Impacts of Marketing Changes on the Produce Shipping Industry

Cost of Fees and Services

Information was collected on the cost of providing each of the fees and services discussed above to all accounts. While not all firms kept complete records on the cost of providing all fees and services, they attempted to estimate costs where complete data were unavailable. Estimates are likely to underestimate costs as shippers often noted that their accounting systems were better designed to fully account for costs back to the grower rather than forward in the marketing system. The average sales of the interviewed firms and the average cost of their fees and services are provided in table 16, by key commodity. Average firm-level sales varied from $18.2 million for the grapefruit sample to $28.4 million for grapes. The average cost of fees per shipper ranged from $66,500 for California tomatoes to $209,000 for grapefruit shippers. The pattern was different for services with grapefruit shippers paying the least at $12,300 per shipper while orange shippers paid the most, averaging $64,000. In all cases service costs were less than the cost of fees.

In order to provide a standard measure for comparing costs across the commodity samples, independent of the samples' sales volumes, the information is also presented on the basis of average costs per million dollars in sales. There is significant variation in the level of fees and services among the various commodities. For grape, orange, grapefruit, and California tomato shippers, total fees and services per million dollars in sales ranged from $2,600 for California tomatoes to $14,600 for grapefruit (table 16). Grape and orange shippers were in between, with grape shippers spending an average of $6,400 per million dollars in sales to provide fees and services, compared with orange shippers spending an average of $11,400. Services per million dollars of sales were less than fees for all the commodity samples, averaging from $1,200 per million dollars in sales for grapes to $4,400 for grapefruit.

Some of the differences between commodities may be related to costs excluded from these data. For example, grape, grapefruit, and California tomato shippers all have longstanding industrywide generic-promotion programs supported by assessments to growers and/or shippers. Since the marketing support services and promotional fees paid for by these assessments are not included, the costs shown in table 16 underestimate actual costs for these commodities. In contrast, California oranges have no generic promotion program, which may be one factor explaining the higher incidence of fee and service costs they experience relative to grapes and tomatoes.

Another measure of the incidence of fees was obtained by asking firms to provide actual sales volume and fees paid for each of their top five retail and mass merchandise accounts. For the top five retail and mass merchandise accounts, we asked whether the buyer was a major retailer (defined as the top 10 corporate buying chains), other retailer, or mass merchandiser. Fees varied by type of buyer—higher for major retailers than for the other retailers, with fees to mass merchandisers falling in between.

This measure yielded results consistent with those presented in table 16, with grapefruit shippers paying the most, followed in descending order by oranges, grapes, and tomatoes. Indeed, California and Florida tomato shippers have very few retail and mass merchandiser sales and no fees at all in their top five

Table 16—Average sales, fees, and cost of services per shipper, by crop, 1999[1]

Product (number of shippers reporting)	Average sales	Average fees	Average service cost	Average fee and service cost	Average fees per $ million in sales	Average service cost per $ million in sales	Average fee and service cost per $ million in sales
				Dollars			
Grapes (9)	28,361,837	160,868	53,363	214,231	5,192	1,233	6,425
Oranges (9)	26,466,812	207,693	64,036	271,730	8,677	2,685	11,362
Grapefruit (5)	18,245,368	209,000	12,333	221,333	10,128	4,435	14,563
California tomatoes (10)[2]	24,502,254	66,534	38,450	104,984	1,309	1,305	2,614

[1] Results are based on a limited number of observations and must be interpreted with caution.
[2] Includes California tomato repackers.

Source: Economic Research Service, Produce Marketing Study interviews, 1999-2000, USDA.

accounts (table 17). Among those shippers paying fees to their top five accounts, grape shippers have the lowest share of fees per sales on an account basis, 0.66 percent. Orange and grapefruit fees as a share of sales averaged 1.13 percent and 1.77 percent, respectively. Bagged salad firms reported that fees as a share of all sales (not just the top five retail and mass merchandise accounts) ranged from 1 percent of shipper sales up to 8 percent.

The differing cost of fees and services across commodities may mean that some have been affected much more than others by the new operating environment prevalent in today's fresh produce industry. However, several factors affect the shipper/buyer relationship, including market structure at the shipper level, interfirm rivalry, and most certainly supply and demand conditions. While these effects cannot be separated at this point, identifying the existence of differences between commodities is important.

The lack of fees paid to the top five accounts for California tomatoes is likely due to their reliance on sales through repacker/wholesaler channels. In the case of California grapes, the fragmented shipper structure may provide some protection from retailer requests for fees. Given an implicit need for retailers to spread purchases among more grape suppliers than for commodities with more concentrated supply structures, retailers may be less able or inclined to charge certain fees such as volume incentives. The prevalence of relatively large firms and more concentrated industry structures in the case of grapefruit and oranges may mean that retailers are better able to approach firms for fees. Fees paid by some firms then affect fees requested of competitors.

Table 17—Fees as a percentage of sales, based on shippers' top five retail and mass merchandiser accounts, 1999[1]

Product	Total fees[2]	Total sales[3]	Share of fees per account
	Dollars		*Percent*
Grapes	367,305	55,556,924	0.66
Oranges	494,393	43,834,539	1.13
Grapefruit	438,699	24,820,538	1.77
California tomatoes[4]	0	5,379,034	0
Florida tomatoes[4]	0	977,480	0

[1] Results are based on a limited number of observations and must be interpreted with caution.
[2] Sum of fees paid to the top five retail accounts by all shippers providing data.
[3] Sum of sales made to the top five retail accounts by all shippers providing data.
[4] Although tomato shippers paid no fees to their top five retail and mass merchandiser accounts, they may pay fees to other accounts.

Source: Economic Research Service, Produce Marketing Study interviews, 1999-2000, USDA.

While the level of fees as a share of sales might appear low, it is important to remember that in the produce industry market prices are often at or below total production and marketing costs, covering only variable costs. Consequently, these fees could be sufficient to eliminate profits or increase losses in periods where total production and marketing costs are not being met. As shown in table 16, in absolute terms the average cost of fees and services per shipper varied from $105,000 for California tomatoes to $271,700 for oranges. Given low profits or even losses in some seasons, fee and service costs of this magnitude may serve to accelerate supply adjustments and may reduce production. If production declines, retailers could risk insufficient supply when adverse weather shocks occur.

Fees and services that raise the costs of shippers without providing some benefit of equal value are a concern to the produce shipping industry. Even in the case where there is an equal trade, the types of fees and services requested can have structural impacts on the shipping industry. Per-unit fees or services, such as per-carton volume incentives, imply no differing impact by size of shipper if the fee is the same for all shippers. While fees are more costly than services, most fees are per-unit costs, ranging from 68 to 99 percent of the value of all fees paid (table 18). Fees are, therefore, generally neutral in terms of structural repercussions. However, as noted above, their impact on profits may be quite significant, given the low margins prevalent at the shipper level of the fresh produce distribution system.

The costs of providing most services are fixed. Fixed fees or services, if they are uniformly applied, could have a more negative effect on smaller shippers that cannot spread the costs over as many units as a larger shipper. However, service requests are expected to continue to increase and change the costs of doing business, as many appear to be the result of technology. For example, materials handling technology at the warehouse level may cause retailers to request special packaging, such as the use of a standardized stackable carton for all commodities to facilitate uniform palletization of store loads. Information technology is allowing retailers to better target specific consumer segments, sometimes leading to special merchandising, category management, or packaging requests. While it is likely that the costs of setting up some of these serv-

Table 18—Cost of fees and services, per unit and fixed, 1999 [1,2]

Product	Per-unit share of fees	Fixed share of fees	Per-unit share of services	Fixed share of services
	Percent			
Grapes	99	1	40	60
Oranges	68	32	63	37
Grapefruit	74	26	16	84
California tomatoes	72	28	24	76

[1] Complete data were not available for Florida tomatoes, lettuce, and bagged salads.
[2] Results are based on a limited number of observations and must be interpreted with caution.

Source: Economic Research Service, Produce Marketing Study interviews, 1999-2000, USDA.

ices are equal regardless of firm size, the cost per unit of sales is obviously greater for smaller firms. The relationship between shipper size and the ratio of fees and services paid per unit of sales is also of interest and must be further investigated, as this sample size was insufficient to yield reliable results on differences by firm size.

Trends in Shipper Consolidation, Shipping Seasons, and Product Line

As retailers increase their size and volume requirements, shippers will probably face more pressure to increase their scale of operation. New technologies such as capital-intensive fresh-cut processing operations may also motivate consolidation. Greater volume may be achieved by increasing a firm's own capacity, via consolidation, or joint marketing arrangements and strategic alliances (such as copacking) that fall short of actual consolidation.

Not all produce shippers, however, experience the same level of consolidation pressure. Data on the total number of shippers by commodity are sparse and often closely held. Although the march toward consolidation is often thought of as inevitable and ongoing, the level of consolidation varies across crops, and for a few crops the number of shippers has actually increased in some periods. While Sunkist is still the largest orange shipper in California, its share of volume has decreased and the total number of orange shippers has increased slightly during the 1990's. Interviewed orange shippers reported no consolidation since 1994. However, merger/acquisition activities since the early 2000 interviews indicate that this industry has also embarked on consolidation.

The number of Florida tomato shippers grew from 59 in 1997/98 to 68 in the following season. In contrast, California tomato shippers declined from 31 in 1996 to 23 in 2000, and grape shippers also declined in the 1990's. Grape and California tomato shippers both reported consolidation, but only about half of the changes were in response to retail consolidation. The number of bagged salad shippers selling to mainstream supermarkets declined from 64 in 1994 to 54 in 1999. Information was unavailable on bagged salad shippers focused on other markets such as foodservice.

Shippers were asked whether retailers put pressure on them to consolidate. About half saw no change and half saw an increase in pressure due to retail consolidation. Most grape, grapefruit, California tomato, lettuce, and bagged salad shippers reported increased pressure; most orange and Florida tomato shippers did not. Overall, of those facing additional pressure to consolidate, opinion was split on the impact of this trend; two-thirds thought it was beneficial or neutral, one-third harmful. Increasing shipper consolidation may provide firms with countervailing power in their bargaining with retailers.

The trend toward longer shipping seasons continues. Over half the shippers reported that retailers were asking for longer seasons and almost all viewed this trend as beneficial. Most orange shippers felt there had been no change, but their product has long been available year-round. Interviewed shippers were split evenly on whether retailer demands for a broader product line had increased or stayed the same. The majority of grape, grapefruit, Florida tomato, and lettuce/bagged salad shippers felt demands had increased. Most orange shippers reported no change in product line and California tomato shippers were evenly split. Most shippers who reported increased demands thought the change was definitely due to retail consolidation. While risks increase when shipping seasons are extended, the potential for spreading costs over greater volume and maintaining more stable relationships with buyers also improves.