



Key Produce Industry Drivers

Charles R. Hall

Associate Professor & Extension Economist

Lance D. Pate

Extension Assistant - Horticultural Marketing

In the March issue of the "*Journal of Food Distribution Research*" Roberta Cook provides an overview of the key drivers in the fruit and vegetable industry. In this article she discusses a range of issues from fresh cut to industrialized agriculture. These topics are important to understand if you are a member of the produce industry in any capacity.

In a recent study, it was found that annual global trade of fruits and vegetables surpasses forty billion dollars, and world production has reached approximately one billion tons. When importing and exporting are combined the U.S. is the largest in fruit and vegetable trade with a deficit around one billion dollars. A growing global demand for year-round availability and a broader array of high quality fresh fruits and vegetables are stimulating trade. Since no country can produce suitable quantities and qualities of all fresh fruits and vegetables every week, it is necessary for suppliers to source produce around the world. Producers can no longer see the fruit and vegetable market as mainly domestic with a few exporters. Produce growers have developed a global community.

Recent trade liberalization among developing nations and those that once did not allow importing from the U.S. have recently permitted it due to the emerging demand for fresh fruits and vegetables. This, in turn, has generated new competition for their domestic producers. Trade that had previously not existed is raising the competitive bar causing new trade disputes. Sanitary and phytosanitary restrictions continue to unfold, while lower tariff barriers will allow them to be the topic for

some time to come.

In the face of an industrialized agriculture, strategic alliances and joint ventures are allowing small and medium sized firms to do business on a global level. These cooperative arrangements also allow them to both source in more countries and expand markets without becoming a "multinational" firm. Some of the larger multinational firms are attempting to develop global brands and diversify product lines. Due to the highly perishable nature of produce and its inconstant prices, it is difficult for publicly traded companies that must report to stockholder to dominate the shipper or supplier level. Even though these multinational firms are venturing into production and shipping areas a sizeable portion of produce sales, at the first-handler level, will remain in the hands of private, specialized companies.

There has been a move to adding value for customers and decreasing costs by streamlining distribution and understanding needs, tastes, and preferences. Recently companies have seen consolidation as the remedy. In the U.S. the top ten wholesalers-retailers accounted for sixty percent of 1998 food sales. It has become common place to find buyers that have developed partnerships with selected suppliers so that they may be assured of the availability of fruits and vegetables that meet their specifications on a weekly basis. Larger buyers are the driving force behind consolidation at the supplier level because shippers must attempt to somewhat match the scale of their customers in order to serve them efficiently. The paradigm in the produce industry has become one of consistency. A

consistent supply over extended seasons has become a competitive advantage for many shippers.

Product differentiation and new product development are also key strategies for increasing sales. As tastes become global, preferring various ethnic foods, specialty fruits and vegetables have become more prevalent. Because of this small domestic producers, especially in the U.S., gain an advantage through production of these “niche” foods. This has also opened new export markets for tropical and subtropical producers. Even with major advances in areas like fresh-cut the dynamics of produce markets remain like that of commodities, with production firms accepting that of the price taker.

Environmental pressures are having a significant effect of production and marketing practices around the world and not only in the industrialized nations. It is important to keep in mind that a growing number of consumers *say* they want to support organic farming and its environmental stance, they have not supported it with their pocket books. Prices and margins must shrink before organic produce will move out of the “niche” category. The largest concern among U.S. producers is the loss of registered pesticides, and the concern over the advantages in favor of underdeveloped nations who are allowed to continue using these pesticides.

Also increasing in significance for fruit and vegetable production is the area of precision agriculture. There may be a lesson to be learned in the fact that California, the largest fruit and vegetable producer in the U.S., has adopted precision agriculture practices more rapidly than any other state. In short, it has become obvious that to remain a viable member of this sector of agriculture, producers must use technology, supply, weather, and marketing information as efficiently as possible so that they may maximize their share of the market and minimize costs.

The areas aforementioned are considered the most significant and recent factors effecting the produce industry. This article is merely an abridged summation of these subjects and a brief description of the influences they have on the fruit and vegetable industry. Further research is highly suggested so that a more complete understanding may be attained.