

Consolidation in Produce Markets

Report from the Food Industry Management Program, Cornell University

Edited
by Wen-fei Uva
Senior Extension Associate
Department of Applied Economics and Management

Mergers, acquisitions, and internal growth among grocery retailers, largely since 1996, have increased the share of grocery store sales accounted for by the top 4, 8, and 20 food retailers nationwide. Similar consolidation is occurring among food wholesalers. At the same time, new packaged and branded produce items are gaining acceptance with consumers and vying for shelf space in the supermarket produce department. These are among several dynamic forces that are affecting change in produce markets and market channels.

Consolidation and structural change is taking place over a wide range of agricultural and food industries and has implications for both producers and consumers. This report uses data from the Censuses of Wholesale Trade and Retail Trade and industry sources to focus on changes in produce markets from 1987 to 1997 in the United States.

Technological innovations, changes in consumer preferences, and globalization of the produce industry have affected the volume of sales, price, and quality of many fresh fruits and vegetables. Electronic commerce and vertically integrated computer networks have allowed grower-shippers and retailers to improve communications in marketing produce, saving on inventory control and reducing shrinkage. Atmosphere-controlled cargo and remote monitoring systems have extended the shelf life and quality of perishable products. As a result, the supermarket produce department has made way for year-round varieties, pre-cut produce, and more packaged and branded items. These changes are likely to have profound effects on the way the produce industry is organized and the way it conducts business.

Per capita consumption of fresh produce increased 12 percent during 1987-97. Consumers, responding in part to increased health concerns, are demanding year-round supplies of fresh produce such as grapes and strawberries. Rising incomes and time demands have spurred consumer acceptance of fresh-cut, quick-to-prepare products. And a growing share of consumer expenditures for fresh produce is occurring in foodservice outlets rather than in traditional foodstores.

Traditional retailers are responding by expanding the size of their produce departments. The average produce department in today's supermarket carries 335 produce items, almost twice the number carried 10 years ago. The proportion of sales accounted for by prepackaged salads has doubled. Fresh-cut produce is growing rapidly and the number of nationally branded products (including bananas) is expanding.

Most produce today still moves from grower-shippers through merchant wholesalers to retail outlets (food stores and foodservice establishments). But, between 1987 and 1997, the share of produce moving through merchant wholesalers, including wholesale produce markets, declined while the share of shipments to large self-distributing grocery retailers increased. Merchant wholesalers have survived by becoming larger, performing more functions and consumer services, and handling a larger array of specialty produce items.

As food retailers consolidate and expand to take advantage of economies of size, more firms are introducing supply chain management practices such as firmwide purchasing and the use of information technologies to provide for continuous inventory replenishment and individual store oversight. These practices may lower marketing and distribution costs of produce as well.

Industry consolidation, the introduction of new technologies, changing consumption patterns, and new marketing and trade practices are important dynamic forces that are likely to continue to shape produce markets and market channels in the future.