



## **Strategic Visioning Necessary for Survival of the Texas Produce Industry**

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Historically, Texas has ranked a close third to Florida in terms of total U.S. vegetable and melon production. However, according to the 1996 Vegetable Summary, Texas dropped to a distant fifth. Data also show that a steady decline in acreage has occurred over the past 50 years. Some, but not all, of the decline can be attributed to increased yields per acre resulting from improved genetics and cultural practices. However, the yield increase for most crops such as tomatoes and spinach over time has not been of the magnitude to offset the overall decline in acreage.

In the past, the early markets enjoyed by Texas producers and the resulting prices associated with these markets enabled the industry to survive. However, the Texas produce industry in the entire state is now suffering from a disease of the worst sort. This disease has no magic cure, no quick fix, and can be quite deadly to even the strongest of businesses. This disease is called *financial stress* and it is more widespread than most people imagine. Symptoms of this disease can be difficult to detect, but most recent evidence of its existence comes in the form of declining acreage and reduced profitability at all levels of the vegetable value chain (grower and shipper alike). Many have been "living off of depreciation" for quite some time. That is, price levels have been at or below break-even at the variable cost level, with little revenue remaining for replacing/maintaining fixed assets.

Treating the symptoms of this disease offers little relief from the disease itself. It has taken

many years for this disease to progress to the stage it has and only a long-run, well-thought out, strategic plan of attack will save the industry from a pattern of self-destruction. Undoubtedly, the most logical plan of attack would begin with a thorough examination of the disease itself. What factors or circumstances lead up to its existence? In no particular order, the nature of the disease can be described as follows:

- ~ While participants in the fruit and vegetable industry have done a good job in talking about the need for value-added products and/or markets, only a select few firms have aggressively explored this avenue. In general, niche marketing strategies have given way to volume-based marketing strategies.
- ~ Over time, the number of different fruit and vegetable commodities grown in the state has drastically declined. As little as a decade ago, the number of commodities grown in the RGV alone was probably double or maybe even triple what it is now. Growers/shippers have become too reliant on the "Big 3" crops: onions, melons, and cabbage. This has reduced the state's ability to supply mixed loads on a consistent basis.
- ~ The NAFTA has been in place nearly four years now. When implemented, many participants in the Texas fruit and vegetable industry were somewhat complacent, mainly due to the fact that many of the acres being planted in Mexico were being financed with

US capital, grown using US technology, and in some cases, using US managerial expertise. This phenomenon has exacerbated the problem of overlapping marketing seasons. For example, Texas producers (particularly in the RGV) built its reputation on “early season availability”, and much of its competitive advantage is being eroded over time as more and more Mexican-produced vegetables and melons find their way into the marketplace.

- ~ Traditionally, new technology adoption rates by grower/shippers have been slower than those of other major production regions in the country. Examples of some of these slowly-adopted new technologies include drip irrigation/plastic mulch technology, EDI capabilities, ECR (efficient consumer response) relationships with retailers, post-harvest handling and packaging technologies, the Internet, email capabilities, etc.
- ~ The industry is becoming more and more concentrated with only a handful of major shippers, who have become more and more specialized. The competitive environment continues to put more and more pressure on these remaining firms.
- ~ Traditionally, there has been a lack of coordination of marketing/promotion activities regarding Texas produce. Even when promotional programs were in place (i.e. TexFresh), the funds that were generated for the program were less than ideal. Trying to develop and implement a national campaign on those scarce resources was an impossible task. No wonder that when it came time to renew funding, effectiveness of the program was evaluated and the decision was made to discontinue the program in favor of “production-related research”. This is the type of short-range vision that the “disease” thrives on most.
- ~ The length of time in which Texas-grown produce is offered in the marketplace has diminished due to the fact that several firms that operated subsidiaries in other parts of the state have opted to close down those facilities.
- ~ The perception of Texas produce in the minds

of buyers has often been inconsistent — in terms of quality, volume, delivery, and pricing.

- ~ While the above characteristics of the disease are in and of themselves devastating, none are more devastating than poorly-planned selling strategies. In too many instances, Texas firms have been their own worst enemy in terms of pricing in the marketplace. Prices have been slashed to break-even levels (if that much) too quickly, even in times of strong market demand. Little or no coordination has existed at the grower-shipper-wholesaler-retailer level to ensure that prices remain at a profitable level. Instead, there seems to have been a mentality that storage (cooling) facilities must be cleared at all costs when inventories start reaching certain “nervous” levels.
- ~ Weather has been a continual battle for producers and shippers for quite some time. If it hasn’t been drought, it has been too much water. If it hasn’t been water quantity problems, it has been water quality problems. Disease and insect pressures have been excessive in the past 4-5 years. Mother Nature simply has not cooperated.
- ~ Big Brother Government has also reared his ugly head in the form of increased worker-related legislation, which may be good for safety’s sake, but more expensive for the bottom line’s sake. As a percent of total costs, labor costs are more today than they were a mere decade ago.

Now one point must be made perfectly clear at this time. These are not necessarily new problems for producers and shippers. Every year, they have had to face at least one of these problems. However, their effects tend to be synergistic. That is, when two or more (or even all) of these factors are experienced at the same time, the combined effect is much more financially stressful than if each were experienced independently.

So what can be done to alleviate the symptoms of the disease and cure the disease itself? That is a question that only the industry itself can address. While not inclusive, some of the options include:

- ~ Develop regional and/or statewide promotional

programs. To do this, the industry needs to investigate partnerships with the Texas Department of Agriculture, other grower-related commodity groups, joint marketing committee promotions, etc. (I.e. share expenses/savings)

- ~ Develop and implement commodity checkoff programs to generate funds for market promotion.
- ~ Attempt branding/trademarking at different levels of the value chain. Explore labeling opportunities.
- ~ Initiate efforts to enhance the image of Texas-grown produce.
- ~ Develop a marketing committee to discuss supply management; maybe even to the extent of creating a central sales agency for certain geographic regions of the state (i.e. the lower Rio Grande Valley) or for certain commodities.
- ~ Study the impacts of transportation and labor legislation.
- ~ Develop a mindset that the industry is more than just “selling today”. In other words, develop a marketing rather than a selling mindset (coordinated marketing efforts from seed to consumer).
- ~ Support more research regarding value added opportunities.
- ~ Study the infrastructure and standard operating procedures of “successful” vegetable producers, shippers, regions, etc.
- ~ Don’t forget about the smaller growers in this process. They are a necessary component of a viable industry.
- ~ Study the needs of the retail supermarket buyer intensely and develop a long-run strategic partnership to fill those needs (contract pricing, specialized containerization, etc.)
- ~ Adopt new technologies at a faster rate.
- ~ Quit being our own worst enemy. Capturing

short-run market share is not synonymous with long-term profitability.

- ~ Recognize that consumers are strategic shoppers; continually trading off quality, value, service, convenience, and selection in making their purchasing decisions.

## **NEW OPPORTUNITIES IN FOOD SERVICE**

Americans today enjoy the most plentiful, healthful and affordable food supply in the world. And this is made possible because of sophisticated marketing efficiencies that allow us to spend less for food than any other country in the world. But today it is not enough to produce the most or the best. For Texas agriculture to grow and prosper in the twenty-first century, it is imperative that we do a better job of further processing raw commodities and marketing our products to one of the fastest growing marketing segments of our industry — foodservice.

According to ID Magazine, the voice of food service distribution, 1996 foodservice sales were higher than retail sales. Retail sales total were \$395 billion, foodservice sales came to \$405 billion. If we examine this trend further, we find that: (1) consumers are the driving force for change, (2) two income families are becoming more prominent, (3) it is estimated that 60% of all families have two incomes—more money to spend less time for meal preparation, (4) lifestyles are changing, and (5) there is an increased desire for more convenience-oriented foods.

A ground-breaking study of the foodservice industry is entitled “Foodservice 2005: Satisfying America’s Changing Appetite.” Another was the International Foodservice Distributors Association (IFDA) study conducted by McKinsey & Company, (see ID, October, 1996, for in-depth report on the study.) This study predicts that American consumers will spend an additional \$100 billion satisfying their appetite. The study is also predicting that \$77 billion of this spending will go for fast foods, take home meals, and eating out. Retail will only capture approximately \$19 billion of this total. ID Magazine’s 23<sup>rd</sup> Annual ID Update conference, held last May in Dallas, provided a

forum to debate strategies on how to capture the \$100 billion new sales. Dallas was selected as the location for this conference because Texas is projected to be the #1 market for foodservice in the next decade. 250 attendees from all branches of foodservice attended the event and got the \$100 billion in new sales anticipated over the next decade.

This IFDA study has contributed to major mergers and acquisitions in the foodservice industry as foodservice distributors position themselves in the market place. Foodservice mergers and market positioning that took place this year involved 7 companies listed in ID's Top Fifty Distributors including Sysco (Houston), Alliant Foodservice Deerfield, Ill. (purchased Kraft Foods in Texas), US Foodservice Wilkes-Barre, PA (purchased White Swan in Texas), Ben E. Keith (Ft. Worth), Labatt (San Antonio), and Galzier Foods Co. (Houston).

We all feel that Texas grows the best produce in the country. Now it is time that we process, prepare and package the best for the changing consumer appetite. Bob Westway of Sysco in San Antonio, said, "Ten years ago, 80% of everything we bought was bulk, today 80% of everything we buy is packaged." TDA's BUY TEXAS program has begun targeting corporate restaurants, chain restaurants and school districts by promoting Texas packaged products. While this type of effort has been quite successful, we need to continue pushing forward. Suggestions for the produce industry to consider for the development of the foodservice market include:

- ~ Encourage growers/shippers to package for the institutional market.
- ~ Develop materials that show multi-uses of the products in prepared foods.
- ~ Develop name brand materials and give-aways to buyers and end users.
- ~ Develop day planners for foodservice managers.
- ~ Provide food preparation and handling materials for chefs and food handling personnel.

- ~ Advertise in foodservice trade magazines
- ~ Exhibit at foodservice convention and trade shows.
- ~ Develop materials for CD-ROM that can be used by foodservice distributor buyers.
- ~ Conduct workshops for foodservice buyers.
- ~ Conduct workshops for chefs and chef associations.
- ~ Spend advertising dollars with foodservice distributors, restaurants, cafés, corporate cafés, school districts and institutional wholesalers.

## **ECONOMICS AND THE ROLE OF NEW TECHNOLOGY**

Someone once made the comment that "Every idea worthy of invention has already been patented." What makes this comment even more interesting is that it was made by the Director of the U.S. Patent Office; *in 1884!* It would be difficult to dispute that new technologies will be at the forefront of the changes needed to propel the Texas Produce industry into the 21<sup>st</sup> century. We have typically associated technology with its impact on production. But, with marketing related activities accounting for more than 75 percent of the value of fresh produce, technology may improve the efficiency of marketing as much if not more than it does production. Therefore, it is essential to address technology as it relates to both of these functions, as production and marketing have become increasingly intertwined in the success of agribusinesses.

We have already witnessed a change in philosophy from a production or commodity focus to one which also concentrates on the market or customer and increasing the value added to the raw commodity. When the term "value added" is defined, one needs to consider the specific factors identified by consumers as determining their purchasing decisions. In addition to price, and many times in lieu of price, the following desires frequently appear to motivate consumer's produce

purchases. It is satisfying these desires economically that will prove to be the challenge of new technology. It is impossible to account for all of the technologies which will address this challenge. The types of technology are categorized into three main areas: (1) biotechnology, (2) precision farming, and (3) information. Within each category, there are some specific examples for illustration.

### ***Biotechnology***

Perhaps the most exciting area of innovation involves biotechnology. For the most part, processing procedures have been modified to fit the constraints associated with the raw product. This will be much less the case in the future. Genetic modifications in the form of new biotechnologies will enable alteration of the raw commodity to fit specific end uses. Those advancements can also be coupled with disease, insect, and herbicide resistance. These types of technologies can be expected to be even more readily available in the next few years and will involve only minor modifications to current production systems.

One interesting footnote regarding biotechnology deserves mention. While technology has traditionally favored larger farms and reinforced the trend toward consolidation, some experts suggest that the development of specific-trait crops could actually favor smaller, management-intensive operations. The need to raise a crop with a designated end-use trait will require a detailed, disciplined production system and segregation of the end product. There are many who feel that this type of cropping system does not provide for economies of scale. Instead, labor and management can be substituted for capital.

### ***Precision farming***

The next area of emerging technology involves precision farming techniques. While biotechnology impacts are anticipated to occur rather quickly, the adoption of site-specific farming and global positioning systems could take five to 10 years for most producers to adopt. It is a higher risk technology, involving both time and capital commitments. However, we will soon see

equipment capable of varying application rates for up to six different chemicals. Sensor technology that enables producers to monitor fertilizer and chemical application accurately may make it possible for more detailed labeling by processors. Yield monitor technology under development will be more accurate and will include quality monitoring and real time sensors to measure nutrients, moisture, and temperatures. Additionally, weather monitoring will allow the creation of disease-prediction maps as a type of early warning device.

### ***Information technology***

The third area that I have identified involves information technology. Information exchange continues to add value for both the produce supplier and the customer. The internet allows for world wide promotion of even the smallest business, a feat that even the most generous advertising budget could previously not afford. Information obtained from the scanner data of retailers allows demographic information to be integrated with consumer purchases. When this is combined with media preferences, sophisticated programs can be developed to describe who and where customers are, what they want, how much they are willing to pay, and how they can be reached. It is the technology of information that has provided for computer assisted ordering to track warehouse inventory movements and electronic data interchange between suppliers, wholesalers, and retailers to improve each parties efficiency and profitability. *The successful agribusiness of the future will be those that can identify products and services desired by consumers and provide those products in a timely manner.* Information technology, in combination with precision farming technologies and biotechnology, will greatly enhance the coordination of activities among producers and consumers.

To prepare to use the new technologies, experts have suggested the following steps. Computerized record keeping is recommended as an important ingredient in making technology pay. A strong understanding of agronomy and soil fertility will play an important role in evaluating new technologies. And a final point, producers will need to do a good self-assessment. This is

primarily where the role of economics comes in. I have heard producers that I've worked with state that economics appears to be nothing more than formalized common sense. While some economists might be offended at this offering, I consider that statement flattering. Whether you call it economics or common sense, the implementation of technology will ultimately depend upon the answers to several key questions.

*New technology is as much evolutionary as it is revolutionary.* Many new technologies are not cost effective when first released. However, as the benefits from the technology increase over time and the costs associated with it decrease, they quickly do become cost effective. In a more specific instance, one need only look at the changes in product marketing for support of this premise. Check-out scanners were initially introduced about 20 years ago with their greatest merit being as a labor-saving device. Then it became apparent that this scanner data could be used to track inventories, streamline warehousing and wholesaling activities. Thus was born the technologies of computer-assisted ordering and electronic data interchange providing the opportunities for strategic alliances and market coordination that exist today.

*Technology is not a substitute for good management.* In fact, technology is a complement to good management. The reader may have noticed that the statement that technology will require all of you to become better managers was intentionally avoided. It certainly can be asserted that truly successful technologies should enable those managers who are already proficient to be more effective. The pace of change will continue to accelerate. And let's face it, every technology is not appropriate for every operation. It depends upon individual business objectives. Good managers will continuously review the technologies mentioned here as well as others and use their own blend of formalized common sense to assess the costs and benefits which they can provide. Several innovations which appear to have the most appealing potential to assist the Texas Produce industry include:

- ~ The internet offers the greatest potential to generically promoting Texas produce items and varieties. Individual firms would most likely

benefit from marketing through the internet only if they had the capabilities to ship their products to the global internet audience. However, collective marketing entities might find this opportunity somewhat viable.

- ~ Workgroup members predicted an increase in the utilization of Electronic Data Interchange (EDI) throughout the marketing channels to further coordinate the various marketing functions. The food service and distribution channels appear to offer an opportunity to expand EDI's capabilities. Again, this technology appears to favor collective marketing agencies of producer groups.
- ~ Improved computer graphics packages and software programs currently permit the development of "slick" and professional-quality logo designs and packaging which could be used for differentiation of Texas produce on retail shelves.
- ~ Continual value-added innovations will be developed to accommodate consumer's desires for fresh-cut, convenient sizes and packages, food safety labeling, etc.

## **RETAIL SUPERMARKET PARTNERSHIPS FOR THE FUTURE**

The "gap" may be widening between produce suppliers and supermarket buyers. The mean number of buyers per company has not changed substantially in many years. Indeed, several produce directors report that new technology allows them to operate with fewer buyers than in the past, despite the threefold explosion of new items in the produce department since 1960. As the much greater number of items in today's produce department compete for the supermarket buyer's fixed time, each is allocated less. Moreover, only a handful of the largest companies continue to employ field buyers, underscoring the expansive distances between the supplies in production areas and the retail buyer.

As wholesale and retail supermarket companies consolidate their operations, the number of total produce buyers contracts; only one produce director is needed when before there

were two. Fewer buyer-seller contact points remain in the system. Of course, the implication of both of these trends is that suppliers of traditional commodities to the produce department are now competing for an increasingly scarce commodity themselves; the buyer's time.

Produce buyers from larger chains spend considerably more time working with suppliers and considerably less time conferring with their own store personnel than do buyers from smaller chains. A number of industry practitioners agree that compared to smaller chains, produce buyers in larger chains are more influenced by the policies of their grocery buyer colleagues to push for new distribution approaches with suppliers, such as "Efficient Consumer Response" and other of the latest initiatives in the grocery industry.

Others indicate that larger buyers do not have to be as concerned with store level activities because of the greater attention which they receive from large suppliers who, it was suggested, offer more extensive levels of service and merchandising to large company stores. Smaller grower/shippers further the view that larger buyers may align themselves more often with larger suppliers because it is frequently more difficult for a small supplier to meet the large volume requirements of the larger supermarket companies--in particular during a major ad. They claim larger retailers prefer to do business with suppliers who can offer "one-stop shopping." Some believe that the additional time that buyers from smaller chains spend on store-level activity may simply be explained by the extra attention that many smaller companies devote to more creative and attractive presentations.

### ***Produce Buying Process***

Supermarket produce buyers have moved away from traditional terminal markets as the primary source of their produce supplies. Over at least the last two decades, the share of produce that supermarkets purchase directly from production areas, whether the transaction is negotiated by a broker or a shipper's sales agent, has continued to grow. Moreover, as retail firm size increases, this tendency accelerates. Only 7 percent of the produce in the larger supermarket companies is procured at a terminal market,

whereas smaller chains purchase slightly over one-third of their total produce needs at a terminal market.

Given the more rigorous demands of contemporary shoppers regarding produce quality combined with the retailer's inability to re-condition poor condition product and unwillingness to compromise their standards for a lower price, suppliers must be vigilant in the quality of produce they forward to their supermarket accounts. Indeed, the most important product attribute on which buyers base purchase decisions is "best quality available." Shippers must take note that the quality imperative is repeated. "Price" only figures about half way down the list of ten leading buying factors. Naturally, for growers and shippers to convert this finding into meaningful strategy, they must probe their retail accounts for the various buyer interpretations of the elusive concept of "quality." To some, it may translate as "appearance and color" or perhaps a "minimum amount of bruising and shrink." To others, quality may suggest "convenience, shelf-life or taste."

Gross margin remains dominant in produce buyers' decision-making calculus despite the supposed superiority of DPP as a preferred performance measure. This finding sends two signals to suppliers. First, if despite all evidence to the contrary, supermarket buyers insist on clinging to time-honored gross margin measures, then suppliers need to adjust products and marketing programs in ways to maximize their attractiveness based on the gross margin criterion. Second, suppliers should still ensure that their products rank high on other arguably more effective performance measures, like DPP, and then strive to create buyer awareness and understanding of the importance of such new measures in the long run. The alert supplier must assist the buyer in applying innovative techniques to measure product and program success in new and appropriate ways.

Supermarket buyers often have mixed feelings regarding the importance of brands. This needs to be interpreted cautiously, however. While, on the one hand, buyers are not apparently favorably impressed with a "brand" in and of itself, they do report being positively influenced by "quality, consistency, high margins, strong demand, competitive pricing, and innovative packaging"--

the *exact characteristics* of a brand! Suppliers may be well advised to consider whether they want to position their new products as "consumer" brands with the strong in-store promotional material and electronic media that such a positioning implies, or whether they may be better off investing into building a brand franchise with the customer who matters most, the supermarket buyer.

Of the leading four supplier attributes most often valued by supermarket produce buyers, just one, "adequate supply," is likely to be in the province of the larger supplier only. The other top three -- "consistent quality, reputation and price protection"-- are all attributes that could be equally applied to small and medium sized suppliers as to larger firms. This should be interpreted very positively by grower/shippers who are concerned that supermarket companies are only interested in developing and maintaining relationships with the largest suppliers. The data indicate otherwise.

Some supermarket buyers do not yet consider "multi-commodity assortment" from shippers as critical. This should be good news for the smaller, single-commodity producer of high quality products. Similarly, seasonal suppliers should be encouraged that year round availability is usually ranked less important than "quality," "appropriateness of season," and "competitive price." Finally, buyers do favor "strong promotion" from suppliers ahead of "strong advertising." Since all but the largest of suppliers cannot generally afford frequent media advertising, this again argues for the continued viability of small suppliers. The bottom line is this. Produce buyers continue to make decisions based on product quality, consumer demand and logistical support; not on advertisements, extensive product portfolios or consumer brands.

### *New Product Issues*

Last year, produce buyers were presented about 65 new products with an average acceptance rate of approximately 50 percent. But large retailers had a different experience than smaller retailers. They had nearly twice as many "value-added" products presented to them but only two-thirds as many non-fresh products. Moreover, larger companies appear to be slightly more

favorable to new domestic products, while smaller companies seem to favor value-added and imported items. It is possible that larger companies are presented more new value-added items due to their greater perceived ability to handle the more exacting temperature control and equipment requirements of this sensitive new category.

Non-fresh produce items account for the greatest numbers of new introductions, yet have the lowest acceptance rate and highest deletion rate. In fact, on average, more products in the non-fresh category were deleted than added, leaving a net reduction in the number of non-fresh items of approximately 3.5 items per firm. If this annual rate is projected to the year 2000, only about 5 percent (25 items) in the department would be non-fresh, less than half of today's share. One implication: produce departments in the future are likely to be more receptive to new items from "fresh" suppliers but, conversely, less receptive to products from non-fresh sources.

The most frequently available promotional support from suppliers is Point of Purchase (POP) material yet buyers rate its importance as extremely low when evaluating new products. Several produce buyers from larger companies stated that they spend millions of dollars for designers and architects to create the proper in-store environment and, resultantly, are generally unwilling to alter that environment with what one described as "merchandising clutter." Other retailers do not take this position, however, and actively encourage POP information. The supplier message: know the attitude of the customer vis-a-vis POP material and be willing to consider investing scarce marketing funds in areas that make a positive, not a negative, impression on buyers.

### *Management of the Produce Department: Pricing and Performance*

"Why are large swings in FOB prices not reflected in retail prices?" Grower/shipper prices play only a partial role in the techniques buyers use to set retail prices. Local market conditions and attracting customers through loss leader pricing are the two most prevalent pricing techniques yet neither of them is directly tied to FOB prices. If local market conditions are the single most

important criterion to buyers as they establish retail prices, shippers interested in gaining maximum negotiation leverage would do well to arm themselves with such local market information. A number of views are put forward by buyers regarding their alleged unwillingness to lower retail prices to move greater volumes:

- ~ A lower retail price may not result in additional retail sales if the reduced price is either (a) lowered by so little that consumers do not recognize the reduction or (b) low enough that the reduction is recognized by shoppers but not so low as to induce additional sales.
- ~ If, like many staple food commodities, the produce item is characterized by a relatively inelastic retail demand (e.g. very limited sales response despite large price changes) then, once again, the retailer has nothing to gain and everything to lose if he lowers retail price. And the more he lowers it in a (futile) effort to stimulate greater volume movement, the more he loses, as the modest quantity increases cannot keep pace with the price declines. Naturally, this scenario would lead to a free-fall in total retail sales revenues.
- ~ If the retailer faces an elastic demand for a particular produce item, it is *theoretically* possible to increase volume movement and total sales revenue by lowering price. However, many retailers feel that they have already discovered the "optimal price threshold" beyond which further price declines will not produce relatively greater volume increases.
- ~ Further, since, competitors' prices are the single biggest factor in retail price setting, competitor retaliation would be rapid and nearly certain. Thus any advantage gained by lowering a given retail price would be very short-lived. Finally, unlike packaged goods, increasing produce movement, whether by price reductions or other means, is always constrained by the product's inherent perishability that prevents stockpiling in the home.
- ~ Many retailers point out that consumers prefer "stable" prices. The growing prevalence of

contract-type pricing lends some credence to the view that they are indeed interested in stable prices over a period of time longer than a few days or weeks. Of course, to the extent that such agreed-on price levels facilitate planning, planting, harvesting and shipping activities for growers and shippers, the entire produce system benefits, including consumers.

- ~ Produce prices are established in concert with those of all other departments in the store by senior management. The resulting constellation of prices is an attempt to achieve one coherent image in the minds of a target consumer segment(s) for a given market area. Selecting the optimal mix of retail products to offer from the hundreds of thousands available and then choosing the price levels for each in order to produce overall bottom line success is perhaps the biggest single retail challenge, and enigma.
- ~ Finally, over three-quarters of the marketing bill for fresh fruits and vegetables covers marketing-related activities that occur beyond the farm gate. The farm contribution is slightly less than a quarter of the total. Thus, it should not be surprising that even relatively large swings in the prices of a small component of the total consumer value are not always reflected in price changes of equal magnitude at the retail level.

The leading criterion used by buyers to evaluate performance is overall sales. Important implications for shippers can be derived, however, from examining the ways in which they can assist the retailers in improving the measures of performance that retailers rate highly. "Shrinkage and sales per labor hour," are both critical performance measures where astute suppliers have opportunities to help. Both firm-level and system wide remedies are called for. Proper shipper maintenance of cooling systems during packing and transportation can reduce subsequent retailer and total system wide costs. Similarly, supplier-initiated "value-added" activities at the shipping level, such as trimming and packaging programs, and even at the wholesale/retail level, such as appropriate secondary cartons, standardized pallets and merchandising support, can result in a remarkable differences. In every instance possible, shippers should be vigilant in

seeking out such opportunities to improve their customers' operations.

Buyers require at least two weeks and perhaps as much as several months in order to adequately plan their weekly ads. Yet well over one-half of all produce suppliers may not be able to offer a firm price on a major ad one month in advance. Suppliers able to provide pricing stability for longer periods of time will win new retail accounts. Relatively large volume increases can be motivated by various non-price related merchandising approaches. Produce suppliers need greater levels of experimentation with key retailers to identify new and more effective ways to market and sell fresh produce. The testing of new merchandising mixes, creative space allocations schemes, and innovation in variety management is an overdue opportunity for many shippers.

Already, one-third of produce buyers use or are considering using category management systems in the near future. Such systems will accord "bottom-line" profit responsibility to produce buyers for entire categories of fresh produce: attaining budgeted sales, gross margin, net dollars, and market share. But, buyers will have to enter into new and more committed partnerships with key suppliers. Information must be exchanged more freely, mutual benefits must be self evident, and both supplier and retailer must be committed to learning, responding, reacting and continually improving. Such alliances represent a major

attitudinal shift in many of the adversarial buyer-seller relationships that currently exist in the produce industry.

The new developments and projected directions in the retail end of the value chain represent exciting opportunities for produce suppliers to forge new relationships with their key accounts. Leading retailers are already underway with the initial stages. The advent of such new relationships afford suppliers an unique chance to develop bold new initiatives: long-term deals, contract pricing, flexible marketing funds, "continuous replenishment," electronic data exchange capabilities (e.g. purchase orders, pricing and promotional information, invoicing), inventory management, direct-to- store shipment opportunities, shared demand-forecasting and others. Adding value to basic commodities through service, information and efficiencies will mark the successful produce suppliers of the future.

### **Concluding Comments**

It has been said that the optimist is one who thinks that this is the best of all possible worlds and the pessimist is afraid he's right. While the challenges expressed in this article may seem daunting, they also represent the opportunities of the future. One thing is for sure, however, "united we stand, divided we fall."