

2004 Produce Buyers Survey

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Executive Summary

During early summer 2004, 52 produce buyers from Kentucky and five surrounding states responded to a mail survey. The purpose of the survey was to measure produce buyer perceptions of demand for specific produce items.

Survey results show buyers giving favorable outlooks for expansion in numerous mainline vegetable crops, especially fresh cut products, peppers, and melons. Buyer outlooks for specialty lines were strongest for grape tomatoes, melons, and greens. Interestingly, these results closely correlate with results from a 2000 North Carolina study measuring expected buyer demand on the East Coast for 2000-2004.¹

Significantly, 63% of surveyed buyers indicated that they handle Kentucky produce. This is probably due to expansion in Kentucky's wholesale produce deal since 2000. Interestingly, this expansion has occurred in crops viewed as having stronger future growth by buyers in this survey (peppers, tomatoes, sweet corn, melons). These survey results suggest that Kentucky growers and marketing groups who pay attention to industry trends while developing strategic marketing relationships with produce wholesalers could further increase Kentucky's regional market share in an expanding fresh produce industry.

Survey Highlights

- 63% of respondents (32 buyers) handled Kentucky produce
- Mainline outlooks highest for packaged salads and other fresh cut products
- Colored peppers, cantaloupe, watermelon, strawberries, ethnic-oriented products, and vine-ripe tomatoes rounded out mainlines with best outlooks
- Grape tomatoes and seedless watermelon were specialty items viewed most favorably

Survey Goals

The buyer survey was initiated to document market potential for various produce items marketed in and around Kentucky. A significant aim of the survey was to correlate similarities and differences from these responses with those in the 2000 N.C. study. As in the N.C. study, buyers in this survey indicated whether they expected to cut back, maintain, or expand various produce items.

Additional information was sought on other marketing questions and perceptions of industry trends. These included buyer outlooks for direct store deliveries, promotion of locally-grown product, imported produce, number of items carried, RFID tag use, pre-packaged products, slotting fees, and supplier consolidation.

¹ Ross F. Williams. "Trends in Product Demand For The Years 2000-2004: A Survey of Retail and Wholesale Produce Buyers." North Carolina Department of Agriculture and Consumer Services Division of Marketing, May 25, 2000.

Procedure

Produce buyers in Kentucky, Ohio, Indiana, Illinois, and Missouri were identified through Red Book Credit Services listings. A two-page survey (Appendix 2) was mailed to 319 business addresses in these states, focusing primarily on buyers for produce wholesalers and retail groceries. A thank you/reminder postcard was mailed to every address three weeks after the initial mailing.

An adequate response of 52 buyers (16 percent of mailed surveys) was obtained through the single survey mailing. This sample represented shippers, wholesalers, and retailers selling produce throughout the region.

Respondent Demographics

Returned surveys included 22 produce wholesalers and 13 buyers for retail groceries. There were also 5 brokers, 3 grower/shippers, and 8 respondents who either marked “other” or did not indicate their classification in the industry. Responding buyers represented the distribution of surveys sent to each state. (Table 1).

Table 1. Surveys Mailed and Responses By State

State	Number Mailed	Percent of Surveys Mailed	Surveys Returned	Percent of Surveys Returned
Illinois	85	27%	10	19%
Indiana	38	12%	10	19%
Kentucky	30	9%	6	12%
Missouri	39	12%	5	10%
Ohio	86	27%	16	31%
Tennessee	41	13%	5	10%
TOTAL	319		52	16%

Most of the buyers (40 or 78%) included some fresh cut produce among their product lines. One-third replied that they handled organic products. This correlates with uncertainty about future growth of organic produce by wholesalers expressed in the North Carolina study, as well as in current produce industry reporting.² Finally, two thirds of the buyers indicated they carried less than 250 items while 10% carried more than 1000 items (Table 2).

Table 2. Respondent Characteristics

Practices	Yes	No	No Response
Handle fresh cut produce	77%	19%	4%
Market organic products	35%	61%	4%
Source produce from KY	63%	31%	6%
Number of Items Handled:			
Less than 100	21%		
100-250	35%		
250-999	20%		
Over 1,000	10%		
No Response	14%		

² Nelson, Andy. “Taste, quality issues rank high among those who often buy organics.” *The Packer*, 9 August 2004, A1; Robison, Barbara, “Distribution of Organic Produce.” *Produce Business*, June 2004, 70-74.

Mainline Demand Increases

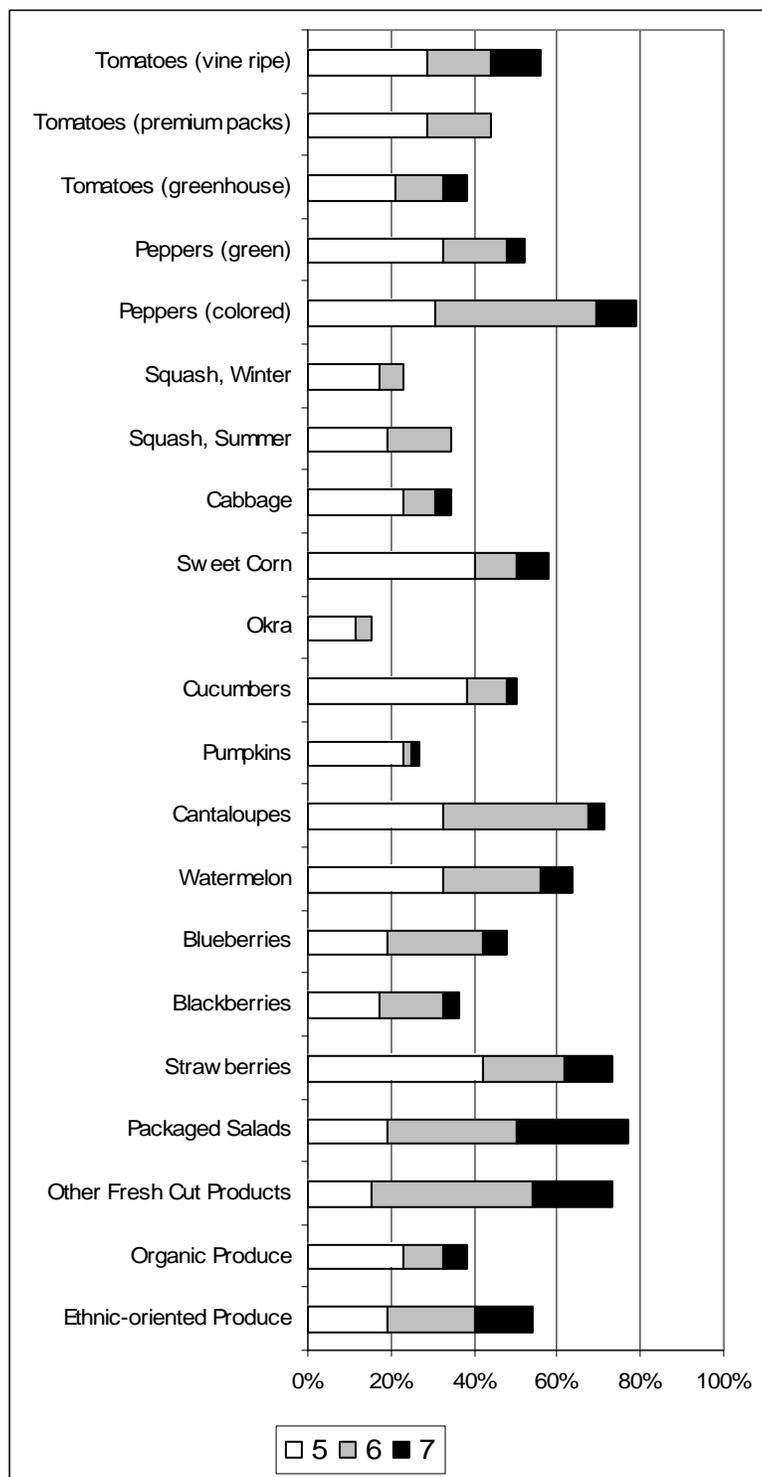
Buyers were asked to rank their expectations for mainline produce items based on interactions with their customers and perceptions of the market. A scale of 1-7 (1=cutting back; 4=maintaining; 7=significant expansion) was provided for their response.

Figure 1 shows the distribution of buyers who responded with ratings greater than “4” on the scale. This indicates those buyers expecting market growth for these products. This reporting method was used in the North Carolina study; these responses correlate closely with the observations of that study.

Only okra (3.34) and pumpkins (3.95) showed an overall average rating of less than 4.0, indicating a slight majority of buyers expecting softer future markets for these two crops. The remaining 19 products all had average scores higher than 4, indicating buyer expectations for expansion. This is consistent with reports of across-the-board increases in produce consumption and demand from 2000-2004.³

It should be noted that some items were not rated by individual buyers. More than 20% of buyers surveyed indicated that they had “No Opinion” or failed to rate expected demand for premium pack and greenhouse tomatoes, okra, organic produce, and ethnic-related products. Average responses and number of responses are indicated in Appendix 1.

Figure 1. Mainline Produce Items Expected to Increaseⁱ
(Percent of Respondents Expecting Increases)



ⁱ Response scale: 1=cutting back; 4=maintaining; 7=significant expansion

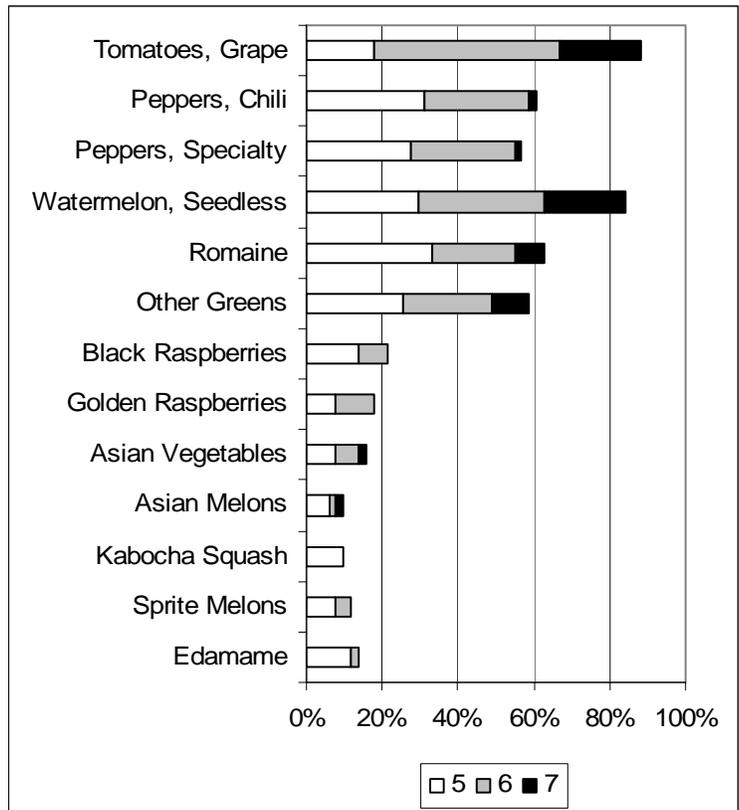
³ Lucier, Gary and Charles Plummer. “Vegetable Consumption Expected to Rise in 2004.” USDA/ERS Vegetables and Specialties Outlook, VGS-302, 21 April 2004.

Specialty Produce

There has been a steady trend among produce buyers to carry more produce items, including specialty products. A national study completed in 1999 indicated produce buyers of every size expected to see a substantial expansion of warehouse and retail store produce SKUs by 2004.⁴ The average retail store carried 312 items in 1994, grew to 430 items in 1999, and was projected to grow to 521 items by 2004.

Buyer expectations for several items were fairly strong and in line with their expectations for some of the mainline items. Many items, however, appear to be viewed as having a narrow niche. Responses for many of the specialty items may be difficult to interpret since buyers were given the opportunity to simply indicate “no opinion” for a particular item. This resulted in a majority of respondents answering “no opinion” for some products like sprite melons and edamame. It is likely that retailers would have a greater sense of demand for a wider variety of items while wholesalers would tend to specialize more in the mainline items. There were not enough observations in this sample to adequately test these differences.

Figure 2. Specialty Produce Items Expected to Increaseⁱⁱ
(Percent of Respondents Expecting Increases)



An important marketing principle for specialty produce should be emphasized here. There are generally only a few wholesalers dealing in these kinds of products. Retail demand for these products may be increasing. However, it is important for growers and other distributors to develop a clear understanding of volume and product demands with the retailers who are actually marketing the product.

The highest demand averages reported for the specialty items examined in this survey were:

Grape Tomatoes	5.82
Seedless Watermelons	5.50
Chili Peppers	5.00
Romaine Lettuce	5.02
Other Salad Greens	5.00
Other Specialty Peppers	4.98

The lack of response for other specialties does not necessarily indicate a lack of demand. Many specialty items are in high demand but by only a limited number of retailers. For those willing to explore niches for Asian melons and vegetables, for example, demand may be good with the right retailers in certain markets. These results simply represent perspectives averaged across wholesalers and retailers in this region.

⁴ SKU is the abbreviation for “Stock Keeping Unit,” the number assigned to a particular produce item for database, inventory, and marketing purposes. McLaughlin, E., K. Park, D. Perosio, and G. Green, “*The New Dynamics of Produce Buying and Selling: Marketing and Performance Benchmarks for the Fresh Produce Industry*”, RB99-10, Cornell University, Sept. 1999.

Industry Trends

Respondents were also asked to provide their perspectives on a scale of 1-5 (1=diminishing, 3=same; 5=increasing) for certain industry trends. Their responses (Table 2) show the produce industry continuing to be dynamic, implementing many new trading and marketing practices.

Direct Store Deliveries

The practice of direct store delivery has diminished within the last 20 years corresponding to rapid and significant consolidation of retailers. Retailers have set up their own warehousing system for food and have organized much of their produce buying to fit with this distribution system.

Buyers in this sample generally (71%) indicated they expected to see the practice of direct store deliveries maintaining or cutting back. There is some resurgence of this practice among some of the larger retailers in Kentucky, but the trend generally is for growers to adapt to retailers' central distribution systems.

Promotion of Locally Produced Products

Many states have invested substantially in promoting locally grown products in partnership with major retailers. The majority of buyers (28) in this survey actually see this practice continuing to increase. Most retailers have indicated a desire to promote local products when they can get the quality and volume. Retailers have worked with state departments of agriculture to develop a variety of in-store promotion schemes.

Imported Produce

Much growth in produce volume and variety has come through international sources. International sources account for about 15% of the produce annually consumed in the U.S., or about \$2.5 billion in imports. This is about twice the level of 20 years ago.⁵ Most buyers (92%) in this survey expect this import trend to continue or increase.

Number of Items Carried

As mentioned above, the increase in the number of items carried is a driving force in the industry. Retailers are generally under a greater demand by the public to carry more items than wholesalers or shippers. Although retailers have to carry many products, they have tended to place a lower importance on their suppliers carrying lots of items.⁶

This survey found no difference between the average rating that retailers placed on the importance of increasing the number of items they carried (4.1 on a scale of 1-5) and the rating given by non-retailers (4.0 of 1-5). Industry consolidation and other market forces continue to drive suppliers toward expanding the number of items they carry.

Table 2 Summary of Industry Trends

Industry Trends: 1=Diminishing; 3=Same; 5=Increasing	1	2	3	4	5	No Response	Average Response
Direct store deliveries from growers to retailers	4	15	18	9	5	1	2.92
Promotion of locally produced products at retail	1	3	19	18	10	1	3.65
Imported produce	0	2	19	20	9	2	3.72
# of items you carry	0	2	5	34	10	1	4.02
RFID tag use	6	7	11	13	5	10	3.10
Pre-packaged fixed weight produce	2	3	16	17	9	5	3.60
Slotting fees for fresh produce	8	7	20	8	1	8	2.70
Consolidation of suppliers	1	2	14	19	13	3	3.84

⁵ USDA-ERS, Vegetables and Melons Situation and Outlook Yearbook VGS-2002, July 2002.

⁶ In the McLaughlin study, the attribute of the supplier being a "one-stop shop" was listed 15th out of 16 supplier attributes. Buyers feel generally comfortable shopping around and sourcing from a variety of suppliers.

RFID Tag Use

Traceability is a widely discussed issue in the produce industry today. Some buyers are looking for quality assurance mechanisms and asking their suppliers to partner with them by adopting radio frequency identification tags to help track fresh produce back through the packing house even to the field. Buyer responses on this issue were highly varied as only a few retailers are specifically asking for it at this time.

Many of the respondents actually felt like the urgency of having RFID systems in place may diminish (Table 2). Several noted that they believed RFID would only affect Wal-Mart. Whether or not RFID is here to stay appears to be an issue still working itself out in the industry.⁷

Pre-packaged Fixed Weight Produce

The random weight nature of the products sold in the produce industry has been a source of management difficulty. Packaged foods with fixed weights can be managed in distribution and sale much more easily than bulk produce. Some retailers have called on their suppliers to work with them to develop pre-packaged, fixed-weight produce products that make checkout and inventory control easier.

With an average rating of 3.60, there seemed to be a slight trend observed across these buyers toward an increase in pre-packaged fixed weight produce. The practice certainly requires significant adjustments to be made in the packing stage of the distribution process; such requirements can make it difficult for small packer-shippers to compete.

Slotting Fees for Fresh Produce

Some retailers have begun to request one-time payments from a supplier as a condition for the initial placement of the supplier's product on the retailer's store shelves or for initial access to the retailer's warehouse space. These slotting fees (or slotting allowances) for produce items, especially for those that are pre-packaged, have raised concern among some in the industry. Some feel that there is a movement toward more and more fees being assessed on suppliers of produce in general. The consensus among the buyers surveyed here, however, seemed to be that the scope of slotting fees being charged to suppliers was unlikely to change. As with RFID, many had no opinion or thought the practice would actually diminish.

Consolidation of Suppliers

Many industry studies have anticipated the consolidation of produce suppliers. This question generated the greatest number of respondents expecting a particular trend to increase. The response need not indicate a trend toward larger suppliers, per se, but competition will be a factor forcing out the suppliers that cannot provide the quality and services demanded for the products retailers are looking for.

Conclusion

This survey confirms buyer demand for a number of mainline and specialty produce items. These buyers in the Ohio Valley Region also confirm many of the trends driving today's produce industry. This survey is intended to provide members of the trade with current buyer perspectives on a number of issues, recognizing that these issues can change and that demand can change. The produce industry in the region remains dynamic like the industry nationally.

⁷ Scruton, Terry. "Broad troupe of players about to raise curtain on RFID." *The Packer*, 16 August 2004, Special Packaging Section, p. 3.

Acknowledgments

We thank the buyers that participated in this survey and recognize that they contribute valuable information through their responses to all those participating in the produce industry in our region.

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Appendix 1. Buyer Demand Outlook and Average Responses By Crop

(1=Cutting Back; 4=Maintaining; 7=Significant Expansion)

Mainline Items	1	2	3	4	5	6	7 No Opinion/Response	Average Response	
Tomatoes									
vine ripe	0	1	0	17	15	8	6	5	5.00
premium packs	1	2	2	11	15	8	0	13	4.56
greenhouse	2	3	3	13	11	6	3	11	4.41
Bell peppers									
green	0	0	2	21	17	8	2	2	4.74
other colors	0	0	1	6	16	20	5	4	5.46
Squash									
winter	0	1	7	28	9	3	0	4	4.13
summer	1	0	3	26	10	8	0	4	4.42
Cabbage	0	2	4	24	12	4	2	4	4.38
Sweet corn	1	0	2	17	21	5	4	2	4.76
Okra	5	7	6	12	6	2	0	14	3.34
Cucumbers	0	0	3	20	20	5	1	3	4.61
Pumpkins	3	2	6	19	12	1	1	8	3.95
Cantaloupe	0	0	2	11	17	18	2	2	5.14
Watermelon	0	0	3	12	17	12	4	4	5.04
Blueberries	1	1	6	14	10	12	3	5	4.68
Blackberries	1	1	7	15	9	8	2	9	4.44
Strawberries	0	0	1	8	22	10	6	5	5.26
Packaged salads	0	1	1	4	10	16	14	6	5.76
Other fresh cut items	0	2	2	4	8	20	10	6	5.57
Organic produce	3	3	6	8	12	5	3	12	4.25
Ethnic-oriented products	2	2	1	6	10	11	7	13	5.08

Specialty Items (Rating)	1	2	3	4	5	6	7 No Opinion/Response	Average Response	
Grape tomatoes	0	0	1	4	9	25	11	2	5.82
Chili peppers	0	1	3	7	16	14	1	10	5.00
Other specialty peppers	0	1	2	10	14	14	1	10	4.98
Seedless watermelon	1	1	2	3	15	17	11	2	5.50
Romaine lettuce	0	0	0	18	17	11	4	2	5.02
Other salad greens	0	0	2	18	13	12	5	2	5.00
Black raspberries	2	4	5	15	7	4	0	15	3.89
Golden raspberries	2	5	5	14	4	5	0	17	3.80
Asian vegetables	2	4	3	18	4	3	1	17	3.89
Asian melons	1	4	6	13	3	1	1	23	3.69
Kabocha squash	6	3	5	10	5	0	0	23	3.17
Sprite melons	4	4	3	6	4	2	0	28	3.21
Edamame	3	5	3	4	6	1	0	30	3.36