Fresh Produce Marketing Trends and Issues for California Blueberry Growers

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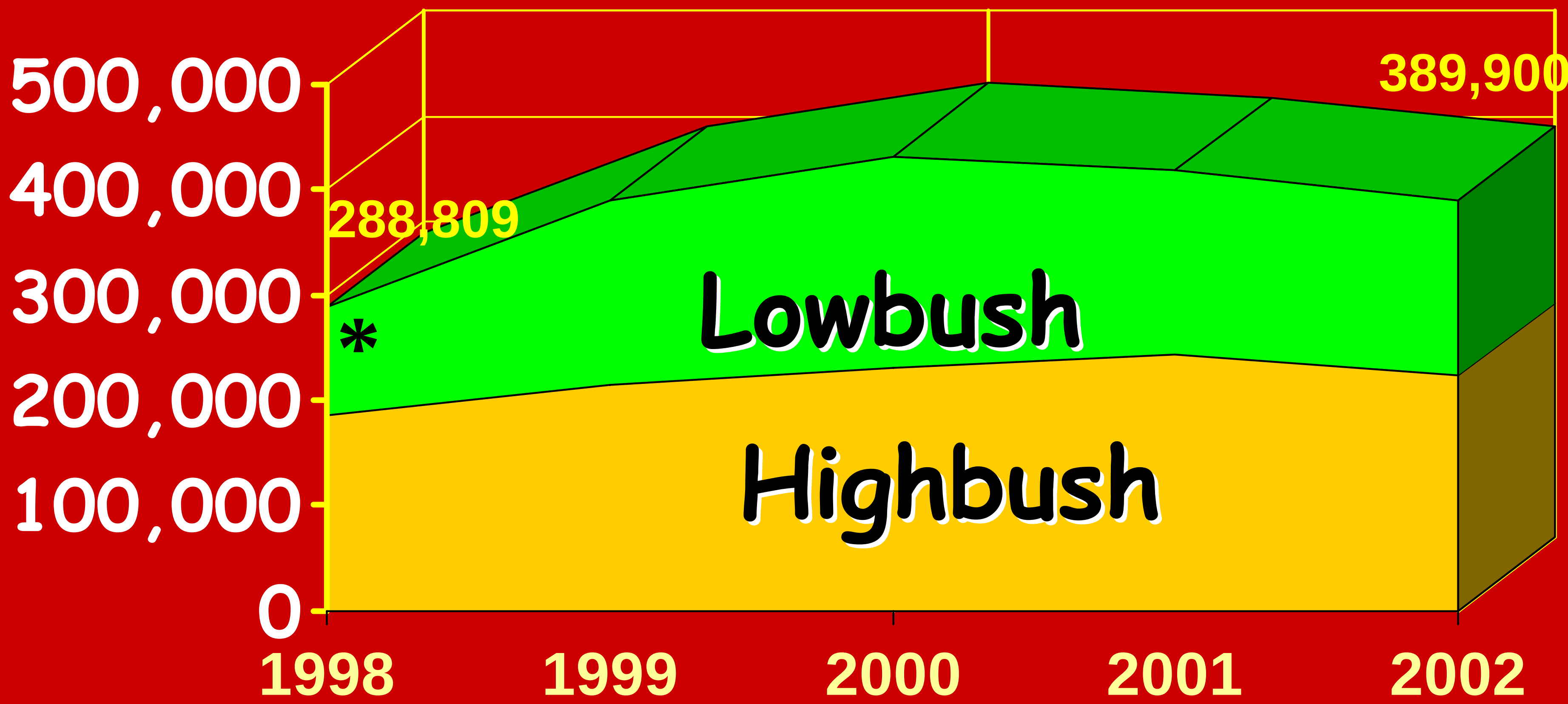
Overview of Presentation

- US blueberry situation
  - Production
  - Trade
  - Consumption
  - Shipping seasons
- Marketing issues
  - Consolidation
  - Changing procurement patterns

N. American Production of Blueberries, Fresh and Processed, 1998-2002

In 1000 Pounds



Source: US Highbush Blueberry Council

*Production problems in Quebec caused one year decline in lowbush

Blueberry Industry Snapshot

- Production was about 250 million pounds in 1991, including almost 150 million pounds for highbush
- In 2002 57% of production was highbush, vs. 64% in 1998
- But 1998 was a low production year for lowbush (almost 50 million pounds <normal)
- Almost all lowbush is sold frozen/processed, but some diversion to fresh based on market conditions may occur
- Just under half of N. American production is sold on the fresh market

Blueberry Industry Snapshot

- 2003 and beyond N. American total production is projected to be around 450 million pounds (may be overly optimistic)
- California produced 800,000 lbs. in 2001 and 2 million in 2002, all fresh
- Ca. has a .9% share of the 2002 N. American highbush production volume; about a 2% share of fresh highbush production
- *REMEMBER, THIS PUTS CA. IN A WEAK MARKET POSITION RELATIVE TO MOST OTHER CROPS WE GROW HERE*

U.S. Highbush Blueberry Production (1000 lbs.), Change '98 to '02, and Selected State Shares

State	2002 Production	State Shares % 02	State Shares % 98	98-02 % Change
Michigan/Indiana	66,500	30	28	28
New Jersey	40,000	18	19	11
B. Columbia	34,000	15	18	0
Oregon	26,400	12	12	15
N. Carolina	15,500	7	8	9
Georgia	14,000	6	4	87
Washington	13,000	6	6	24
Others	13,800	7	4	79
Total	223,200	100	100	21

Source: US Highbush Blueberry Council

U.S. *Fresh* Blueberry Production Rankings, by Selected States – FRESH VS. TOTAL PRODUCTION RANKINGS DIFFER

State	Ranking
New Jersey	1
Michigan/Indiana	2
B. Columbia	3
N. Carolina	4
Oregon	5
Georgia	6
Washington	7
Mississippi	8
Florida	9 (production of 3.4 million pounds in 2001 and 2.1 in 2002)

Source: US Highbush Blueberry Council

Blueberry Shipping Seasons

- California's May-June season overlaps with:
  - Fla., April to mid-June
  - N. Carolina, May 10-July 1
  - Georgia, May 25-July 10, but S. Georgia earlier
  - Arkansas, May 20-July 10
  - New Jersey, June 10-Aug. 15
  - Mich./Indiana and Wash./Oregon come in June 25; Mich ends Sept. 10 and goes thru Oct. with CA
  - -------------------------------------
  - BC, July 15-Aug. 25
  - Chile, Nov. thru April

Can Ca. also target a fall window? (some say yes, in the desert and the south coast)

Blueberry Pricing

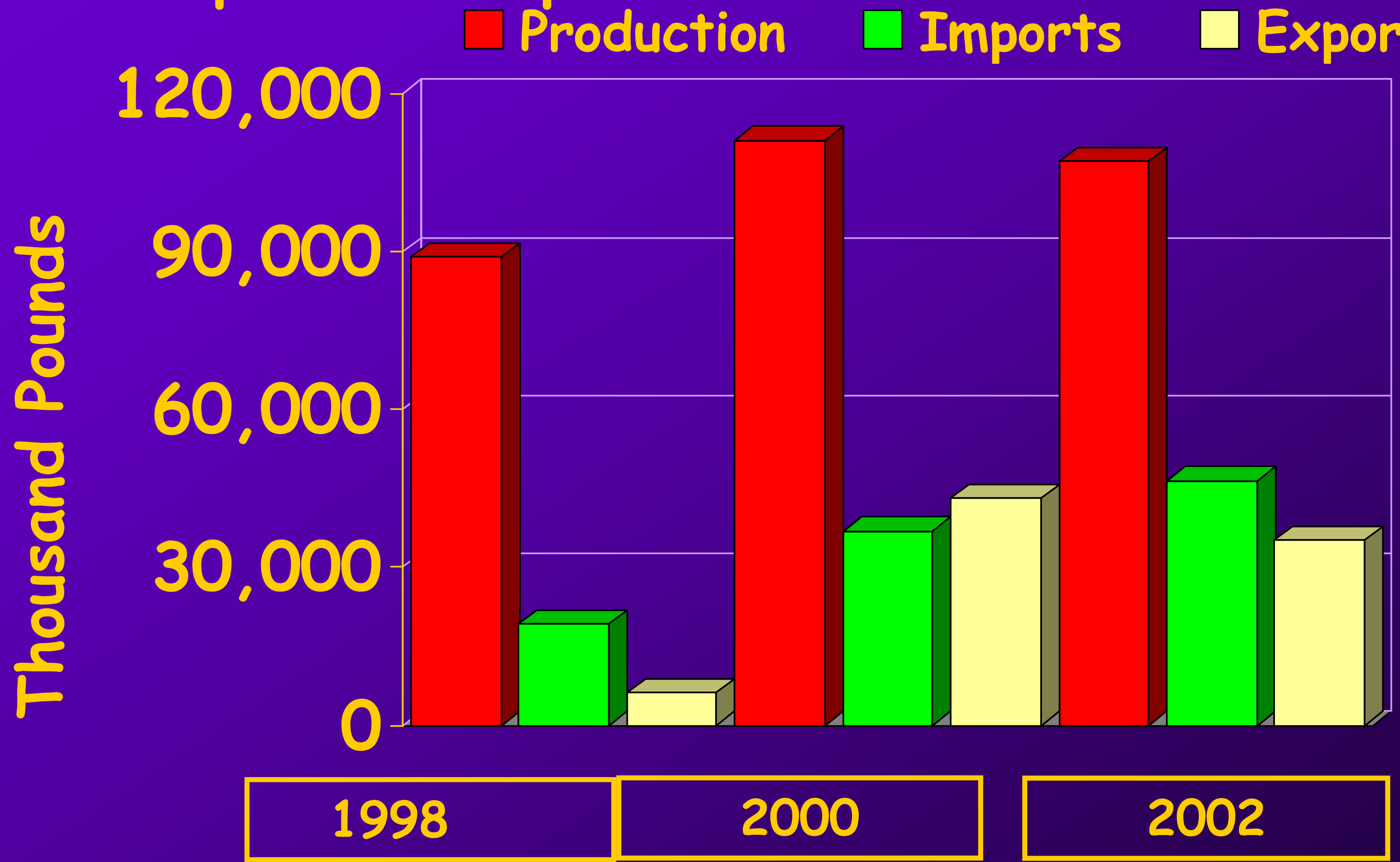
- During California's May-June season:
  - $16-18 for 4.4 oz. flats (3.5 lb. net carton weight) right now – mid-May 2003
  - Next week when more S. Eastern volume comes on may be down to $12
  - May prices generally range between $10-20/flat
  - Early June prices tend to be in the high teens for 9-10 lb. pint flats (box size increases as volumes increase)
  - As New Jersey comes in prices often get down to $12 by the third week of June
  - *BUT, THESE PRICING LEVELS WILL DECLINE AS PRODUCTION GROWS!*

Estimated 2003 Ca. Blueberry Area

- 818 commercial acres
- Additional area destined for Farmer's Markets by small growers (Ca. has over 300 Farmer's Markets)

- Total area likely to be around 1000 acres

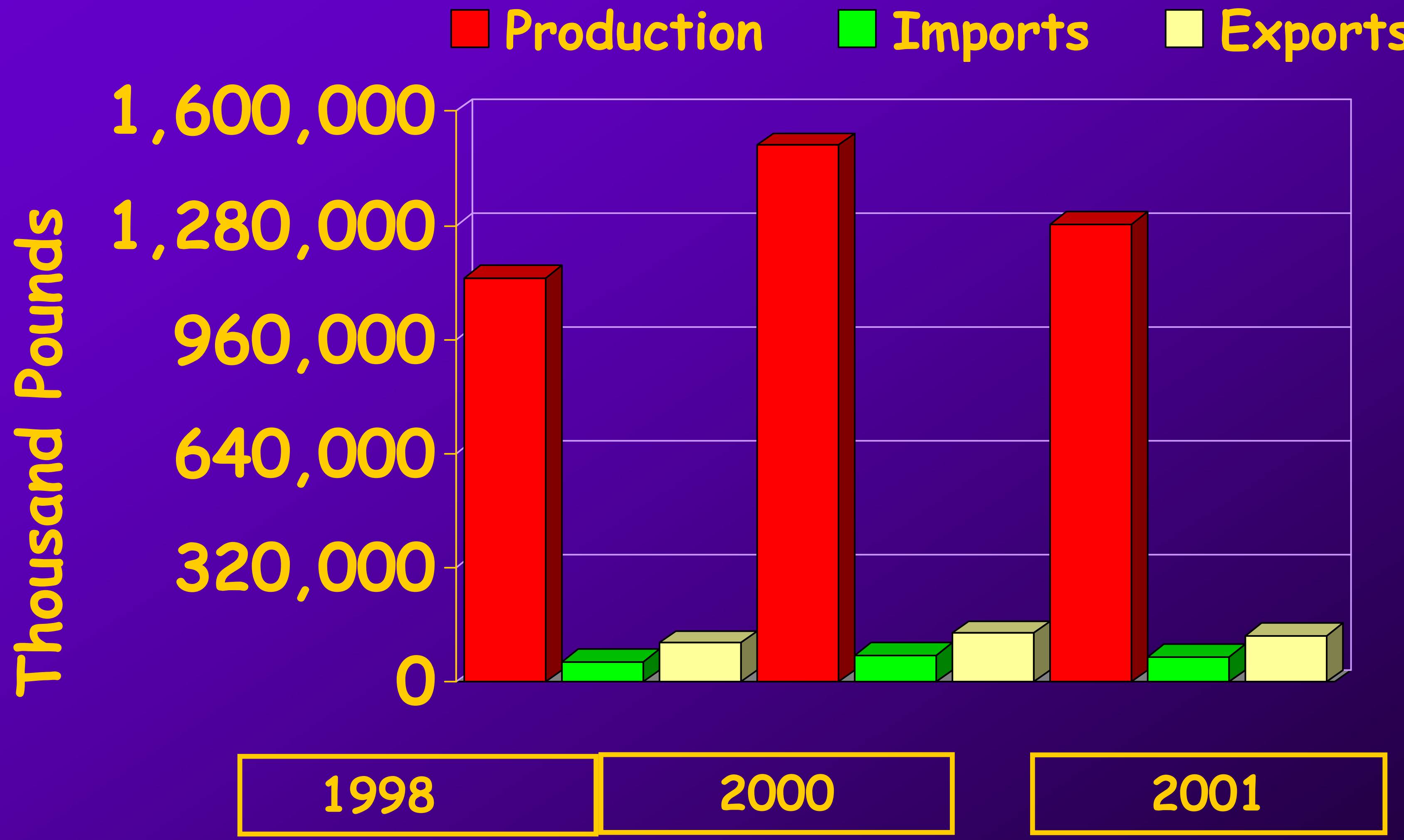
Fresh Blueberries: U.S.Highbush Estimated Fresh Production and High and Lowbush Fresh Imports & Exports



Sources: DOC, USHBC

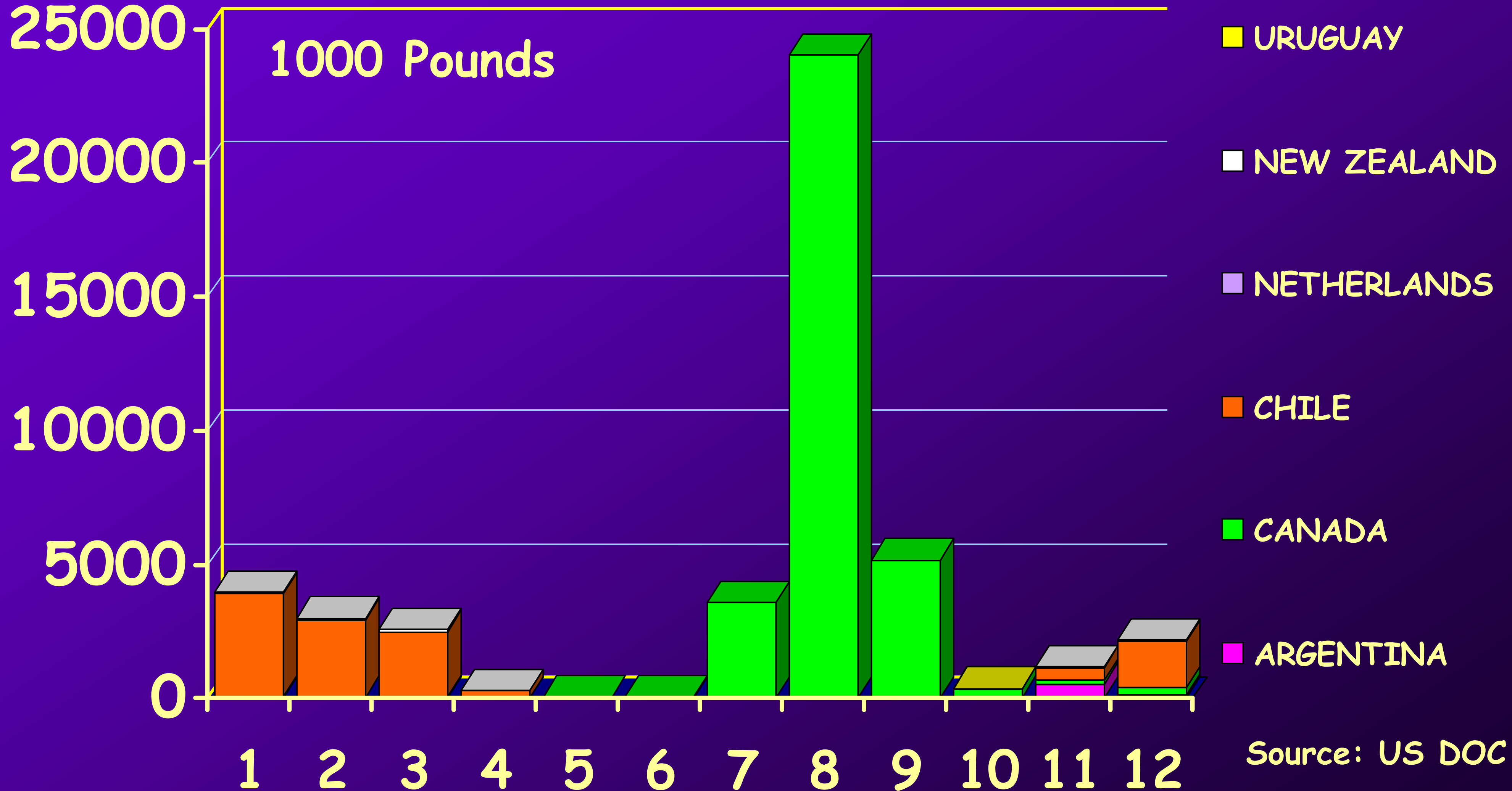
Note: 90% of US exports go to Canada, 9% to Japan

Fresh Strawberries: U.S. Fresh Production and Fresh Imports & Exports



Source: USDA, ERS

Monthly US Imports of Fresh Blueberries by Country of Origin in 2002



Source: US DOC

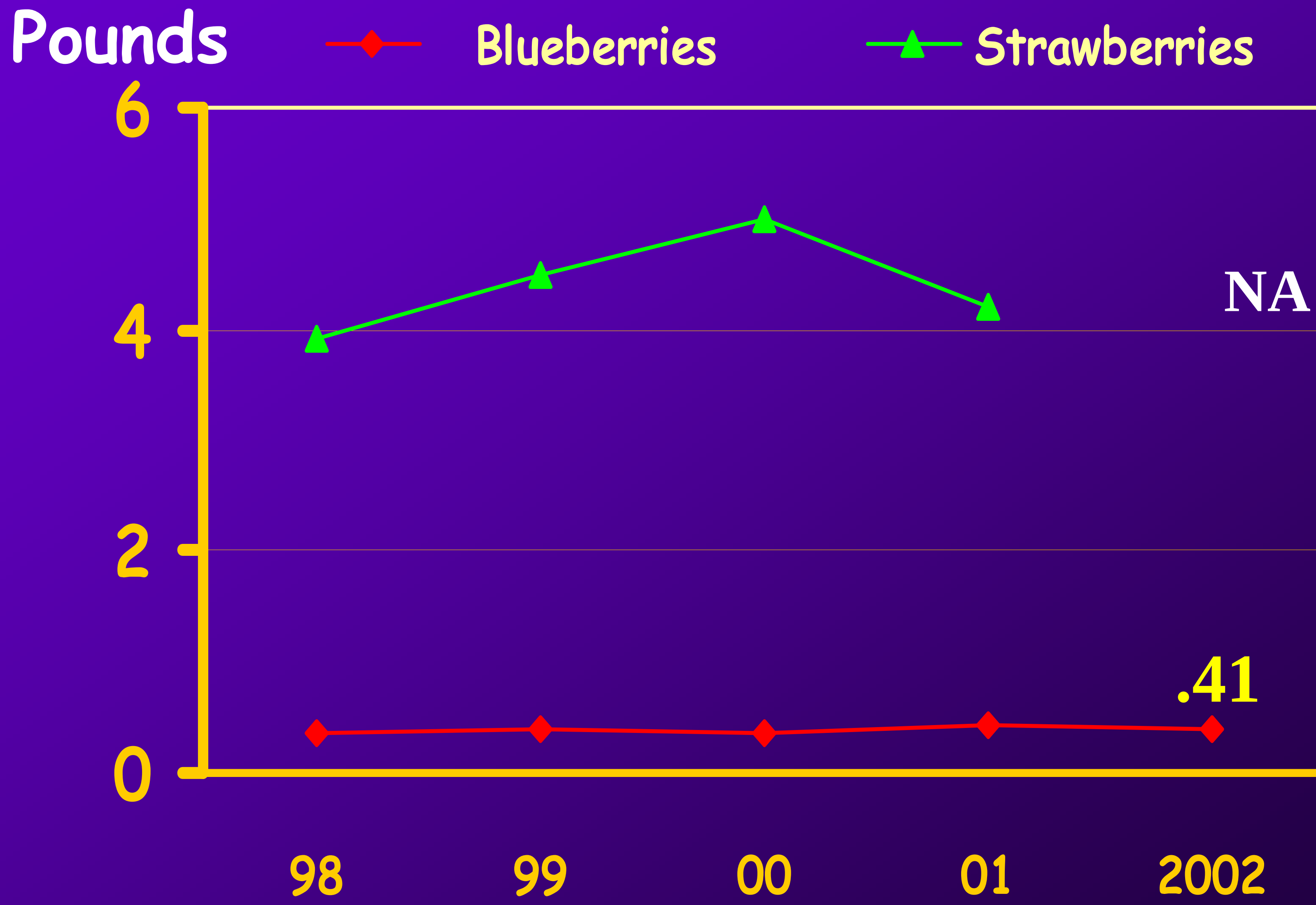
Selected Blueberry Trends in Seasons Competing with Ca.

- <u>Central-North Florida</u>: April 10 – May 15 window
- Estimated additional 100+ acres of high density to be planted in next year or so

- <u>South Georgia</u>: April 15 – May 15 window
- 2002 Estimated additional 400 acres of southern high bush was planted, 300 acres in high density
- High density – 3-4000 plants/acre
- Regular density – 1000+ plants/acre
- 2003 Some reluctance to continue planting due to the price/return outlook for the long run
- Projected 180,000 4.4 oz. flats in 2003, reaching 400,000 in 2006

Source: Industry Expert

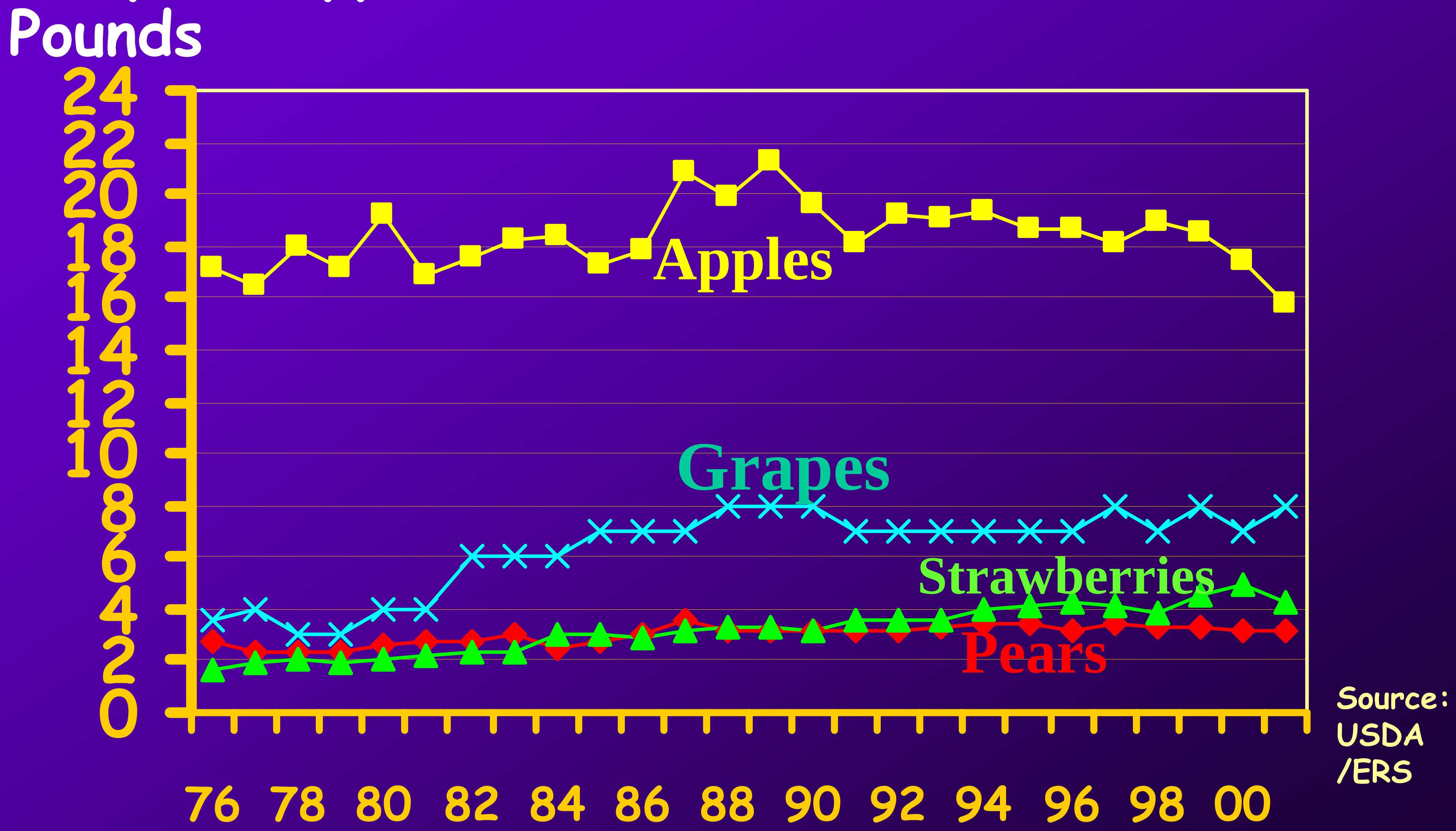
US Per Capita Utilization of Fresh Strawberries and Blueberries[E]



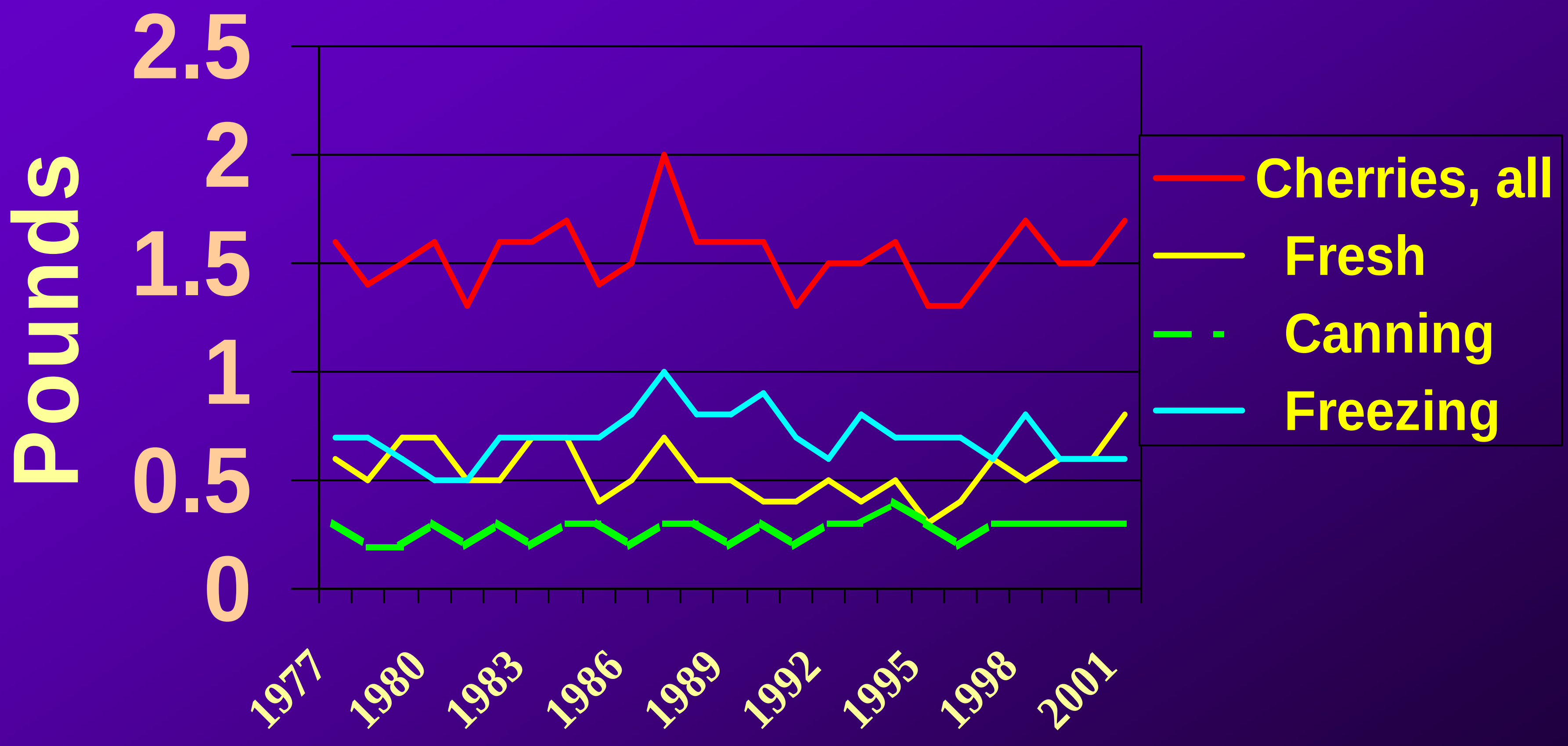
^{E}Estimated

Sources: USDA; Dr. Roberta Cook

US Per Capita Utilization of Fresh Pears, Table Grapes, Apples and Strawberries

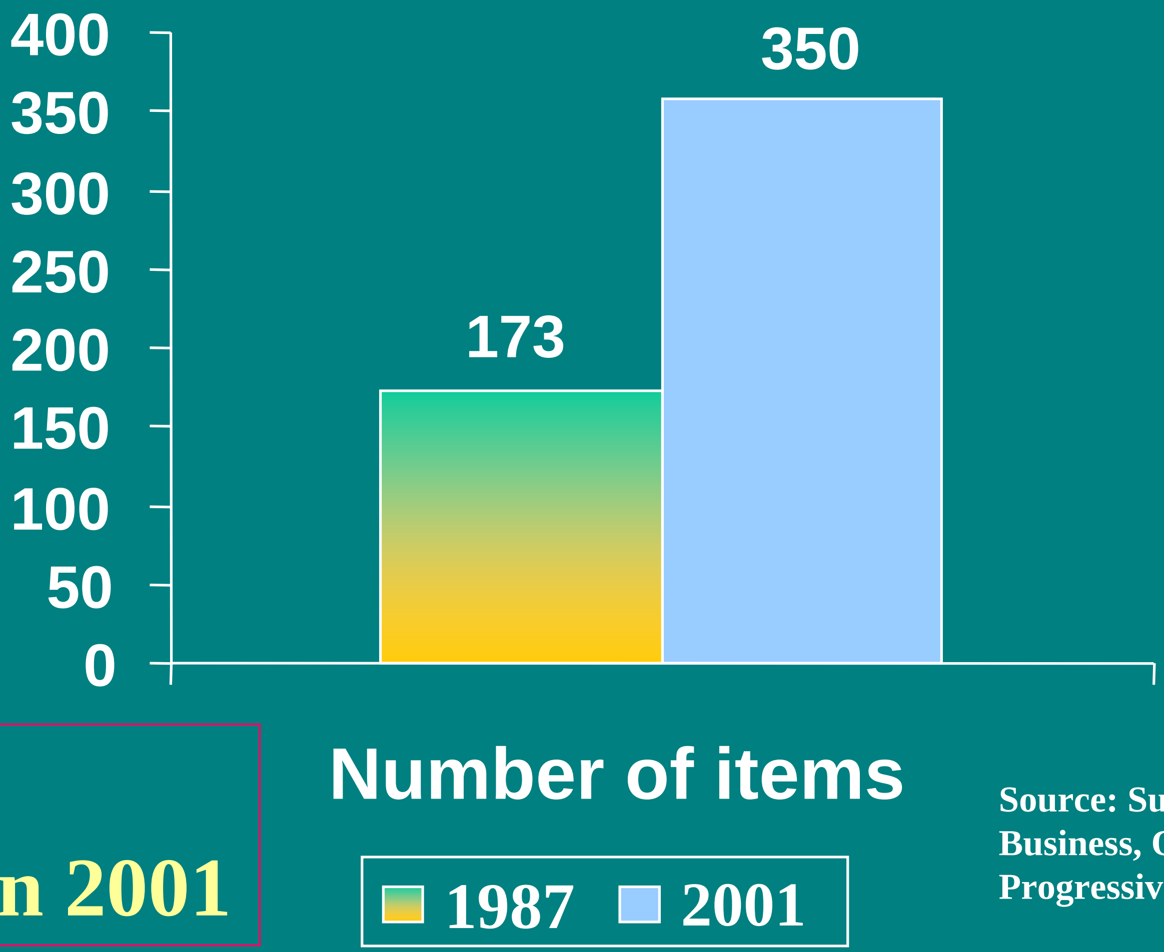


US Per Capita Utilization of Cherries, by Product Form, 1977-2001



Source: ERS, USDA

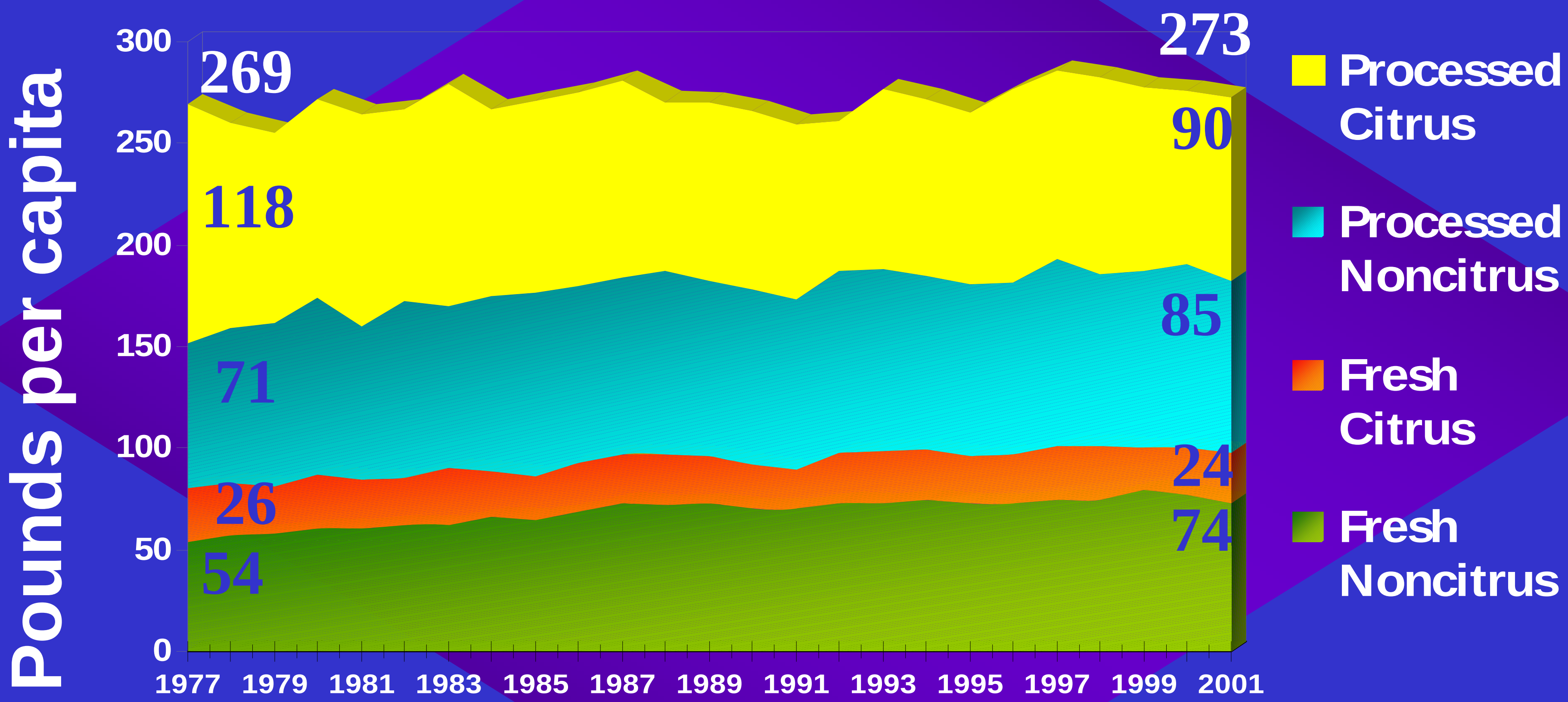
Ave. Item Number in the Ave. US Fresh Produce Department



Pma study:
574 SKU's in 2001

Source: Supermarket Business, Oct. 1999 and Progressive Grocer Oct. 2002

US Per Capita Fruit Consumption, Pounds 1977-2001



Source: USDA/ERS, Oct. 2002

Total for 2001 reaches 279 including some berries and olives.

US Chains: Impact of Retail Consolidation on The Buying Process

- Multiple buying offices now merging into fewer or one
  - Purchase from shipper without seeing the product
  - More emphasis on standards, less on price
  - Synergy contract buying
  - More emphasis on forward planning
  - Buy more directly from shippers

Sources: PMA Fresh Track 2001; Cook and misc.

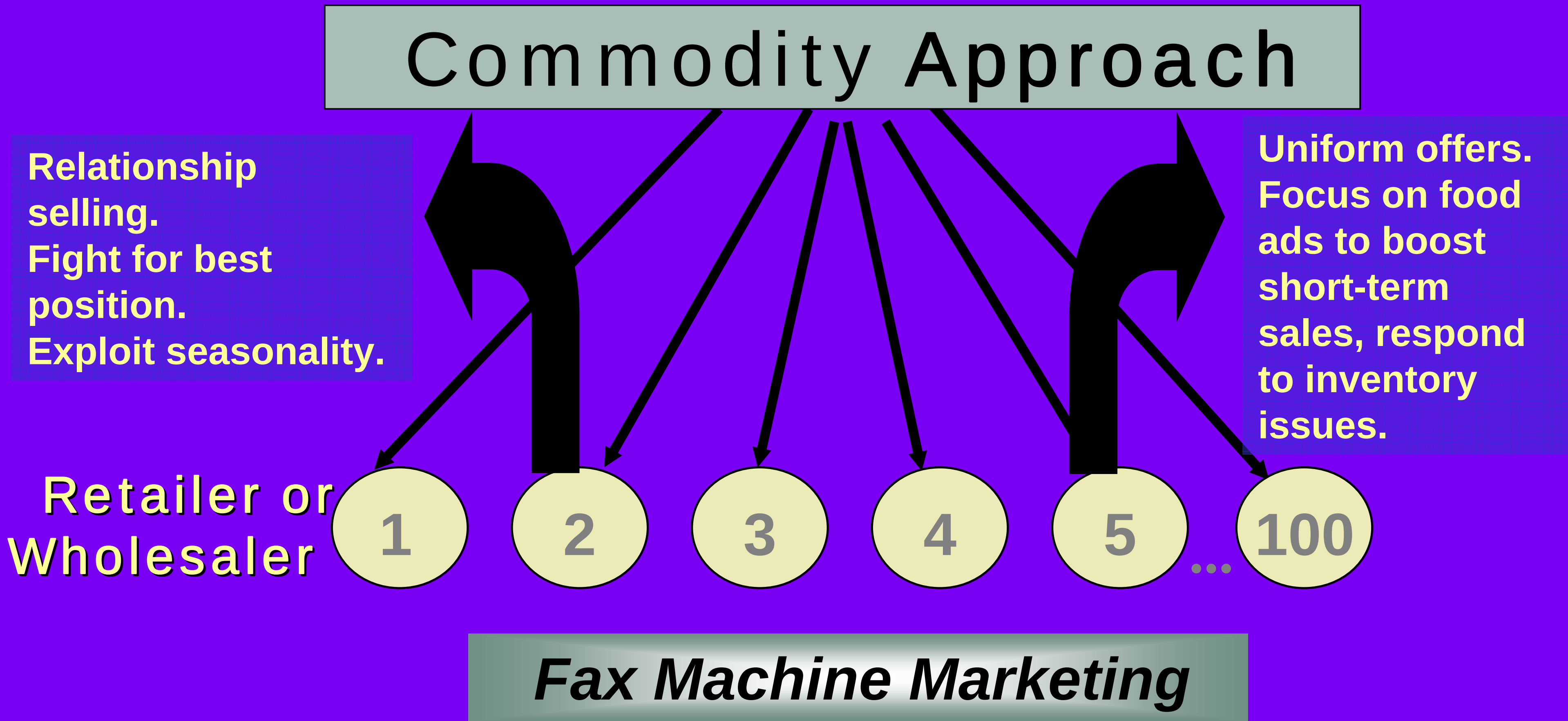
US Chains: Impact of Retail Consolidation on The Buying Process

-Ahold – ending Division buying, centralizing to 2 or 3 preferred suppliers chain wide

-Safeway – centralizing merchandising to Pleasanton, Ca. buying to Phoenix

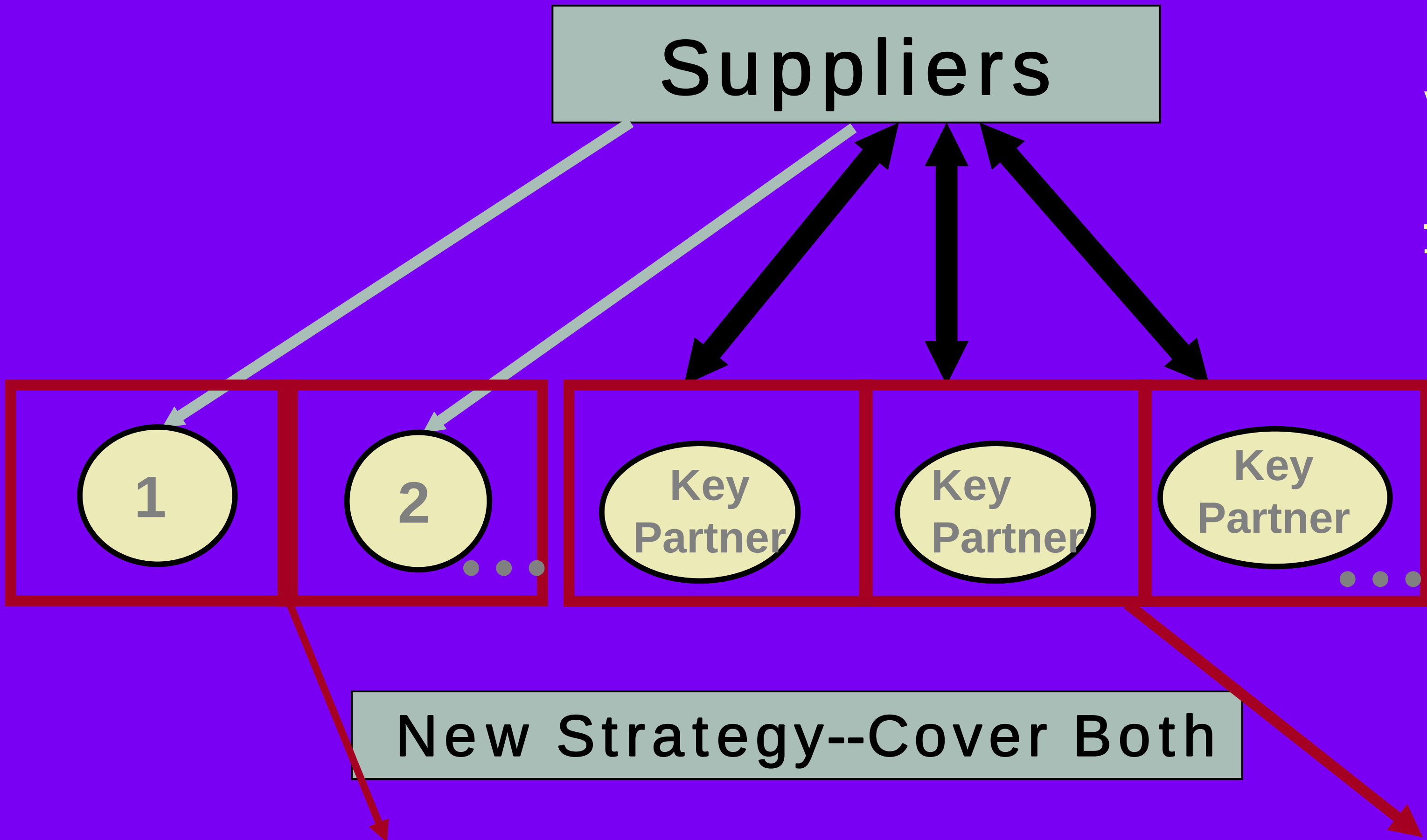
-Kroger – consolidating divisions and centralizing buying to Cincinnati

Produce Business Model 1960 to mid-90s: "Distribution-Based Strategy"



Source: Adapted from The Perishables Group

New Produce Business Model, 1998…



Retailers know the value of ads, space, location, etc.
<u>Expect suppliers</u> to know consumers:

- Right product
- Right stores
- Right time
- Right price

<u>TRADITIONAL “A” RETAILERS</u>
Bid for orders.
Buy ads, fight for space.
Tactical approach.

<u>NEW MODEL “B” RETAILERS</u>
Consumer Information.
Category Expertise.
Category Development.

Source: Adapted from The Perishables Group

Sales mechanisms for each marketing channel –1994 & 1999 - %

Grapes, oranges, grapefruit and CA/FL tomatoes

Sale Type	All 1994	All 1999	Retail 1994	Retail 1999	Mass Merch 1994	Mass Merch 1999
Daily Sales	72	58	57	43	20	7
Advance Sale	19	24	30	42	19	23
Sht-t. Contract	7	11	12	11	48	41
Lng-t. Contract	2	7	1	4	13	29

Source: Economic Research Service, Produce Marketing Study Interviews 1999-2000

Types of Fees & Services Requested

Slotting
Volume Rebates
Non-volume Rebates
Promotional Ads
E-commerce fees
Capital Improvement

EDI
Displays
Private Labels
Returnable Containers
Special Packs
Food Safety Certification

Fees are increasing for all fresh produce but commodities are still different

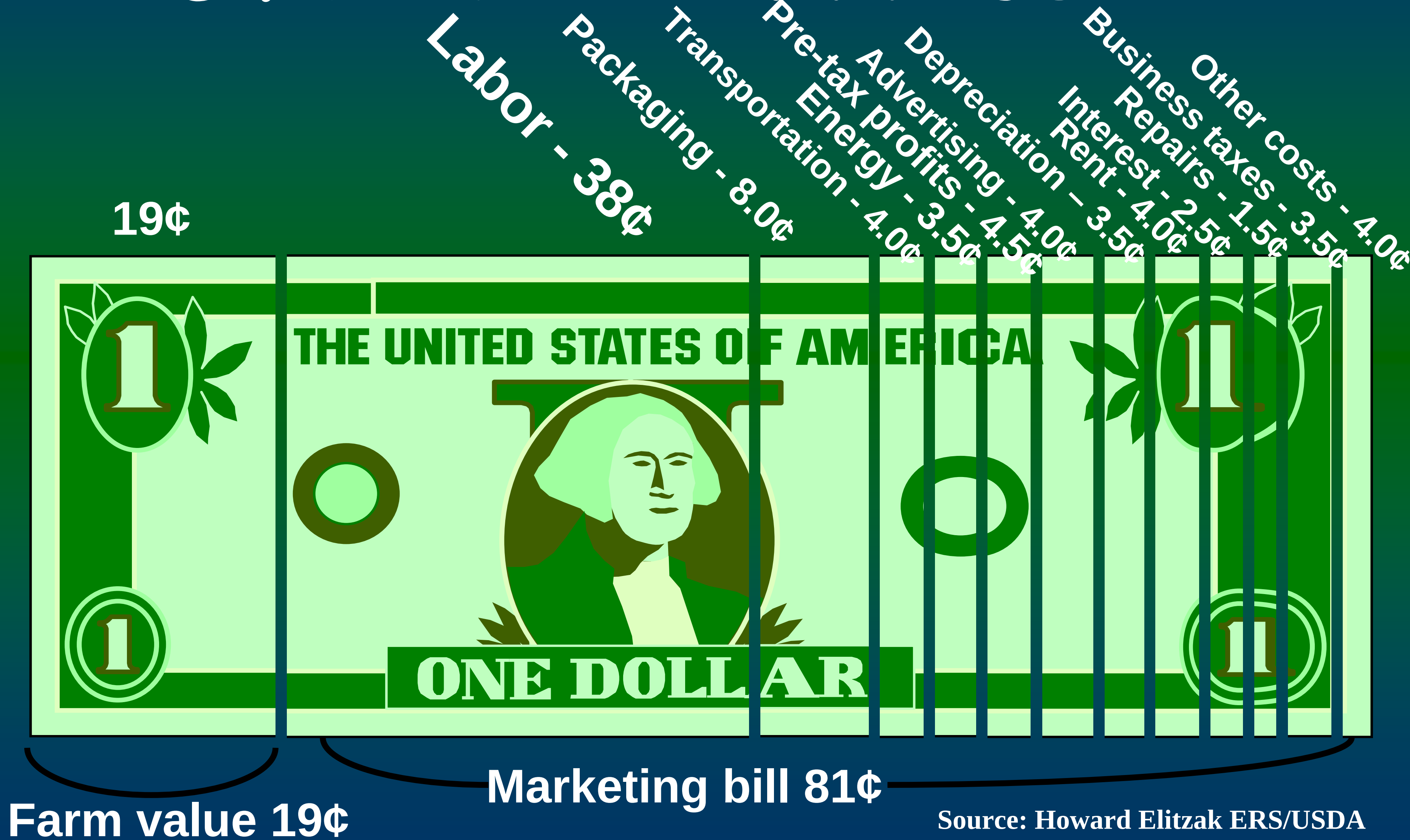
Commodities

- No slotting fees
- Other fees well under 2 percent of sales
- Volume incentives, promotional allowances and rebates

Fresh-Cut

- All fees approximately 1 to 8 percent of sales
- Slotting fees, promotional allowances, volume incentives, and rebates – firms offer options
- Can cost up to $2 million to acquire the business of a national chain; $500,000/division: *stimulating Private Labels*

WHAT a DOLLAR SPENT for FOOD PAID FOR in 2001 in the USA



Source: Howard Elitzak ERS/USDA

Building Retail Partnerships

- **Roles and Responsibilities**

Retailer/ Wholesaler	Grower/Shipper	Boards/Commissions
◆ Effective Tactics ◆ Shopper Savvy Loyalty Card Better Systems ◆ Results-driven Tracking Focus ◆ Dept. Profitability ◆ Strategic Approach	◆ Fact-based Selling ◆ Innovative Marketing/ Merchandising ◆ Efficient Practices ◆ "Category" vs. "Item" Perspective	◆ Category Development ◆ Best Practices ◆ Store-level Research ◆ Purchase Triggers ◆ Consumer Drivers ◆ Long view

Source: Adapted from The Perishables Group

Conclusions

- **While retailer buying power is increasing, partly expressed in new demands for fees and services, the huge physical volumes they now procure also make them even more dependent on shippers for stable, consistent yr-rd volumes**
- **This may limit the exercise of market power in the fresh produce sector**

CONCLUSIONS: The Future?

- **More and more, large year-round grower-shippers may become the sourcing entities for retailers, procuring volume above and beyond their own via geographic diversification, including imports.**

- **Smaller seasonal players will need to find niche markets.**

- ***SELECT YOUR MARKETER WELL!!***