

# *U.S. Fresh Fruit and Vegetable Marketing: Emerging Trade Practices, Trends, and Issues*

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## **Introduction**

In the past year, trade practices between produce shippers and retailers gained national attention. The Federal Trade Commission and the U.S. Senate Committee on Small Business conducted hearings in which industry leaders, government officials, and academics offered their perspectives on how both the recent wave of supermarket mergers and the growth of new trade practices have affected various industries, including the produce industry (U.S. Senate, 1999; U.S. Senate, 2000; Federal Trade Commission, 2000). Shippers are concerned that recent retail consolidation has led to market power and the growing incidence of fees and services. Retailers argue that these new trade practices reflect their costs of doing business and the demands of consumers.

Trade practices is a broad term that refers to the way shippers and retailers do business, including fees such as volume discounts and slotting fees, as well as services like automatic inventory replenishment, special packaging, and third-party food safety certification. Trade practices also include the overall structure of a transaction—for example, long-term relationships or contracts versus daily sales with no continuing commitment. Information on the incidence and magnitude of these trade practices, old or new, and how they affect shippers, retailers, and consumers is limited (McLaughlin, 1999). Public information about produce shippers and the nature of their transactions with retailers is scarce, in part because the data are proprietary.

Years ago, the typical produce transaction was characterized by many shippers selling to many buyers in terminal wholesale markets—the classic case of a perfectly competitive market with many independent transactions at the observable spot market price. Today, a large share of fresh produce is sold directly by shippers to retailers, bypassing intermediaries and terminal wholesale markets. In the shipper/retailer

transaction, price may be just one component of a more complicated sales arrangement that might also specify quality characteristics; payment of off-invoice fees such as promotional fees, rebates, or other discounts; volume commitments; or provision of third-party food safety certification. Public data covering all aspects of such transactions are not available. USDA's Agricultural Marketing Service (AMS) provides f.o.b. shipping-point prices, based on daily sales. While some limited information on extra fees such as palletizing and precooling are included in the f.o.b. price, many other characteristics of transactions are not captured. AMS also provides terminal-market wholesale prices, but as such transactions are an increasingly small portion of produce sales for mainstream commodities, they may not represent the price of a commodity being sold through the more dominant marketing channel—directly from shippers to final buyers.

This study describes trade practices and places them in the broader context of the shipper/retailer relationship. It also provides an explanation of the forces behind the changing dynamics of the \$71-billion-plus fresh produce marketing system. Because of the scarce public data, we conducted personal interviews with a total of 74 shippers, retailers, and wholesalers. We received a high level of voluntary cooperation from these firms. However, we did not directly review firms' records to confirm the information provided. While results must be interpreted with caution because of the relatively small number of interviews, they are, nevertheless, an important first step in understanding these recent changes.

The shipper/retailer (both conventional retailers and mass merchandisers) interaction is the focus of this study. Shippers may market only their own production, only that of other growers, or a combination of both. Most shippers are vertically integrated grower-shippers, marketing what they produce as well as the output of affiliated growers. Although we target shipper sales to retailers and mass merchandisers, we also

look at other buyers including wholesalers, foodservice buyers, and brokers. We examine two main aspects of the shipper business relationship with buyers and how they have changed over the last 5 years:

- ❖ The type, number, and size of shippers' regular buyers, and the nature of sales and marketing arrangements. Analysis highlights changes occurring in marketing channels and sales arrangements under the conditions of a consolidating retail marketplace.
- ❖ Specific trade practices, namely, the types of fees and services that shippers are being asked to provide or are offering to retailers and mass merchandisers, the prevalence of these trade practices, the incidence of compliance, and the consequences of noncompliance.

This report begins with background on the economic factors affecting the business relationship between shippers and retailers, then turns to the interview methodology employed to gain information on trade practices. Since many of the trade practices vary across individual produce sectors, we selected seven products for analysis: California grapes, oranges, and

tomatoes; Florida grapefruit and tomatoes; and California/Arizona lettuce and bagged salads. Next, based on the indepth personal interviews, we present a detailed description of the shipper/retailer business relationship and trade practices for the selected commodities. Overviews of the structure of the selected produce sectors are included throughout the text. A glossary appears at the end of the report.

An understanding of both the retail and shipping industries provides important context for shipper/retailer transactions. For an overview of the retail sector and changes in marketing channels for the entire produce industry, we refer the reader to the first publication in this series, *Understanding the Dynamics of Produce Markets: Consumption and Consolidation Grow* (Kaufman et al., 2000b). Retail consolidation has prompted concerns about whether retail buyers are exerting market power in their relationship with produce shippers, specifically, reducing prices to shippers below competitive levels. The third report in this series will address the question of whether market power can be observed from an analysis of the relationship between f.o.b. shipping-point and retail prices.