



March 2016

**Produce Industry Procurement Study Results, Part II:
The Procurement Office**

Kristen Park

Dyson School of Applied Economics and Management, Cornell University

INTRODUCTION

The role of buyers and category managers has become fundamental to the success of supermarket companies. In a world where fresh produce is procured globally year round and where food safety and sustainability are becoming paramount concerns, produce procurement has become a complex arena where supply chain coordination and transparency are vital but not easily achieved.

This is the second in a series of four *Smart Marketing* articles describing the results of a study that describes changes in produce procurement offices. It provides the produce industry with current information on buying office 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.

BACKGROUND/SITUATION

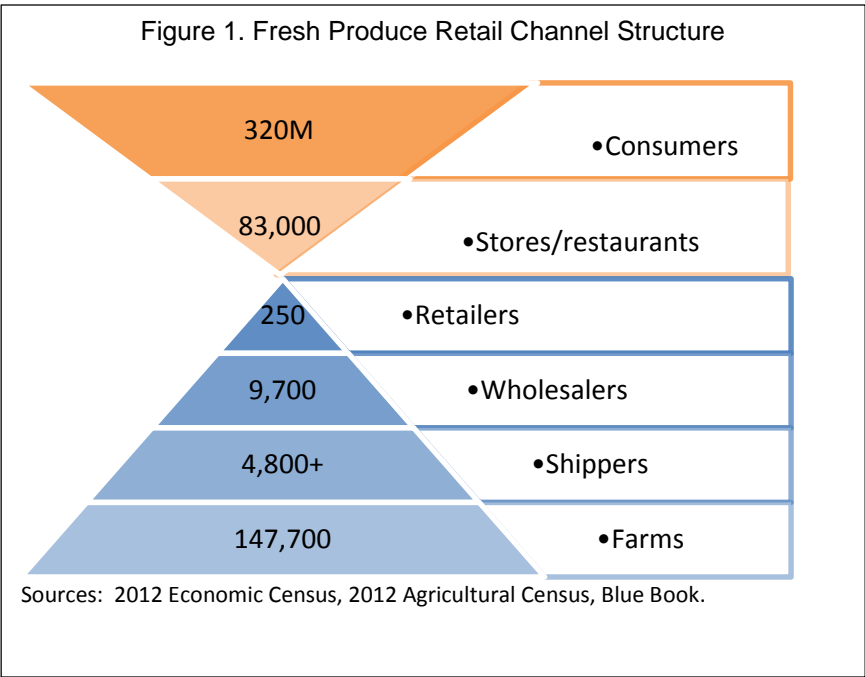
Category managers plan sales and merchandising for stores and work with buyers to procure the produce needed. Efficient procurement performance is critical to produce department performance, store profitability, and brand image overall.

Buyers are often referred to as gatekeepers. They funnel thousands of pounds of produce from hundreds of suppliers through their procurement office which are then distributed into thousands of stores that supply millions of consumers. Figure 1 provides estimates of the number

of establishments in each segment of the fresh fruits and vegetables marketing channel. There are almost 150 thousand farms growing produce. Many of these growers engage with or sell product to shippers who assemble, wash, grade, package, and sell the products. The number of companies operating in each stage declines you move down the chain.

Chain retailers that have over 11 stores are responsible for over 90 percent of all grocery store sales, so for illustration purposes, we suggest these chains, along with the grocery retailers that sell to independent grocery stores, represent the vast majority of retail buyers.

This funneling structure affects produce procurement. Companies buying and selling fresh produce need and use product standards to help them compare and assess products and prices. In turn, product standards can help companies minimize procurement costs by routinizing processes. And the more product produced within these standards and the process made more routine, the more efficient the system will be.



Using standards and routinization has ramifications. For one, nature does not produce crops that are all the same standard; for instance, apples come in a variety of sizes, colors, flavors, and breeds. But demands from buyers for only specific standards, such as sizes, forces growers to grow more of all sizes in order to have enough of any one size, and there is overproduction of the other sizes. For another, operations handling fewer products are more efficient. Buyers and category managers have to balance the desire for operational efficiencies with consumers' interests in wide variety and assortment. Retailers understand how this effects product assortment and constantly trade off consumers' interests in broad variety with their demand for low prices.

STUDY FINDINGS

Retailers and grocery wholesalers reported an average of 15.6 people responsible for procuring produce (table 1). Produce wholesalers reported about two-thirds the total number of category managers and buyers used by retailers/grocery wholesalers.

Table 1. Average Number of Category Managers and Buyers, Retailers/Grocery Wholesalers versus Produce Wholesalers, 2014

| Respondent | Category managers and buyers |
|-------------------------------|------------------------------|
| Retailers/grocery wholesalers | 15.6 |
| Produce wholesalers | 10.7 |

Source: Cornell study 2015.

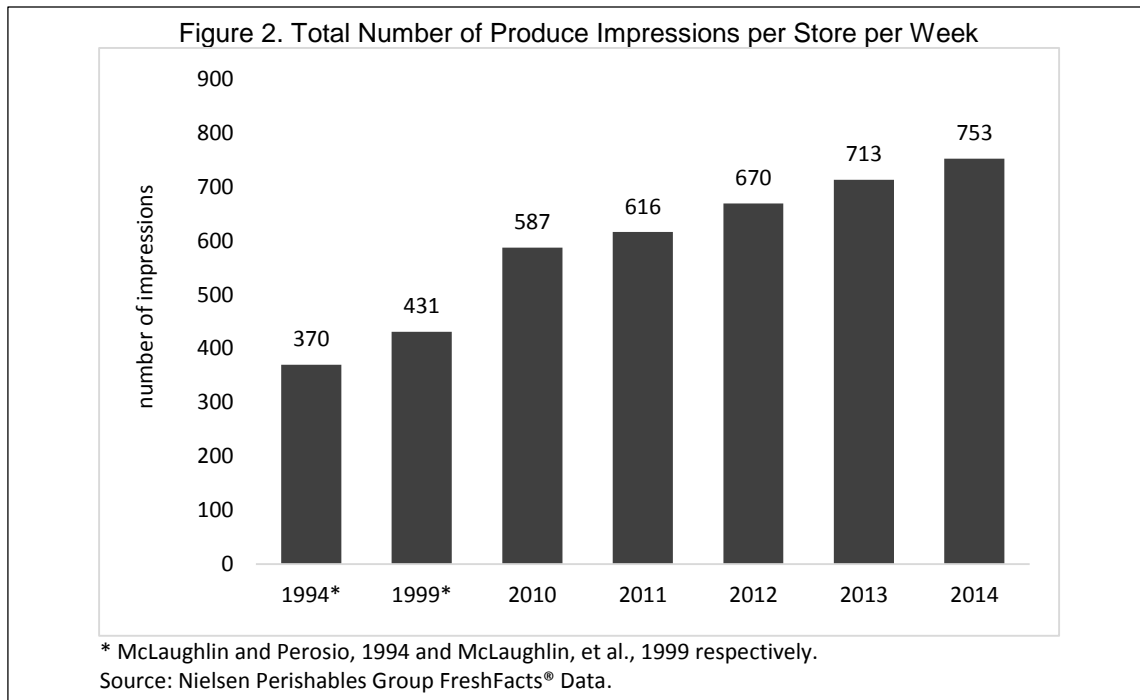
Historical information about the number of buyers and category managers in small retailers or produce wholesalers is not available; however, large supermarket companies, defined here as those with annual sales over \$2 billion, appear to be reducing the size of their procurement office (table 2). In 1999, researchers reported an average of 26.6 people in large supermarket produce procurement offices (McLaughlin, et. al, 1999). In this study, the reported average is 23.4.

Table 2. Number of Category Managers and Buyers, Large Retailers (sales over \$2 billion)

| Respondent | Category managers and buyers |
|------------|------------------------------|
| 1999 | 26.6 |
| 2014 | 23.4 |

Source: Cornell study 2015.

At the same time that retailers have reduced the number of buyers, they have expanded the assortment of their produce departments. According to Nielsen Perishables Group FreshFacts® data along with Cornell University research, the total number of produce impressions (a proxy for stock keeping units) per store per week has grown considerably over the past 20 years (figure 2). As a result, the average buyer is now expected to handle more volume and more items, indeed over twice the number of items as two decades ago. The retail demand for greater efficiency from buyers is unlikely to diminish. In addition to buyers having to procure more items, produce procurement is more complex than procurement of most non-perishable products. Given product perishability and supplier/distributor fragmentation, produce buyers need to make decisions using current, accurate, fast-changing information.



Company mergers and acquisitions have also consolidated buying offices without necessarily increasing the number of buyers doing business for these larger companies. Buyers are procuring larger volumes to supply the added stores.

Produce wholesalers employ about two-thirds the number of category managers as supermarket companies. While these produce wholesaler respondents buy only about one tenth the volume of supermarket companies, they are responsible for almost the same number of SKUs.

“**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>.