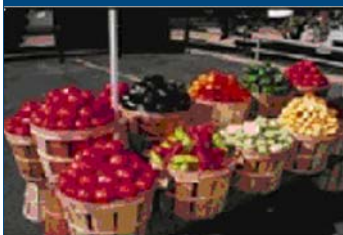


Consumer Food Trends

Defining Opportunities
for Alberta's Agri-food Industry

Market Forces in the Fruit and Vegetable Industry

Economics & Competitiveness



**MARKET FORCES
IN THE
FRUIT AND VEGETABLE INDUSTRY**

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Abstract

Market forces in the fruit and vegetable industry, takes a look at global changes and recent trends in the market place. Mergers and consolidation within the distribution system, greater technological demands, food safety and the wider distribution of food are some of the factors behind the trends. With this changing market, a careful look is needed to determine how Alberta and other Western Canadian producers and processors can best use their resources to tap into the market, through research, partnerships, market segmentation and other activities.

TABLE OF CONTENTS

1. INTRODUCTION	1
1.1. BACKGROUND.....	1
2. DRIVERS AFFECTING THE LOCAL INDUSTRY	1
3. TRADE, BUSINESS PRACTICES AND TRENDS	2
3.1. THE U.S. HORTICULTURAL TRADE TRENDS UNDER NAFTA (FIGURES IN US\$).....	2
3.2. CHANGES IN STRUCTURE AND BUSINESS PRACTICES	5
3.3. MORE PERSPECTIVES ON PARTNERSHIPS AND MARKET TRENDS	8
4. MARKET SHARE BY RETAIL	9
4.1. GROCERY STORE PROFITS.....	9
5. LOCAL INTERVIEWS (EDMONTON)	10
5.1. WHOLESALE/RETAIL	10
5.2. FOOD SERVICE	11
5.3. SPECIALTY RETAIL	12
5.4. THE SERECON STUDY	12
6. SUMMARY	14
7. RECOMMENDATIONS	15

Abbreviations

CDN\$ = in Canadian dollars

US\$ = in US dollars

Market Forces in the Fruit and Vegetable Industry

1. Introduction

1.1. Background

As consumer demand grows for fruit and vegetables, so do the market opportunities. Canadian imports and exports of fruit and vegetable products have been steadily increasing. At the same time, the global market place has changed making it more of a challenge for local producers to compete. There has been an increasing number of mergers and consolidation within the distribution system, along with greater technological demands being placed on suppliers. Alberta's geographic location and climate make it more difficult to maintain a consistent supply of large volumes, compared to the large United States markets. Food safety is another issue that has put pressure on the system, due to transporting food over longer distances and having a wider distribution, than in previous years. With all these changes, a careful look is needed to determine how Alberta and other Western Canadian provinces can best use their resources to tap into the market. The purpose of this paper is to look at the trends and drivers within the fruit and vegetable industry; identify potential markets for small to medium-sized producers, processors, marketers and industry associations; and to suggest activities to access those markets.

2. Drivers Affecting the Local Industry

As mentioned in a previous report, "Consumer Trends for Fruit and Vegetable Products,"¹ the STEEP analysis is one way to analyze the market. The report looked mostly at the sociological factors that affect the industry, such as demographics, consumer buying behaviour, etc. This report will look at the technological, environmental, economic and political factors that impact the fruit and vegetable marketplace.

The following is a list² of the components of STEEP along with examples.

- S (Sociological) = Data about people: demographic trends, values and lifestyles, families, health, crime, education (e.g., health conscious eating, aging nutrition, ethnic foods, convenience foods.)
- T (Technical) = Data about scientific and technological developments (e.g., EDI – Electronic Data Interchange, packaging.)
- E (Economic) = Data about international, national, regional and local economies, including data relating to the labour force, income, and infrastructure (e.g., income levels, mergers/ acquisitions, strategic alliances.)
- E (Environmental) = Data related to energy, reusing and recycling, protection of biological bases, food protection, air and water quality (e.g., food safety).

¹ Sharon Faye, *Consumer Food Trends: Consumer Trends for Fruit and Vegetable Products*. Edmonton, AB: Alberta Agriculture, Food and Rural Development, March 2004, pp. 2-3.

² HORIZON, Market Research: External Analysis, *Common Sense Management (Chap. 3)*. Retrieved November 5, 2004, from <http://horizon.unc.edu/projects/CSM/default.asp?chap=3>.

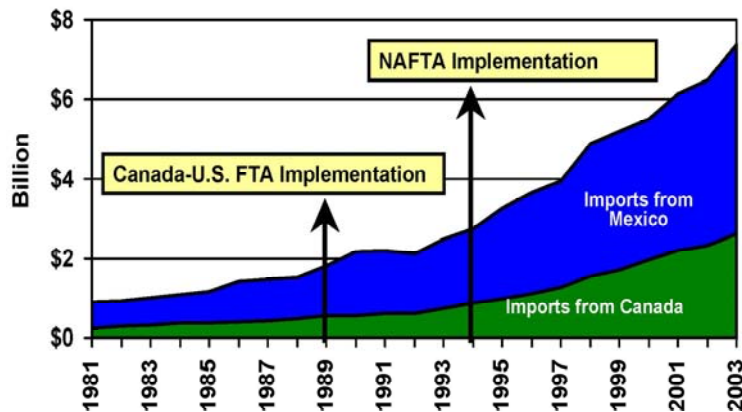
- P (Political) = Data about government policies, legislation, regulation, political participation, litigation and court decisions (e.g., Free Trade, food safety regulations.)

3. Trade, Business Practices and Trends

3.1. The U.S. Horticultural Trade Trends Under NAFTA (figures in US\$)

Since the Free Trade Agreement (FTA) in 1989 and the North American Free Trade Agreement (NAFTA) in 1994 were implemented, there has been a significant increase of US imports into Canada of **all horticultural** products, as well as increased exports of Canadian product into the US (see Figure 1 and 2).

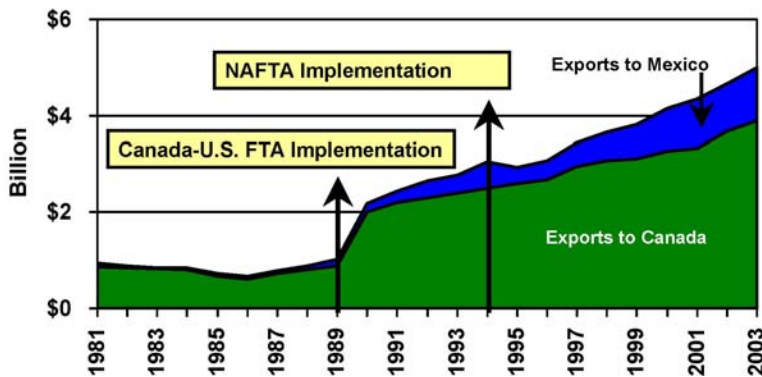
U.S. Horticultural Imports from NAFTA Countries



Source: US Bureau of the Census

Figure 1. US Horticultural Imports

U.S. Horticultural Exports to NAFTA Countries

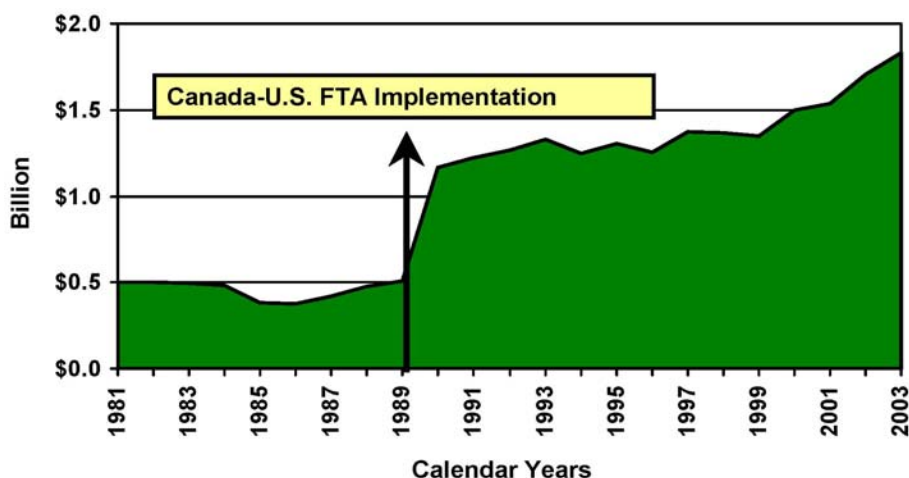


Source: US Bureau of the Census

Figure 2. US Horticultural Exports

With the Free Trade Agreement (FTA), US exports of **fresh** fruit and vegetables into Canada more than doubled from over 0.5 billion (US\$) in 1989 to approximately 1.2 billion (US\$) by 1990. By 2003, the value of US exports of fresh fruit and vegetables into Canada were roughly 1.8 billion³ (US\$) (see Figure 3).

U.S. Fresh Fruit & Vegetable Exports to Canada



Source: US Bureau of the Census

Figure 3. US Exports to Canada

The Foreign Agriculture Service Report (Rosa, 2003) states that Canadian **exports** into the US of **frozen** (only) vegetables have tripled since NAFTA (in 1994), to over 430 million (US\$) in 2001, with frozen potato fries making up about 89% of this total. Canadian **canned** vegetable exports to the US in 2001 were valued at nearly 90 million (US\$), or seven times the amount prior to 1994. Since NAFTA, the US has had a strong trade balance with Canada, although the gap has been narrowing in recent years to the advantage of Canada. The following quote reflects the difference of US imports versus Canadian imports. “With a population of 32 million and a current average per capita GDP (gross domestic product) of approximately \$28,000, Canada imported \$104.07 per capita of U.S horticultural products in 2001, while the United States, with a population of about 280 million and a per capita GDP of over \$36,000, posted per capita horticultural imports from Canada of only \$7.99.”⁴

A USDA (2003, pp. 7-8) points out the fact that Canada’s short growing season, smaller horticultural acres and a high demand for fresh produce, makes it a net importer of **fresh** fruits and vegetables. In fact it ranks among those countries with the largest level imports per capita. In the last five years, the value of fresh produce exports from Canada has increased by 32% per year, compared to an increase of Canadian imports of 4.4% per year. Although the balance of trade in the category remains negative, the net position has changed. In 1992, the ratio of imports

³ Bureau of the Census (cited in U.S. Horticultural Trade Trends Under NAFTA. USDA. 2004...)

⁴ In US\$ dollars. USDA Foreign Agricultural Service, “U.S. Horticultural Trade with NAFTA Partners Continue to Expand,” in *AgExporter*. Vol. XV, No. 2. US: USDA, Foreign Agriculture Service, Feb 2003, p.11.

to exports was 10 to 1, and a decade later the ratio was only 3 to 1. This is largely due to the large growth of the greenhouse industry in Canada (USDA Foreign Agriculture Service, 2003, p.7).

Table 1. Canadian Annual Imports of Fruits and Vegetable (fresh, frozen and dried)

2003 Imports of Vegetables from...	Canadian Imports millions (CDN \$)	Western Canadian Imports millions (CDN \$)	% of Western Canadian Total
<i>All countries</i>	<i>1,719.9</i>	<i>579.6</i>	<i>100 %</i>
US	1,281.5	447.4	77.2 %
Mexico	239.8	98.1	17.0 %

2003 Imports of Fruit from...	Canadian Imports millions (CDN \$)	Western Canadian Imports millions (CDN \$)	% of Western Canadian Total
<i>All countries</i>	<i>2,255.5</i>	<i>688.1</i>	<i>100%</i>
US	1,175.2	407.3	59.2 %
Mexico	146.2	54.9	8.0 %
Ecuador	72.7	51.7	7.5 %
Chile	199.0	40.4	5.9 %
Guatemala	43.2	28.8	4.2 %

Table 1 depicts the 2003 value of total fruit and vegetable imports, from all countries into Western Canada. The US and Mexico make up 94% of all vegetable imports and 67% of all fruit imports. The top five countries listed which import fruit into Western Canada make up 85% of the total value.⁵

Table 2. Canadian Combined Imports and Exports of Fruits and Vegetables (fresh, frozen and dried)

2003 Fruit/ Vegetables (All countries)	Canadian Imports millions (CDN \$)	Western Canadian Imports millions (CDN \$)	2003 Western Canadian Import/Exports
<i>Imports</i>	<i>3,975.4</i>	<i>1,267.7</i>	<i>> 3:1</i>
<i>Exports</i>	<i>1,179.8</i>	<i>395.9</i>	

Table 2 combines fruit and vegetable imports from Table 1, and compares it to Canadian exports. The Western Canadian market shows that for fresh, frozen and dried produce, the ratio of imports to exports is greater than 3:1 (excluding potato products). Within this market, Alberta fruit and vegetable exports have been increasing and in 2003 they totaled \$23.5 million, an increase of more than 75 % from the previous year. Of this \$23.5 million, the largest category (fresh, frozen, dried) amounted to \$12.5 million, consisting largely of frozen corn, peas and mixed vegetables and beans. Another key growth area for Alberta, although not included in the

⁵ Statistics Canada, World Trade Atlas. Includes fresh, frozen and dried fruit and vegetables (excludes potatoes).

total in Table 2, is the fruit and vegetable juice category. It grew in the same period by almost 229%, from \$1.4 million to \$4.8 million in 2003. (Statistics Canada, as cited in AAFRD 2004).⁶ For both imports or exports, the US is the dominant player in the Western Canadian market.

On the retail side (grocery store), an ACNielsen study (cited in USDA Foreign Agriculture Service, 2003) reports that 75% of the fresh produce⁷ sold in Canada is imported and that two-thirds of this come from the US. However, during the summer and autumn crop season, Canadian producers supply 65-75% of the market. The growth of this segment has been fairly consistent, ranging from 8 to 10% per year.

3.2. Changes in Structure and Business Practices

There have been changes in the structure and business practices in the food distribution sector that have had a huge impact on all its players, including its suppliers (processors and producers).

“The food distribution sector is divided into the **food retail** and **foodservice** sub-sectors. The food retail sub-sector represents outlets (e.g. supermarkets) where food is purchased primarily for preparation “at home” while foodservice (e.g. restaurants) represents food that is prepared mainly “away from home”. The food distribution sector also includes food **wholesalers** (“wholesalers”) and **foodservice distributors** (“distributors”) and **brokers** that supply and service food retail and foodservice outlets” (Agriculture and Agri-Food Canada, 1999, p.2).

With the increase of large chains and globalization, the retail business has become blurred⁸. No longer are retail stores just selling food, but are also carrying many other products or services. Wal-Mart ranges from groceries to gas to clothes. Loblaws offers banking services. Wal-Mart, in itself, is another reason that things are changing in the market place as retailers find it difficult to compete with Wal-Mart’s expansions.

Retail Forward, in their September 2003 report “Wal-Mart Food: Big, and Getting Bigger”, states that it is projected that Wal-Mart will consume close to a third of the US expected growth in US spending on grocery and drug products during 2003 – 2007. This kind of growth would give Wal-Mart 35% control of food store industry sales and 25% of the drug store industry. This is seen as a threat to the survival of many currently strong players in the industry.⁹

⁶ Sharon Faye, *Exports of Alberta Fruit and Vegetable Products*. Edmonton, AB: Alberta Agriculture, Food and Rural Development, July 2004.

⁷ Fresh produce refers to all fruits and vegetables that have not been altered from their original form, but remain in a fresh state. It therefore includes commodities that have been washed, peeled, cut, bagged or prepackaged, as long as the fruit or vegetable has not been processed or canned (i.e., remains fresh).

⁸ John Williams, Strategies for Forming Retail Alliances: Moving from Commodities to Value-Added, in *Meet the Market – Growth Through Strategic Alliance*. [Conference]. Red Deer, AB: Agriculture and Agri-Food Canada, Alberta Agriculture, Food and Rural Development, AVAC Ltd. and Agriculture and Food Council of Alberta, (November 19-20, 2002), p.2.

⁹ Retail Forward, 2003, *Wal-Mart Food: Big, and Getting Bigger*. Retrieved October 15, 2003 from http://www.retailwire.com/retailforward/WalMart_Food.cfm.

With consolidation, there are only a few retailers that control the market globally. This presents a great challenge to companies entering into the market and competing. It also allows more room for niche marketing, where the customer is offered solutions, rather than just price (see Footnote #8).

The main types of retail outlets are retail stores, supermarkets, club stores and E-tail or Internet sales. The retail outlets operate on high margins and low profits and have a slower turnover of merchandise. They look for value in products and loyal customers. The supermarkets, such as Wal-Mart, have half the gross margin, but double the profit margin; they have a high volume of merchandise turnover. Club stores turnover merchandise before they pay for it, which is the most efficient system; they have a monthly turnover (e.g., Costco.) The number one driver in Canada is convenience. People are also looking for an experience (such as at StarBucks), or the educational, entertaining or exotic experience.

With the large mergers occurring and systems becoming more and more efficient, producers, entrepreneurs, and retailers must form alliances and clearly differentiate their product and services from other businesses. Producers and retailers need to understand each other's requirements to operate their business efficiently. They both need to be in touch with the consumer (the end user of their product or service) to understand market demand, which at times can change very quickly.

Agriculture and Agri-Food Canada (1999)¹⁰ lists some of these market trends and the impact they have on the agri-food chain. These are relevant to the current market situation and additional information and examples are added to some of the categories listed below.

- **Consolidation** - The increase in acquisitions occurring in food retail and foodservice sub-sectors are key examples of consolidation in the food distribution industry. The Canadian food brokerage industry is also consolidating. They are moving towards a more national procurement and centralized purchasing. Many small to mid-size regional brokers are expected to merge or align to form national operations. All of this movement creates greater pressure on suppliers to deliver quality products at lower prices. For example: BC HotHouse Foods Inc. (BC) and Village Farms LP (New Jersey, USA) teamed up in 2003 to provide what retail and foodservice industries are looking for, “no off-season for vegetables.” They will supply greenhouse vegetables year-round. Each company will keep their name and brand. Their reason for being was to provide a year-round supply and was a response to the consolidation of the retail sector. It gives a one-source option for retailers buying produce; and each greenhouse operation complements the other, from a geographic standpoint.¹¹ Since then, BC Hot House Food Inc. has formed a marketing alliance with a major Nogales, Arizona, greenhouse grower-shipper. It combines BC's packing expertise with Nogales quality and production and is another step to end the “off-season” issue for BC, providing product all year long.¹² Dr. David Kohl, in his 2003 presentation “Mega Forces of Agriculture: Implications to Agribusiness”¹³ states that the consolidation picture of food

¹⁰ Agriculture and Agri-Food Canada, *The Food Marketing and Distributions Sector in Canada*. Ottawa, ON: Market and Industry Services Branch, April 1999, pp. 4-6.

¹¹ Scribner, B. (2003). BC Hot House, Village Farms team up. *The Packer*. (August 25, 2003).

¹² Ohlemeier, D. (2003). Canadian, Nogales greenhouses strike deal. *The Packer*. (September 22, 2003).

¹³ Kohl, David. (2003). *Mega Forces of Agriculture: Implications to Agribusiness*. (presented in 2003).

companies (to date) was as follows: The top five food companies within each market represents the following percentage of the agri-food sector: USA 38%, Canada 70%, Europe 80%. For example in the Canadian market, the top five food companies represent 70% of the agri-food sector.

- **Private label** or control label products have been very influential in recent years. These products are owned and usually developed by a retailer who will outsource production to a processor. The retailers are carrying on many of the functions of the processor such as product development, packaging, marketing and advertising, but with one main difference. The retailer has primary access to grocery shelves. Although a private label does offer market opportunities for a smaller processor, it strengthens the retailer's role in the agri-food supply chain. Private label products help maintain customer loyalty, which a major advantage. Some of these private labels have entered global markets, such as Loblaw's "President's Choice," being sold in the US and Latin America. Private label in the foodservice sub-sector is more about "trade" than the "customer." Distributor and processor brands compete with each other in the areas of ingredients, bulk packages (e.g., coffee) and institutional catering (e.g., airline food).
- **Efficient Consumer Response (ECR)** is a system where the distributor, processor and producer cooperate to remove unnecessary costs and inefficiencies from the system. This includes activities to reduce the time and expense of inventory/ warehousing (e.g., Category Management, Electronic Data Interchange (EDI) and Continuous Replenishment), and to respond to the consumer market demands. The foodservice counterpart to ECR would be EFR (Efficient Foodservice Response). Processors or brokers wanting to serve larger firms may have adopted these practices already, such as EDI and case bar coding.
- **Alternate Formats** – are additional retail buyers for suppliers to consider. They are non-traditional players, but may emphasize supply chain efficiencies, seeing groceries as a means to increase store traffic (e.g., warehouse clubs, mass merchandisers).
- **Trade spending/ Promotional allowances** – include a number of incentives/payments offered by processors to wholesalers/retailers, to promote or list their products. It could be in the form of "slotting fees" or "listing allowances". Many small-sized processors see slotting fees as a barrier to market their products, and question if promotional allowances are really efficient.
- **Home Meal Replacement (HMR)** – is a growing area where the consumer is looking for fresh or chilled, convenient, complete meals that are purchased in grocery stores and eaten at home. This category includes ready-to-bake pizza, chicken that only requires heating up and pre-cut salads. Suppliers can meet this need by providing products that consumers are looking for.
- **Consumer and Product Information** – Having detailed knowledge about consumer preferences leads to products such as HMRS, niche marketing or customizing products, along with a more efficient product delivery. Suppliers would benefit from micro-marketing information and may consider developing new relationships within the distribution sector to develop and share information such as this.
- **Home Shopping** – provides an alternate market channel through the Internet. This route bypasses the retailer, filling orders directly from warehouses or central depots.
- **Global Perspective** – The technological and demographic changes that Canadian industries face are also happening globally. Food retailers are consolidating through mergers and acquisitions, and in Germany and the UK, the top grocery retailers control about one-half of

the entire market. According to ACNielsen, the private label share in Europe holds about 22% of total retail sales, in North America it holds around a 16% share. Of the top ten categories for food and non-food products, Complete Ready Meals came in seventh, its private label share at 51%.¹⁴ Canadian firms need to be value-focused, to compete in the global market, capitalizing on private label opportunities, HMRs and improved technology. They need to closely watch market trends and share consumer and product information.

3.3. More Perspectives on Partnerships and Market Trends

Food Safety: This is another area that could be added to the list, as it is becoming more of a concern in the fruit and vegetable industry. Blaha in his presentation (2002) “Quality, Food Safety and Trust: Reasons for Alliances Beyond Economy,” stated that it is important to remember that what the consumer wants is different from what the retailer wants. For example, the consumer wants to be assured that the food they buy will not make them sick, whereas the retailer is looking for safe-guards from salmonella contamination or the assurance that the slaughtered animal was not vaccinated. Although these are both food safety concerns, the process and efforts of selling a product to a consumer versus a retail buyer requires a different approach.¹⁵

“Reality Check”, an article from Progressive Grocer (September 1, 2003) confirms that in the last five years alone, buyers and sellers in the “perishables industry”, have gained a century’s worth of lessons by the changing business environment and the varied trading partners, where **strategic partnerships**, joint ventures and integrated supply chains structures are “the order of the day.” These business operations are now in the leading chains, which rely heavily on **information technology** to help them become more efficient and to better understand and respond to consumer needs and preferences. Although the competition is intense, and the **demographics and economies** are shifting, they are seeking to work more closely with their suppliers than ever before.

The article describes the perishables categories as consisting of meat, bakery, deli and produce. Drawing from a number of perishables executives, Progressive Grocer presents the thoughts of retailers and suppliers. Slotting fees are the least appreciated by suppliers, and some find they are paying both the retailer and the wholesaler. Yet one meat director states that while they are an “integral component of our overall gross profit,” little will change until the industry accepts a different model of how to look at profitability. The supermarket industry is used to extracting these fees from vendors and has the infrastructure to support it. There are, however, some who have been able to avoid slotting fees, such as a small deli manufacturing company, who offers a very unique product compared to the large deli companies.

“Reality Check” continues to describe the action of produce growers and shippers and how they are responding to operational changes in the **corporate buying** offices, by building relationships

¹⁴ AC Nielsen, *Europe US Still Largest Private Label Markets, but Other Regions Seeing Huge Growth Fueled by Retailer Expansion*. Retrieved June 22, 2004 from <http://www.acnielsen.com/news/corp/2003/20030916.htm>.

¹⁵ Thomas Blaha, “Quality, Food Safety and Trust: Reasons for Alliances Beyond Economy,” in *Meeting the Market-Growth Through Strategic Alliance*. [Conference]. Red Deer, AB: Agriculture and Food Council, Value Chain Initiative.

with retail customers. This is being done through the increased use of performance guidelines, category management and supply contracts. As well, the grower-shippers are responding by acting more like **consolidators**, putting together products from a variety of growers to provide one-stop shopping as well as efficiencies in transportation. **Communication**, and buyers and suppliers meeting each others expectations, cannot be emphasized enough (e.g., a supplier pointing out the kinds of things they can provide to buyers, and vice versa.) It is also very helpful when suppliers understand the customer's business well enough to provide solutions in addition to the products and services they sell. Gone are the days where "one-size-fits-all." In today's market, more has to be done with less as retailers are being directed to support corporate initiatives. Often retailers are driving deals, for specific programs suited to individual operations. Partnering looks more and more appealing as retailers are looking for sponsorships for different programs and projects. There is also a better understanding that all partners need to benefit and succeed.

In summary, over the recent years the distribution sector has changed from being a passive market to an increasing influence in the domestic and international food markets, developing trading relationships within the agri-food supply system. Branded products have become competitors and suppliers are being asked to work more closely with retailers to remove unnecessary costs. Fewer retailers have meant fewer buyers, putting pressure on the business environment. Suppliers can find opportunity in the market where they can add value to their product or service or by responding to the blurring of the links and competition between the food retail sub-sector and foodservice. "The Canadian agri-food system begins and ends with the consumer; the only constant is change."¹⁶

4. Market Share by Retail

4.1. Grocery Store Profits

Retail Benchmarks and Trends: The USDA 2003 report points out that "produce represents approximately 16% of grocery store profits." (Produce Trends 1998, CPMA, as cited in USDA Foreign Agricultural Service, 2003, p. 5.) Also, retailers operate on about a 40% gross margin for fresh fruit and vegetables. However, produce department managers claim that the average gross margin for produce is about 27%. The difference between these numbers is believed to reflect the result of spoilage on targeted gross margins (Trade Facilitating Office Canada, TFOC, as cited in USDA Foreign Agricultural Service, 2003, p. 5).

All fresh fruits and vegetables now enter the Canadian market from the US duty free. The margins occurring within the distribution system are not hard and fast. They vary with the season, the supply, the number of links within the distribution chain and competition. There are other factors, which play within a season, such as sale prices where produce is lower for a specified time. Traditionally, wholesalers use a 30% margin, while retailers operate at a 40%

¹⁶ Agriculture and Agri-Food Canada, Market and Industry Services Branch, *The Food Marketing and Distribution Sector in Canada*. Ottawa, ON, April 1999.

margin. Exporters take about 10% (USDA Foreign Agriculture Service, 2003, p. 13-14). Local interviews with store managers report that retail margins are between 20-35%.¹⁷

USDA (2003) continues, that in the situation where there is a shipment problem, a commission may be charged that ranges from 12.5% - 18.5% of the selling price. “On the other hand, large shipments allow exporters to negotiate special terms, such as having warehousing and /or inventory costs paid by the retailer.”

The actual price varies relative to demand and supply, and is related to the growing season. The limited growing season creates an imbalance supply, which is slightly offset by the greenhouse industry and advances in technology in warehousing which keeps produce fresh.

Consumer reaction to sale prices is the same in both Canada and the US. Produce retailers found that the greatest increases in sales of fresh produce occur when a 25% reduction in price is combined with a demonstration and/or sampling of the product. A 25% price reduction advertised only in print, results in about half as much activity. Retail sale coupons have the lowest response from consumers.

5. Local Interviews (Edmonton)

The following is a summary of personal interviews¹⁸, carried out in June 2003, with Alberta wholesale buyers, various brokers and specialty store managers. It confirms earlier findings, and also emphasizes that general trends need to be checked within a geographic area with specific buyers in mind. Buying practices may differ in different parts of the province or different parts of a city.

5.1. Wholesale/Retail

Some of the things that an independent producer should consider are the following:

- EDI (Electronic Data Interchange)
Some companies are switching their ordering to EDI. This speeds up the flow of supply and demand information to all members in the grocery channel. Crops are harvested relative to filling a specific order.
- Food Safety
“Good Agricultural Practices” are becoming the norm, especially for big companies, and it will be expected of all producers at some point in the future. Companies want to be able to track any food-related health issue, back through the retailer, broker, the farm and the lot it came from. With this system the crop is harvested by unit, with the date, the field it came from and other important information. In this way, if there is a food safety concern, all product from that lot can be ‘pulled’ without disrupting the whole food distribution system.

¹⁷ Leona Reynolds-Zayak, personal communication, 2003. Interviews with the local retail market.

¹⁸ Faye, S. (2003, June). Personal interviews with local wholesale buyers, brokers and specialty store managers.

- Private Label versus Brand Label - Private label refers specifically to retailers (e.g., President's Choice). Companies use private labels to provide a product that the consumer recognizes and for a cheaper price (e.g., 10-15% lower). Branded products are offered by suppliers, trying to promote a product with some unique quality. A producer's branded product must prove to be a market leader to compete with the retailer's private label product.
- Some retail stores are highly committed to purchasing local/Alberta products; developing good supplier-producer relationships and getting to know buyer requirements is important.
- Some retailers in the produce department are using house brands/ private labels. They have concerns with the seasonality of crops.

5.2. Food Service

These are some trends or points to consider when dealing in the food service market.

- The Canadian market adapts more slowly to trends compared to the US, who are more adventurous consumers; demographics also play role.
- Chefs want something different; it's hard to compete price-wise with US imports unless it's a specialty item.
- Food service is very much price-driven; pricing is calculated on a plate size portion. Vegetables, herbs and starch account for 20% of plate portion cost, 80% is for protein (meat, fish, poultry.) You may pay up to 10% premium for a superior or unique product.
- Suppliers must meet the agreed upon supply, since menus are fixed for a term and chefs cannot afford to be short.
- Chefs are always looking for something new to compete with other chefs.
- Root crops are cheaper from the US; therefore, are not usually bought locally (unless it's a unique product).
- Products most in demand are
 - Small, mini-sized or bite sized
 - Unique products
 - Hard to ship (bruises easily, perishable)
 - Colorful; anything that helps make a good presentation on a dinner plate
 - Regional/slow food (which focuses on the pleasure of taste, preparation and quality of food)
- Big companies make margins in dry goods versus produce.
- Food service has minimum demands for labeling; they will repackage.
- Develop relationship with a broker; they may not buy some locally grown crops due to price.
- They deal with smaller volumes (may only need a couple cases per week for some crops).
- Must pay attention to detail, uniform size and quality.
- The food service market can be very demanding on a producer, since production may be very labour intensive and require timely delivery (may be twice a week for highly perishable foods); timing and supply are critical.
- Chefs are visual buyers and are looking for free samples of products.

5.3. Specialty Retail

Some retailers still prefer dealing one-on-one with a company versus a number of suppliers, but there is still more flexibility than with larger wholesale companies.

- They deal with low volumes, sometimes 1 to 2 cases of product per week; but are usually more flexible on volumes.
- Focus on quality and what is unique.
- Often they can offer what a larger store would not, unless there is a large volume and a tested market. It is less of a problem for small specialty stores, since they do not have all products listed on the computer system (no PLUs or Price Look Up system); they are looking to have a Farmers' Market image.
- Packaging is not as important; very flexible with products, size, grading, boxing.
- May specialize: organics only, or organic and natural products only, etc.
- If a diverse retail operation (i.e., deli, juice bar, bakery, restaurant), then they can deal with product inconsistencies much more easily.
- Demand of product varies within a city; so a supplier needs to know local area.
- Food safety requirements are not required yet as in the wholesale/retail market, but may be soon.
- Develop relationship with the broker/retailer; find out what is needed; bring samples of new types of vegetables.
- Other pressures: Often retailers are forced to buy from larger companies to fill an order (i.e., meet a certain dollar level), which means they do not need to buy from a local supplier.

5.4. The Serecon Study

According to a 2003 report by Serecon, there are some opportunities for the vegetable market in Alberta. To capture these markets, the industry would require the following:

- Collaborative work in the area of a value/supply chain in the industry
- A viable fresh produce industry, which provides by-products for much of the processing industry requirements
- Government support in variety development and testing, product development and infrastructure to commercialize
- A processor supported by more than one of the major crops, such as carrots, major root vegetables, peas and corn, etc.
- Integration with existing companies and infrastructure in Alberta

Serecon grouped the opportunities into four main categories:

1. Value-added Carrots Vegetable Products, such as the Home Meal Replacement (HMR) and Home Meal Component (HMC)
 - Opportunities exist for HMRs and HMCs, based on carrots and other Alberta products, with specialties in organics, vegetarian products and children's meals. (e.g., various kinds of glazed carrots, also using parsnips, turnips and sweet potatoes).
 - Further product and market development may lead to vegetable chips and snack foods.

- Investment requirements are relatively low and there are limited Alberta vegetable HMR and HMC products at this time.
- There are existing companies that could become a part of this operation.
- According to Neilson Grocery Store annual surveys, this area has grown by over 70% in the last few years.
- HMR includes prepared fresh and frozen; may either be picked up or delivered from food service outlets (fast food and restaurants) and increasingly more from retail stores. It is the strongest niche within the food retail and wholesale sector. Within the US food market, this area is expected to reach \$170 billion by 2005.

2. Organic Fresh Products

- Provide an opportunity for fresh and semi-processed organic vegetables. This would fit into the food service market and retail outlets as well as supplying the HMR, HMC and ingredients markets, with dehydrated vegetables, spices and other products.
- Require increased production levels and an organized industry sector, investment in storage capacity and varieties that meet the market requirements.

3. Ingredient Processing (for food service and spices)

- Potential for a two-stage processing facility: a) dehydrated vegetables for the processing sector; and b) processing products into spice and specialized ingredients; c) could develop ready-to-eat soups, meal products and vegetable juice products. Use multi-staged approach based on market demands, availability, product requirements, etc.
- Opportunity lies for both traditional and organic vegetables; could link to meat industry for meat and vegetable combinations.
- It could link with existing industry, which has established markets, processing experience and capacity.
- Longer-term opportunity may be in developing organic vegetable concentrates for the juice market.
- The major growth area in the canned and dried soups category is ready-to-serve soups with an 11% increase between 1999 and 2001. Dried and condensed soups were declining by 4% and 3% respectively.
- In the canned and bottled vegetables category, the main growth areas were peas at 27%, carrots at 3%, spinach at 6%, potatoes at 4% and beets at 2%. The fastest growing sub-sector is 'other vegetables' indicating that consumers want variety as compared to the more traditional corn, peas, carrots, tomato and potato products.
- Dried vegetables and fruit represent a growth of 9% from 1999 to 2001.
- Shelf stable juice/drink/nectar/tea market is the fastest growing category at 9% between 2000 and 2001, and 4% between 1999 and 2000.
- Vegetable juice has been growing at 4% to 5%, which indicates again the consumer preference for unique products. Tomato juice grew at a modest rate of 1.5%.
- Vegetable chip dips are a small market but has seen growth of about 10% per year. Snack foods represent 9% of the market, with potato chips taking up one-third of these snack foods. Development of snacks using other vegetables could be a potential for growth.

- Spices are growing between 4 to 8% per year. Mexican seasonings and related spices are growing even faster at 25% and 13% respectively. A major spice company in Canada imports almost all their ingredients.

4. Functional Foods and Nutraceutical Market

- There is potential for a longer-term opportunity for specialized ingredients based on beta-carotene content of carrots; health and coloring properties are the basis of this.
- It is dependent on market development, extraction feasibility and proper varieties.

6. Summary

This report looked at some key factors, using the STEEP model, that influence the vegetable and fruit industry. It is not a complete or exhaustive study, since more in-depth research would be needed to determine the feasibility of any specific opportunity. It should, however, narrow down the market focus and point out some market trends and tips that could be explored.

From an economic, environmental and political standpoint, there are a number of factors to consider. The increase in mergers and acquisitions and the move towards larger vegetable farms in the US, has led to a greater competitive challenge for Alberta and Western Canada. The global market plays a big role in this industry; Western Canada has greater than a 3:1 ratio of imports to exports. Larger wholesale stores are becoming more efficient in their distribution systems and can negotiate with larger markets. They have consolidated into regional distribution centers, located in Calgary, BC or in the US, which supply Western Canada. Because the head office makes the buying decisions, it is becoming increasingly more difficult to sell locally. The US has the greatest influence over price in the local wholesale marketplace. Local producers may be able to enter the wholesale market if they are organized as a marketing group or value chain, and therefore can meet the quality, packaging and larger volume demands. This in turn would give them better price setting and greater bargaining power, as it would save the wholesaler the high transportation cost of importing. Price must be competitive with imported products, minus transportation costs.

Some factors wholesaler buyers tend to look for are

- A long term-relationship with the buyer
- High quality product (pre-cooled to maintain good shelf life)
- Large enough volumes and reliable supply over the specified time period
- Proper packaging for buyer needs (meeting standard sizes, or use of their packaging, etc.)
- Good incentives to buy local (they will need to see the advantage)
- Strong trends such as HMRs, organics, etc.

In the wholesale/retail market, new products are often introduced to the consumer on a trial basis and the arrangements are made through head office. They are more often initiated from the buyer down rather than the supplier up. Although some companies may try to cater more to local suppliers, the price still must be competitive with products coming from the US or Mexico, especially since the US can provide supplies most of the year and at very competitive prices.

Buyers are not so inclined to quickly adjust to trends unless tested (i.e., organics, health products) and price is a key issue.

There may be an opportunity to sell local product directly to the smaller independent wholesalers, as they can be more accommodating with smaller volumes.

Although economics may be the driving force in many marketing decisions, social and environmental factors also come into play. Some stores pride themselves on the lowest price, while others want a competitive price but may sacrifice price or product supply to maintain a particular image or quality standard. Each retail operation has its own criteria and factors in making its final decision. For example, a company may decide to sell at a lower price for a short period and will move a lot of product at that time. Through local interviews produce buyers pointed out that each individual market has very different needs. They are catering to consumer needs and therefore it is important to understand the customer they are catering to. The challenge is to find the right market for each producer's operation and to meet each buyer's requirements (i.e., the 'what, how, when and how much') when establishing prices. Watching consumer trends helps to anticipate what products may be marketable in the future. One comment that stood out during the interviews was that Canada seemed to be slower to adopt the trends compared to the US consumer. Of course, this would depend on the product and the demographics that go along with a product (e.g., a particular ethnic food).

7. Recommendations

Some general tips to keep in mind when considering a particular market are

- Watch current trends and “consider the consumer” - anticipate what products they would be looking for; be a solutions provider.
- Relationships and networking – work on building relationships in your existing business or expanding the business relationships. This could lead to value chain development or partnerships to better meet a particular market in the future.
- Different market segments – assess other market segments that could become a part of your current business operation, with some modifications.
- Visit operations – find out the everyday practices of buyers and what products they are looking for; find out their philosophy in buying and meeting customer needs.
- Organizational formation – talk to other industry members looking for opportunities to organize to create a greater market power; integrate with existing companies and infrastructure.

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