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Produce Industry Procurement Study Results, Part I: Describing Retail and Wholesale Produce Buyers

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INTRODUCTION

This is the first in a series of four *Smart Marketing* articles describing the results of a study that describes changes in produce procurement. It provides the produce industry with information on buying practices so they can improve overall supply chain performance. The full report by Edward McLaughlin, Kristen Park, and Rod Hawkes can be found at:

http://publications.dyson.cornell.edu/outreach/extensionpdf/2015/Cornell-Dyson-eb1510.pdf

This study would not have been possible without the support of and input from United Fresh Produce Association and its retail board.

RETAIL TRENDS:

Consumers have been shifting food spending away from processed foods toward their fresh counterparts. At the same time, retail competition has intensified. Retailers face pressure from both competitors and consumers to keep prices low while product and operating costs continue to rise. The result is declining profit margins in many supermarket departments, including produce (table 1).

Table 1. Produce Department Gross as a Percent of Sales

	Gross Margin
	%
2000	36.1
2005	34.5
2010	34.0
2013	33.0

Note: Net margin in this case assumed to equal operating margin.
Source: Retail Produce & Floral Review, Progressive Grocer, October issues, various.

From 2000 to 2013, average produce gross margin percent declined from 36.1 to 33.0 percent. Gross margin is the difference between the retail price and the cost of the goods sold, expressed as a percent of the retail price.

This decline suggests that competitive pricing prevented retailers from raising prices to keep pace with increasing operating and product costs. The profit squeeze is unlikely to be resolved in the near future, thus, the pressure on produce procurement teams to improve efficiencies and ensure product availability at competitive prices will increase.

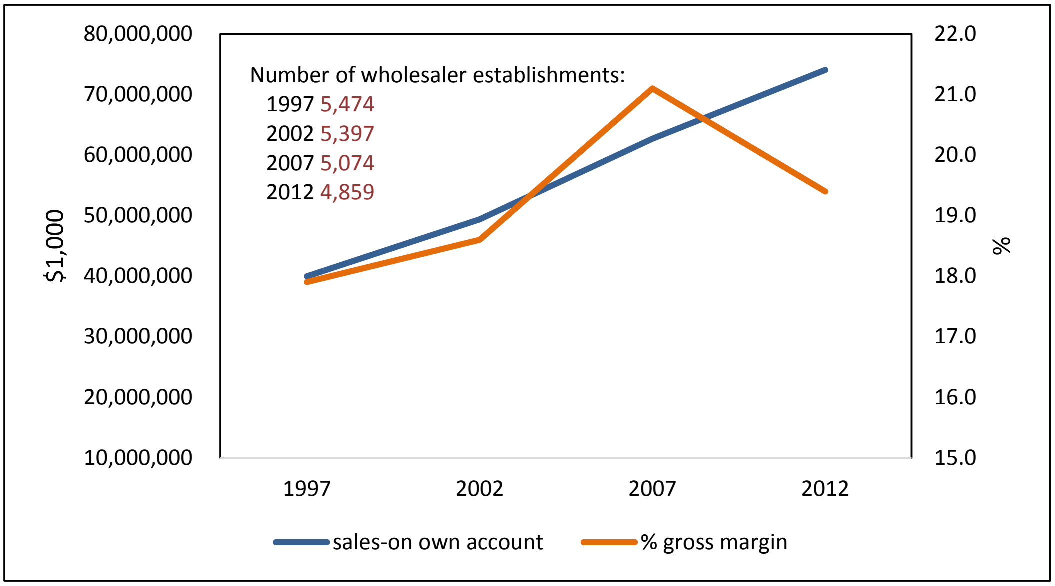
WHOLESALE TRENDS

Our project describes produce wholesalers as various types of commission merchants, brokers, distributors, merchant wholesalers, re-packers, importers, and exporters. As retailers have become larger through growth and acquisitions, they are purchasing more of their produce directly from grower-shippers and less from produce wholesalers. To survive, produce wholesalers have increased the services they provide, diversified their customer base, and expanded their product mix. The produce wholesalers have taken on fresh-cut services to meet new market demands for convenience and have become primary suppliers of emerging products, such as specialty produce, imports, and organics.

Produce wholesalers are also finding new customers as convenience stores, dollar stores, and drug stores are increasing food offerings, especially fresh produce. These formats require small but frequent deliveries and in many cases are serviced by local produce wholesalers.

Sales and gross margins for fresh fruit and vegetable merchant wholesalers are presented in figure 3. Sales by the produce wholesale industry have been growing even though the number of produce wholesale establishments has been declining. The average percent gross margin for these wholesalers increased from 17.9 percent in 1997 to 19.4 percent in 2012. The increase in gross margin has likely been used to pay for the increase in the number of services and functions that wholesalers have added.

Figure 3. Sales and Gross Margins for Fresh Fruit and Vegetable Merchant Wholesalers, 1997 - 2012



Source: U.S. Census Bureau, Economic Census, 1997, 2002, 2007, and 2012.

STUDY

The authors conducted an online survey of produce wholesalers and retail companies. The results were used to document and describe the current structure and state of produce procurement.

Respondents ranged from small retailers and wholesalers to large multi-regional companies. The retailer/grocery wholesaler respondent sales represented 78 percent of the combined sales of the top 50 companies. Collectively, retailer/grocery wholesaler respondents have operations in all 50 U.S. states.

The produce wholesale respondents include many types of produce intermediaries. What these companies have in common is the sourcing and selling of produce that represents the vast majority of their sales. These intermediaries include produce merchant wholesalers, brokers, distributors, importers, and others. Collectively, produce wholesale respondents operate in all 50 U.S. states.

RESPONDENTS

Company sales of the average retailer/grocery wholesaler respondent were almost 100 times the sales of the average produce wholesaler respondent (table 2). Just looking at produce sales, the average retailer/grocery wholesaler respondent had about 10 times the produce sales as the average produce wholesaler respondent.

Table 2. Respondents' Business Profile

	Average company sales	Produce as a % of sales	Average produce sales
	$ millions	*%*	*$ millions*
Retailers and grocery wholesalers	$13,100.0	10.6%	$1,388.6
Produce wholesalers	$138.0	95.6%	$131.9

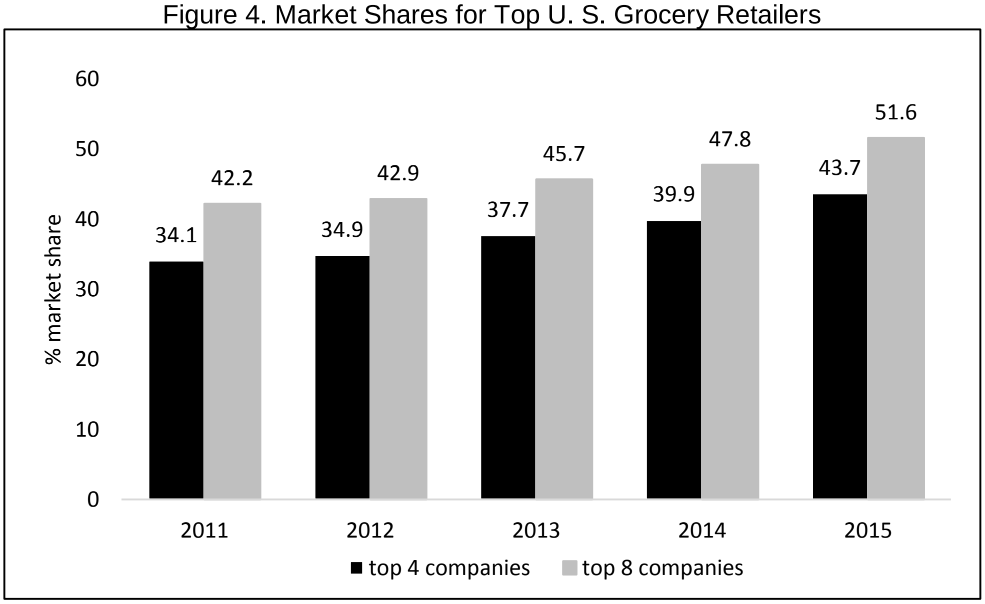
Source: Cornell study 2015.

IMPLICATIONS

If the average retailer or general-line grocery wholesaler wanted to source all of its produce from the fewest number of produce wholesalers, it would require the produce sales of more than ten produce wholesalers to meet the volume needed.

Decades of consolidation trends at the retail and grocery wholesale levels have resulted in fewer, much larger companies (figure 4). Recent examples of mergers include those of Bi-Lo with Winn-Dixie, Albertsons with Safeway, Kroger with Roundy's, and, if approved, Delhaize with Ahold. The grocery wholesale sector has also experienced increasing concentration through acquisition. For example, C&S Wholesale has grown through acquisitions of other wholesalers and through contracting with retailers that are outsourcing their distribution centers.

Figure 4. Market Shares for Top U. S. Grocery Retailers



Source: Euromonitor, Passport, U.S. Retailing Country Report 2016.

More retailer mergers and acquisitions are likely which will constrict produce flows through fewer buying offices. It will be in the best interest of retail buyers to remain flexible and knowledgeable enough to see and understand opportunity buys when available from their suppliers. Some of these opportunities might come from the demand for local products or misshapen produce or smaller but tastier fruits. Or it might be committing their grape department to a category captain who can source and supply much of the volume and varieties needed year round.

To remain viable, suppliers will need to invest in technology, facilities, equipment, transportation, communication, food safety, and technical support to meet retailer expectations. This model will also require significant cultural shifts for many supply chain companies, and changing current skills sets. New business models and management training will be key for supplier organizations to ramp up talent and capabilities to conduct business effectively in tomorrow's marketplace.

"Smart Marketing" is a marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews elements critical to successful marketing in the food and agricultural industry. ***Please cite or acknowledge when using this material***. Past articles are available at http://agribusiness.dyson.cornell.edu/SmartMarketing/index.html.