

Introduction

The fresh produce market has changed markedly over the last 15 years. Shifts in consumer demand, technological change in production and marketing, and retail consolidation have altered the traditional market relationships between producers, wholesalers, and retailers. Consumers are eating more fresh produce, purchasing a wider variety year-round, and demanding more convenience, like bagged salads. Information technology has introduced efficiencies throughout the supply chain, reducing production and marketing costs. Retail consolidation has occurred rapidly as large supermarket firms have merged or been acquired. Mass merchandisers and warehouse club retailers are selling an increasing volume of food products with low-price strategies. Fresh fruits and vegetables sold to restaurants, fast-food outlets, and other foodservice operators have grown to account for more than half of all retail produce sales.

Against this backdrop of changing supply and demand relations, fresh produce suppliers for supermarkets and mass merchandisers are being asked to provide additional marketing services and incentives in exchange for volume purchases and other commitments by buyers. The demand for such fees and services coincides with new modes of supermarket retailer operation.

To assess emerging practices in the produce sector, such as retailers' requests that shippers pay slotting fees or provide various services, it helps to understand the importance of retailer market power. If they possess little or no market power, then fee and service requests must be driven by efficiency concerns, in which case policy response is inappropriate. If market power exists, fees and services may be a symptom of that market power, but the appropriate policy remedies may not focus on disallowing use of such fees and services. Rather, the focus of policy should be on the exertion of market power itself. If retailers hold market power over grower-shippers or consumers, banning the use of particular fees and/or services may simply cause that power to be manifested elsewhere, such as in lower acquisition prices, and perhaps at the cost of reduced efficiency.

To put the changing relationship between produce suppliers and supermarket retailers in perspective, ERS, at the request of the Secretary of Agriculture, conducted a multiphase project, the results of which are summarized in this report. The overall project had three major objectives:

- Develop a comprehensive overview of the produce industry from grower-shipper to retailer, including consumption and retail sales trends, markets and marketing channels, and the changing structure of produce buyers.
- Identify and characterize the types of trade practices used in the produce industry, including fees and services provided by shippers, contracts, and other marketing strategies.
- Analyze shipper-to-retailer and retailer-to-consumer pricing behavior to assess the relative influence of retailers, grower-shippers, and consumers in the market for fresh produce.

The project focused on several homogeneous fresh produce items: California grapes, California oranges, California vine-ripe tomatoes, Florida and California mature-green tomatoes, Florida grapefruit, California and Arizona lettuce, bagged salads, and Washington apples.¹ These products were selected for their importance as a share of total production volume or share of retail sales. In terms of farm value, leading fruit products are grapes, oranges, and apples. (In terms of volume, apples, oranges, grapefruit, and grapes are the top fruit products.) The fruits with the highest value at the retail level in 1997 were apples, oranges, and strawberries. In terms of farm value, leading vegetable products were potatoes, tomatoes, and lettuce. At the retail level, the top three vegetables in 1997 were lettuce, tomatoes, and potatoes.

All of the issues summarized here are examined in detail in several companion publications (see box).

¹Apples are included in the examination of retail pricing behavior only, while both trade practices and retail pricing behavior are explored for oranges, grapefruit, grapes, tomatoes, and lettuce.

The Project's Publications

ERS collaborated with Geoffrey M. Green, Edward W. McLaughlin, and Kristen Park, from Cornell University, to develop a comprehensive overview of the produce industry, including changes in consumption, retail sales, and marketing channels. The research relied on public data to document changes in produce markets from 1987 to 1997 in the United States, and identified consumer, retailer, wholesaler, and supplier forces acting on market channels. The results of this research were published in the ERS report, *Understanding the Dynamics of Produce Markets: Consumption and Consolidation Grow*, published by ERS in August 2000.

ERS collaborated with researchers from the University of California (Roberta Cook-Canela), University of Arizona (Gary Thompson), and University of Florida (Suzanne Thornsby). The results of this effort were published as *U.S. Fresh Fruit and Vegetable Marketing: Emerging Trade Practices, Trends, and Issues*, published by ERS in January 2001. In this report, ERS relied on in-person discussions with shippers, wholesalers, and retailers to provide a rich description of current marketing practices, covering sales channels, types of sales, and fees (including the widely discussed slotting fee) and services that are frequently part of transactions.

Timothy Richards and Paul Patterson (Arizona State University) investigated supermarket retailer behavior in the selling and buying of Washington apples, California oranges, California grapes, and Florida grapefruits in *Competition in Fresh Produce Markets: An Empirical Analysis of Channel Performance*, published by ERS in August 2003. Richard Sexton, Mingxia Zhang, and James Chalfant (University of California, Davis) examined the market for California and Arizona iceberg lettuce, packaged salads, and Florida and California tomatoes in *Grocery Retailer Behavior in the Procurement and Sale of Perishable Fresh Produce Commodities*, published by ERS in August 2003.