
- Economic slowdown likely to retard “trading up,” but effect should be temporary
Supplemental information for handout follows:
Consumers' safety concerns related to where food is consumed

- Eating Out: 58% concerned, 22% neither, 20% unconcerned
- Shopping for Food: 53% concerned, 23% neither, 24% unconcerned
- Eating at Home: 34% concerned, 23% neither, 43% unconcerned

How confident are you that the food in your supermarket is safe?

81%

Completely or mostly confident

Source: FMI US Grocery Shopper Trends, various years
<table>
<thead>
<tr>
<th>Who should be responsible for ensuring that food is nutritious?</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myself individually</td>
<td>82%</td>
<td>80%</td>
<td>82%</td>
</tr>
<tr>
<td>Manufact./Processors</td>
<td>53</td>
<td>49</td>
<td>42</td>
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<tr>
<td>Government Instit.</td>
<td>37</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>Food Stores</td>
<td>25</td>
<td>26</td>
<td>19</td>
</tr>
<tr>
<td>Consumer Groups</td>
<td>19</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Farmers</td>
<td>18</td>
<td>16</td>
<td>14</td>
</tr>
</tbody>
</table>

Fresh Produce: Importance of Nutritional Value

62% Very
28% Somewhat
4% Not Very
4% Not at All
2% Don't Know

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
Fresh Produce: Importance of Fitting into Your Diet

- Very: 53%
- Somewhat: 25%
- Not Very: 9%
- Not at All: 10%
- Don't Know: 3%

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
Fresh Produce: Importance of Trying a New Fruit or Vegetable

- Very: 26%
- Somewhat: 39%
- Not Very: 20%
- Not at All: 12%
- Don't Know: 3%

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
Fresh Produce: Importance of a Medical Condition Requiring You to Eat Fresh Produce

- Very: 51%
- Somewhat: 13%
- Not Very: 8%
- Not at All: 22%
- Don't Know: 5%

Over the past 3 months, have you purchased more...

- Main Entree Salads: 44% Yes, 26% No, 5% Other
- Vegetarian Entrees: 51% Yes, 6% No, 6% Other
- Side Salads: 56% Yes, 4% No, 4% Other
- Fresh-Cut Fruid Salads: 53% Yes, 5% No, 5% Other

Source: The Dining Out Menu: Consumer Thoughts about Produce, PMA, 2006.
## Options that encourage frequent salad orders, by Restaurant Type, 2007

<table>
<thead>
<tr>
<th></th>
<th>Quick Casual</th>
<th>Fast Food</th>
<th>Fine Dining</th>
<th>FS Ethnic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better variety</td>
<td>33</td>
<td>43</td>
<td>31</td>
<td>35</td>
</tr>
<tr>
<td>Larger portions</td>
<td>21</td>
<td>23</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Smaller portions</td>
<td>10</td>
<td>13</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Lower prices</td>
<td>39</td>
<td>45</td>
<td>40</td>
<td>31</td>
</tr>
<tr>
<td>Server suggest.</td>
<td>12</td>
<td>6</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Better quality</td>
<td>27</td>
<td>41</td>
<td>25</td>
<td>27</td>
</tr>
<tr>
<td>More health opt.</td>
<td>25</td>
<td>33</td>
<td>23</td>
<td>25</td>
</tr>
</tbody>
</table>

Unusual Salad Offerings: Leading Independent & Emerging Restaurants

**Asia De Cuba**
- **Crispy Tofu Salad**
  - peanut soy dressing, Caribbean vegetables, and sour mango sauce
  - $23.00

**The Four Seasons**
- **Bison Carpaccio**
  - celeriac salad
  - $32.00

Unusual Salad Offerings: Leading Independent & Emerging Restaurants

**George’s at the Cove**
Warm Puntarella & Winter Squash Salad $12.00
puntarella, winter squash, and poached egg with bacon-truffle vinaigrette

**Old Ebbitt Grill**
Grilled Lamb Kabob Salad $13.95
vegetable couscous, frisée lettuce, feta cheese, basil vinaigrette, pita bread, cucumber yogurt, Baba Ghanoush

Unusual Salad Offerings: LSR Chains

Panera Bread / St. Louis Bread Co.

Fuji Apple Chicken*  $5.69
all-natural citrus-herb chicken, field greens, Romaine lettuce, tomatoes, onions, pecans, Gorgonzola, and apple chips with white balsamic Fuji apple vinaigrette

**Corner Bakery**

Roasted Caesar Potato  $2.69
roasted red potatoes, roasted red peppers, green onions, and parmesan cheese with Caesar dressing

Tuscan Pesto Pasta  $2.59
penne pasta, artichoke hearts, Kalamata olives, grape tomatoes, spinach, and parmesan cheese tossed in pesto balsamic dressing

Unusual Salad Offerings:
LSR Chains

**Cosi**

Signature Salad $6.59
Gorgonzola, grapes, pears, pistachios, dried cranberries, and mixed greens with roasted shallot sherry vinaigrette

**Fuddruckers**

Chicken Florentine $7.59
spinach artichoke dip, Swiss cheese, lettuce, tomatoes, and choice of dressing

Fresh Trends: Eating Out

• 60% of consumers sometimes or always consider the availability of fresh produce on menus when deciding where to eat out
• Just 6% of consumers never eat fresh produce when dining out
• 26% of consumers always do
• 19% of those 18-39 always do
• 31% of those 59 and older always do
• 20% of parents and kids 6 and under do
• 28% of those with no kids do

Source: Fresh Trends as cited by The Packer, Feb. 20, 2006