Fresh Produce Marketing Challenges and Opportunities in Evermore Competitive Markets

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Agenda

• Some important food marketing trends
• Consumer trends
• Overview of value-added/fresh-cut produce market (VAP)
• Leafy greens and bag salads
• Value-added vegetables (VAV)
• Local
• Conclusions- differentiation and targeted marketing strategies essential to success!
The economic downturn accelerated the pace of change in the food marketing system

- Channel blurring still unfolding; retail competition!
- Retailers must have clear value propositions.
- Shift to “shopper-centrism.”
- Foodservice faces more competition, from retail too.
- Growing food safety, PTI, sustainability, social welfare expectations all increase costs.
- Margin pressure at all levels of the food system!
- Need for major investments in IT systems.
- Mergers and consolidation continue, scale is key.
US Food Retailer Mergers & Acquisitions 2007-2015\textsuperscript{p}: Even Fewer, Larger Buyers!

Shifting Grocery Formats: Growth in nontraditional channels has transformed the US grocery industry.

Sources: Willard Bishop, various The Future of Food Retailing reports

Dollar Share by Channel
- Traditional
- Convenience
- Nontrad.

1988
- Traditional: 90%
- Convenience: 50%
- Nontrad.: 8%

2006
- Traditional: 50%
- Convenience: 48%
- Nontrad.: 16%

2009
- Traditional: 15%
- Convenience: 15%
- Nontrad.: 37%

2014
- Traditional: 15%
- Convenience: 15%
- Nontrad.: 39%

Dollar Share of Food Sales in Nontraditional Formats
- Supercenter: 46%
- Wholesale Club: 23%
- Drug: 13%
- Mass: 11%
- $Store: 7%
- Military: 1%

Traditional = conventional supermarket, fresh format, ltd assortment, super warehouse, other

Sources: Willard Bishop, various The Future of Food Retailing reports
Most Important Factors in Store Selection for US Consumers, 2015: Produce is a Star!

- Low prices: 97%
- High-quality fruit/veg: 96%
- Great product selection: 95%
- Clean, neat store: 95%
- Convenient location: 93%
- Sales, specials: 93%
- Fast checkout: 92%
- Accurate shelf tags: 92%
- High-quality meat: 92%
- Courteous employees: 90%
- Store layout: 89%
- Use-before/sell-by dates: 88%
- Private Label: 69%
- Locally grown: 66%
- Nutrition/health info: 62%
- Organics: 39%

Alternative Outlets Shopped in the Past Three Months for Fresh Produce, As Reported by US Consumers, 2015

- Farmers' market: 50%
- Produce stand: 22%
- Specialty/organic store: 14%
- Dollar store: 12%
- Grow my own: 10%
- Ethnic market/store: 10%
- Convenience store: 10%
- Online from grocery store: 6%
- Farm-direct (online, deliv.): 6%
- Online from produce vendor: 3%
- In meal delivery service: 2%

US Shoppers’ Average Number of Trips/Year by Store Format and Age Group, 2015

Forecast of Compound Annual Sales Growth Rate vs. Inflation for US Grocery Formats, 2014-2019

-3.0% 0.4% 1.6% 1.7% 1.8% 2.1% 2.9% 3.3% 3.8% 7.0% 11.7% 12.1%

Mass Tradl Drug Military Conv. w/gas Conv. wo/gas Other Sm Supercenter Club Super Whse Dollar E-Commerce

Food Inflation Compound Annual Rate: 2.5%

Source: The Future of Food Retailing, Willard Bishop, June 2015
Away-From-Home Sources of Fruit and Vegetables of US Consumers, 2014

<table>
<thead>
<tr>
<th>Source</th>
<th>Percent of Individuals Who Visit in Two Weeks</th>
<th>Percent of Individuals Who Consume Away-from-home Fruit and Veg in Two Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Food</td>
<td>64%</td>
<td>22%</td>
</tr>
<tr>
<td>Family/Coffee Shop</td>
<td>49%</td>
<td>27%</td>
</tr>
<tr>
<td>Higher Priced Restaurant</td>
<td>21%</td>
<td>14%</td>
</tr>
<tr>
<td>Supermarket</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>School</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Convenience Store</td>
<td>9%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Consumer Trends

• How can fresh produce capture a bigger share of “better for you” food products?
Produce items are 5 of the Top 10 Fastest Dollar Velocity ($ per MM ACV) Growth Categories across the Store, USA, 2014

Source: Combined Nielsen Perishables Group FreshFacts® and Nielsen ScanTrack point-of-sale data sets – ranked by dollars per MM ACV for 52 weeks ending August 2014.
Average Retail Basket Size Per US Household, 2014

Shoppers spend more money in the store when produce is included in the transaction!

<table>
<thead>
<tr>
<th>With Produce</th>
<th>vs.</th>
<th>With Any Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>$56</td>
<td></td>
<td>$35</td>
</tr>
</tbody>
</table>

However, 57% of trips to the grocery store do not include produce.

Source: FreshFacts® on Retail, Whole and Fresh Cut Produce Trends: 2014, United Fresh Produce Association and Nielsen, March 2015.
Freshcut, Organic and Total Fresh Fruit/Veg Sales in Key US Food Retailers, % Change 2014 vs 2013

- **Weekly $ sales/store**
- **Weekly quantity sold/store**

### Freshcut Fruit
- **All FruitVeg**: 12.0%
- **Fruit****: 9.7%
- **Salads**: 7.8%
- **Salads (Further)****: 5.0%

### Organic Fruit
- **Salads**: 5.0%
- **Fresh Cut Veg**: 10.7%
- **Organic Veg**: 17.2%

### Organic Veg
- **Fresh Cut Veg**: 17.3%
- **Organic Veg**: 17.2%

*Excludes other produce (such as salad dressings, toppings, etc.), which is 10% of produce dept sales dollars and 5% of quantity.

**Excludes overwrap.

Source: FreshFacts® on Retail, Whole and Fresh Cut Produce Trends: 2014, United Fresh Produce Association and Nielsen, March 2015. Fresh Coverage Area (FCA) including key retailers from food, mass/supercenter and club chains, or more than 18,000 stores. It includes UPC, random weight and retailer assigned codes.

How often have you used organic foods or beverages in the past three months?

<table>
<thead>
<tr>
<th>Age Group</th>
<th>At least occasional usage</th>
<th>Daily usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Users</td>
<td>73%</td>
<td>9%</td>
</tr>
<tr>
<td>Millennials (18-35)</td>
<td>86%</td>
<td>12%</td>
</tr>
<tr>
<td>Gen X (36-49)</td>
<td>72%</td>
<td>8%</td>
</tr>
<tr>
<td>Boomers (50+)</td>
<td>63%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Includes occasional, monthly, weekly and daily

## Attitudes/Opinions of US Bag Salad Consumers, 2013

<table>
<thead>
<tr>
<th></th>
<th>% of Total US Households</th>
<th>Salad Consumers Percent</th>
<th>Salad Consumers Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>I like to try out new food products</td>
<td>51</td>
<td>61</td>
<td>119</td>
</tr>
<tr>
<td>I enjoy eating foreign foods</td>
<td>43</td>
<td>49</td>
<td>114</td>
</tr>
<tr>
<td>Friends often ask my advice about health / nutrition</td>
<td>19</td>
<td>24</td>
<td>126</td>
</tr>
<tr>
<td>I try to eat gourmet food whenever I can</td>
<td>18</td>
<td>24</td>
<td>127</td>
</tr>
<tr>
<td>I try to eat healthier foods these days</td>
<td>62</td>
<td>70</td>
<td>112</td>
</tr>
</tbody>
</table>

### Shopping Habits of Most and Least Affluent US Supermarket Shoppers: Fresh Produce

<table>
<thead>
<tr>
<th></th>
<th>Annual Trip Frequency</th>
<th>Annual Household Spending on Fresh Produce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Shopper</td>
<td>47</td>
<td>$338</td>
</tr>
<tr>
<td>Most Affluent</td>
<td>51</td>
<td>$454</td>
</tr>
<tr>
<td>Least Affluent</td>
<td>40</td>
<td>$221</td>
</tr>
</tbody>
</table>

In-Home Consumption of Fresh Fruits/Veg Purchased in Stores, Annual Eatings per Capita, 2004-2014

Vegetables*

Fruit

* Excludes commercially prepared items such as vegetable soup, Asian dishes, chili, etc.

Source: Produce for Better Health Foundation, State of the Plate - 2015 Study on America’s Consumption of Fruits and Vegetables.
Important factors when shopping for fruit/veg, 2014

- **Freshness**: 68%
- **Cost**: 64%
- **Taste**: 55%
- **Healthy**: 31%
- **Family Preferences**: 21%
- **Convenient to use**: 17%
- **Locally grown**: 17%
- **Seasonality**: 13%
- **Country of origin**: 8%
- **A specific brand**: 4%
- **Other**: 2%

Source: Primary Shoppers' Attitudes and Beliefs Related to Fruit and Vegetable Consumption, 2012 vs 2014, Produce for Better Health Foundation (PBH).
Factors That Influence US Consumers’ Selection and Purchase of Fresh Vegetables, 2015

- Appearance: 71%
- Price: 58%
- Spoilage: 43%
- Habit: 40%
- Seasonality: 39%
- Nutritional content: 37%
- Prep time: 24%
- Info/recipes: 23%
- Brands: 20%

Share of Branded vs Unbranded Fresh Produce Sales in US Retailers, 2010 vs. 2014

Source: Fresh Facts on Retail Q3 2015, United Fresh and Nielsen
Importance of Produce Brands to US Consumers, (both value-added and bulk produce)

Value-added/Fresh-cut Produce (VAP)
Overview

• More consumers seeking not only convenience but bolder flavors, unusual ingredients, often international flavors, plus health/wellness, and high protein foods.

• VAP industry is responding with more meal solutions, including RTE and RTH.

• Microwavable cooking veg category growing rapidly, as well as salad kits.

Note: VAV=Value-added veg; VAF=Value-added fruit
Value-added Produce: $Sales and Annual Growth Rates in Key US Food Retailers, 2010-2014

Penetration Rates: % of US Households Buying Fresh Vegetables at Retail, by Category, 2014 (Scanner data so actual sales)

- **Potato**: 87%
- **Bag Salad**: 83%
- **Onion**: 83%
- **Tomato**: 81%
- **Carrot**: 78%
- **Lettuce**: 75%
- **Cooking Veg**: 68%
- **Peppers**: 61%
- **Cucumber**: 56%
- **Value-add veg**: 56% (Frequency 4 trips/yr)
- **Organic Veg**: 51% (Purchase frequency 4 trips/yr)

Source: FreshFacts® on Retail, Whole and Fresh Cut Produce Trends: 2014, United Fresh Produce Association and Nielsen, March 2015.
Leafy Greens and Bag Salads
US Iceberg Lettuce Market, 1960-2014

Million pounds

Production

Total Consumption/Utilization

Exports

Imports

US Fresh Romaine & Leaf Lettuce Market, 1989-2014

Million pounds

Production

Total Consumption/Utilization

Exports

Imports

Source: USDA/ERS, Vegetables and Pulses Yearbook Data March 2015
US Per Capita Utilization/Consumption of Lettuce, by Type, 1985-2014

(source: USDA/ERS, Vegetables and Pulses Yearbook March 20, 2015 and unpublished ERS data for leaf and romaine.)
US Per Capita Utilization/Consumption of Fresh Spinach, 1985-2014,\textsuperscript{P} (all channels, foodservice and retail, includes fresh-cut) Note: E.coli incident 9-11-2006

\textbf{Pounds per capita}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{graph}
\caption{US Per Capita Utilization/Consumption of Fresh Spinach, 1985-2014,\textsuperscript{P} (all channels, foodservice and retail, includes fresh-cut) Note: E.coli incident 9-11-2006}
\end{figure}

\textsuperscript{P}=Preliminary

US Household Cooking Green Retail Trends, 2015

• 42% of US households purchase cooking greens with an average of 4 trips/yr.

• Despite the rise of interest in superfoods like kale and consumer interest in cooking, Q1 2015 sales of cooking greens was flat.

• There are still lots of opportunities to educate consumers on health benefits and usage in order to stimulate sales.

Source: FreshFacts® on Retail, Q3 2015, United Fresh Produce Association and Nielsen
## Cooking Greens Sales in Key US Food Retailers, Q1 2015 vs Q1 2014

<table>
<thead>
<tr>
<th>Product</th>
<th>Weekly $ Sales per Store</th>
<th>Percent Change vs. 2014</th>
<th>Weekly Vol. per Store</th>
<th>Percent Change vs. 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooking greens</td>
<td>$448</td>
<td>3.7</td>
<td>213</td>
<td>-0.2</td>
</tr>
<tr>
<td>Spinach</td>
<td>$225</td>
<td>4.7</td>
<td>89</td>
<td>2.1</td>
</tr>
<tr>
<td>Kale</td>
<td>$135</td>
<td>5.8</td>
<td>75</td>
<td>1.1</td>
</tr>
<tr>
<td>Collard greens</td>
<td>$32</td>
<td>-4.3</td>
<td>22</td>
<td>-7.1</td>
</tr>
</tbody>
</table>

Source: FreshFacts® on Retail, Q3 2015, United Fresh Produce Association and Nielsen
## Top 10 Fresh Vegetable Sales in Key US Food Retailers, 2014 vs. 2013

<table>
<thead>
<tr>
<th>Product</th>
<th>Weekly $ Sales/Store</th>
<th>% Change vs. 2013</th>
<th>Weekly Vol./Store</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packaged Salad</td>
<td>$3,553</td>
<td>7.8</td>
<td>1,301</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>$2,590</td>
<td>1.8</td>
<td>1,165</td>
</tr>
<tr>
<td>Potatoes</td>
<td>$2,561</td>
<td>1.9</td>
<td>3,712</td>
</tr>
<tr>
<td>Cooking Veg</td>
<td>$1,806</td>
<td>3.5</td>
<td>1,097</td>
</tr>
<tr>
<td>Onions</td>
<td>$1,564</td>
<td>0.1</td>
<td>1,578</td>
</tr>
<tr>
<td>Peppers</td>
<td>$1,412</td>
<td>4.5</td>
<td>640</td>
</tr>
<tr>
<td>Lettuce</td>
<td>$1,279</td>
<td>-3.6</td>
<td>714</td>
</tr>
<tr>
<td>Carrots</td>
<td>$906</td>
<td>-0.8</td>
<td>536</td>
</tr>
<tr>
<td>Mushrooms</td>
<td>$842</td>
<td>1.6</td>
<td>345</td>
</tr>
<tr>
<td>Cucumbers</td>
<td>$744</td>
<td>4.3</td>
<td>750</td>
</tr>
</tbody>
</table>

Source: FreshFacts® on Retail, Whole and Fresh Cut Produce Trends: 2014, United Fresh Produce Association and Nielsen, March 2015.
US Bag Salad Sales, 2010-14

• Bag salad sales grew by an average annual rate of 3% 2010-14, reaching $3.4 billion.
• Category was relatively mature but successfully evolved to become more consumer relevant.
• Despite the higher price tags, salad kits have revolutionized the bag salad category and doubled $share since 2010.
• Average annual growth rate for kits was 29%, with 2014 retail sales of $700 million (in Nielsen data set).

US Retail Bag Salad Dollar Sales, Shares by Key Salad Type, Q2 2014 vs Q2 2015

Source: Fresh Facts on Retail Q2 2015, United Fresh and Nielsen
US Bag Salad Market Shares in Select Retailers: Top 5 Firms and Private Label, Share of Dollar Sales

- Private label share: 2%
- Other share: 6%
- Top 5 firms: 91%

1994: Top 5 firms 91%

2014: Top 5 firms 61%

Value-added Vegetable (VAV) Trends

Note: in general, scanner data show growth rates in cooking veg items such as brussel sprouts much higher for value-added (fixed weight) than bulk (random weight).
Responding to Consumer Preferences: Convenience, Nutrition/Wellness, and Personalization

New VAV Items Addressing Demand for Convenience, Health and Customization
US Retail French Green Bean $Sales — Fixed (Value-added) vs. Random Weight Sales, 2014

US Value-added Veg Sales by Subcategory: Share of Total VAV Dollar Sales in Key Retailers (includes nontraditional retailers), 2014

Note: Consumers Purchase VAV on 4 trips/yr.

- Side dish: 58%
- Trays: 16%
- Snacking: 11%
- Meal prep: 15%

Source: FreshFacts® on Retail, Whole and Fresh Cut Produce Trends: 2014, United Fresh Produce Association and Nielsen, March 2015.
Locally Grown
Frequency of Purchases of Locally Grown Products, 2015

Source: FMI U.S. Grocery Shopper Trends 2015
Definition of “Locally Grown” Products according to Shoppers, 2015

Note: Consumers identified an average of 87 miles as the limit for local.

Source: US Grocery Shopper Trends 2015, FMI.
US Consumers’ Reasons for Purchasing Locally Sourced Fresh Produce, 2015

- Freshness: 78%
- Support of local economy/farmers: 65%
- Knowing where produce is grown: 43%
- Better nutritional value: 25%
- Better price: 23%
- Lesser environmental impact: 23%
- Knowing the farm/story: 20%
- Unique local/regional product: 16%

Top 5 US Fresh Market Vegetable States* in 2015: Geographic concentration of production (due to climate) limits local sourcing potential, yet it is growing in the summer/fall.

<table>
<thead>
<tr>
<th>State</th>
<th>% of Total</th>
<th>Production</th>
<th>% of Total</th>
<th>Value</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>46</td>
<td>CA</td>
<td>51</td>
<td>CA</td>
<td>58</td>
</tr>
<tr>
<td>FL</td>
<td>10</td>
<td>FL</td>
<td>8</td>
<td>FL</td>
<td>9</td>
</tr>
<tr>
<td>AZ</td>
<td>7</td>
<td>AZ</td>
<td>7</td>
<td>AZ</td>
<td>9</td>
</tr>
<tr>
<td>GA</td>
<td>6</td>
<td>WA</td>
<td>5</td>
<td>GA</td>
<td>4</td>
</tr>
<tr>
<td>NY</td>
<td>4</td>
<td>GA</td>
<td>5</td>
<td>WA</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>Other</td>
<td>24</td>
<td>Other</td>
<td>17</td>
</tr>
</tbody>
</table>

*Excludes potatoes

Source: Vegetables 2015 Summary, USDA/NASS, February 2015
CA and AZ Broccoli Harvested Acreage, 1970-2015, fresh and processed (growth in rest of US not captured by USDA)

1,000 Acres

CA and AZ total

California

Arizona

Sources: Various USDA/NASS Vegetable Annual Reports, including January 2016, and USDA/ERS broccoli series.
CA and AZ Fresh-Market Broccoli Production, 2000-2015, (growth in rest of US not captured by USDA)

Sources: USDA/NASS online queries, February 22, 2016.
Conclusions

• Channel blurring and consolidation!

• Consumer demand for convenience, health/wellness should drive further expansion in VAP sales.

• New product innovation, differentiation and strategic marketing are key!

• VAP processors will be selling more products and pack sizes, making cost control more of a challenge.

• VAP leads in category development but there is still great potential to improve store level assortments “right sizing,” pricing and promo, reducing shrink.
Conclusions

• Ongoing margin squeeze means that firms must become more efficient. IT will play a growing role.
• Future growth rate of VAP depends partly on successful healthy menu options in foodservice.
• Snacking trend will stimulate small pack sizes in both retail and foodservice.
• New marketing channels may expand sales.
• The complexity of doing business will grow!
• Economic growth will stimulate produce sales.