

Supermarket Strategic Alert  
Special Report

2001

FROM THE REGULAR AND SPECIAL EDITIONS

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January through December 2000

# Perishables in Supermarkets

FROM THE 2000 REGULAR AND SPECIAL EDITIONS

# Special Report: 2001

## Perishables in Supermarkets

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## Perishables in Supermarkets

With perishables accounting for more than 50% of supermarket dollar sales, it stands to reason that retailers are focussing on making these operations more profitable. Consumers who are busier and more health conscious and sophisticated fuel this trend with curiosity about new varieties of high-end produce, precut produce and prepared foods. Retailers are benefiting from bumper crops, new packaging, technology and transportation advances, ensuring more and higher quality produce getting to stores more quickly.

Meat departments continue to wrestle with the debate over case-ready versus meatcutters on site. Time-starved shoppers are showing increasing interest in value-added varieties, and retailers are adding store brands to their selection.

Organic packaging and advertising guidelines were issued at the end of the year.

### ...Bakery

Cake decorating builds bakery sales

Cake decorating is a powerful tool used by retailers to attract and retain shoppers...and set themselves apart from competitors. The art has gone high tech as well with portrait and image machines used to reproduce photos or artwork. Although the machines cost \$1000 to \$9000, proponents say they are worth it because they build sales and such cakes bring in \$7 to \$15 more than a traditionally decorated cake. One alternative is to keep the machine in a single location or commissary, or work multiple units off a single computer. The portrait cakes are popular for retirement and day care center parties.

Some retailers have gone as far as developing their own art forms: one mounts actual photos on cakes, another uses cloth ribbons for decorations. Whatever the design, retailers agree that the cake decorators themselves should be viewable by shoppers...often behind walls so they cannot be disturbed while they toil if they are in stores. For commissary set-ups, there are often multiple decorators and chefs making the cakes from scratch. Retailers with successful cake decorating operations often audition employees, since portfolios of pictures can be misleading and pressures are different in a store or commissary setting. Third parties offer on-site training and provide CDs.

Source: Progressive Grocer, January 2000. Icing on the cake, by Richard Turcsik, p. 93-8. Gone fishing, p. 12.

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According to Progressive Grocer

In 1999 supermarket service bakery sales totaled \$7.6 billion, up 8.3% from the prior year—and continuing growth over the prior year by more than 4% for a decade. Among the 70% of supermarkets with service bakeries, bakery sales contribute an average of 3.2% to total sales. Those stores with service bakeries report that breads and cakes make up over half of department sales. It is bread that brings shoppers back: 98% of bread buyers are repeat purchasers and buy every 10 days, the shortest purchase cycle and highest purchase frequency in the entire department.

Custom cakes are gaining popularity, especially as more retailers provide digital designs and photographs for cake tops. Bakery operators cite recruiting employees and training them as their biggest challenges. Despite the continued rise in bakery sales and that 65%+ of departments are profitable, few respondents say they will buy new equipment in 2000.

1999 department measure

gross margin	51.5%
labor as a % of sales	31.8%
size (sq. ft.)	1570
average purchase	\$2.77
full-time equivalent employees	7.1

Source: Progressive Grocer, March 2000. On a roll, by Walter Heller & Richard Turcsik, p. 109-114.

According to Supermarket Business

Supermarket bakery sales totaled \$12.93 billion in 1999, up 1.5% from a year earlier. The 80%+ of supermarkets with service bakeries regard other supermarkets as their primary competition. Bakeries are first in the traffic pattern in 75% of stores. Most bakeries obtain ingredients/products from bakery distributors/suppliers, although some components come from grocery wholesalers, ingredient manufacturers and bakery wholesalers. Newspaper ads and sampling are top promotion tools.

<u>1999 department measure</u>	<u>mean</u>	<u>median</u>
gross margin	54.5%	52.0%
share of total store sales	3.3%	3.1%
contribution to store profits	3.4%	3.1%
share of total store space	5.1%	
% store transactions that include bakery	23.7%	24.9%
transaction size	\$3.09	\$2.85
full-time equivalent employees	7.9	
labor as a % of dept sales	35.4%	32.0%

Source: Supermarket Business, March 2000. Breads' Rising High, by Meg Major, p. 87, 94-106.

...Deli

Upscale, healthy deli choices

Retailers are using new tactics to make their fresh departments more attractive to shoppers, and delis are a top priority because of consumer interest in convenience foods. Both Safeway and Kroger have introduced

premium deli meats and cheese in selected locations under the Primo Taglio and Private Selection brands, respectively. Designed to also appeal to the more health conscious, the premium brands contain fewer preservatives and often less fat. They carry higher price points. Employees say shoppers can taste the difference. Both chains are supporting the products with circular features.

Source: SN, January 3, 2000. Retailers Introduce Premium Signature Deli Lines, by Jennifer Quail, p. 27, 32.

#### Building top-line deli sales

International Dairy-Deli-Bakery Association reports that in 1999 65% of customers 'often' or 'sometimes' bought supermarket deli foods for lunch, up from 59% in 1994. Tips for retailers interested in capitalizing on this market: (1) Advertise. Not in best food day sections, but via overnight faxes, in business newspapers and on radio. Consider delivering sample trays to large offices. (2) Use outdoor store banners. These should herald the quick service and specials to attract passersby. (3) Set aside priority parking space for lunch shoppers. (4) Offer a separate entrance and registers to speed the process. (5) Have instructional signage in the area for placing orders, picking them up and payment. (6) Staff adequately and train them well. (7) Consider complete meals that can be eaten with one hand.

Source: Store Equipment & Design, January 2000. Let's do lunch, by Lynn Olson, p. 25.

#### Deli operations review

Supermarket Business 18th annual review of deli operations is based on returns of 500 surveys sent to deli executives, buyers and managers at chains and independents. The consensus is that delis are increasingly moving toward more self-service. This trend is bolstered by technological innovations including: (1) slicers with built-in scales and slice counters, (2) new labeling devices that print regular and promotional prices, and (3) packaging that incorporates nutrition and food safety information. For consumers, there are interactive ordering kiosks for order placement on store entry and pick up during the shopping trip.

Retailers are fighting to make their delis unique with proprietary programs, many of which focus on gourmet items. Operators note the technology cited above frees department employees to interact with customers—key to making the deli visit a reason to return. Sliced-to-order meats, cold sandwiches, prepared salads, domestic sliced cheese, gourmet cheese and desserts are offered by more than 85% of survey respondents. About three-quarters of respondents say that lunch items are the hottest sellers, followed by dinner items. Breakfast options represent the greatest area of meal potential.

The most popular strategies to build sales are self-service cases, instore demos, sampling, seating areas—sued by more than 85% of respondents. Virtually all agree that self-service cases are the most effective. Respondents rated remodeling, adding rotisserie chicken and country-style ribs as the most successful things done in the past year. All polled agreed that labor is the biggest problem facing deli operators. Respondents cited the limited supply, challenge of retention and training as the top three issues overall. Food safety was the next most pressing concern, but cited by significantly fewer respondents.

Source: Supermarket Business, May 15, 2000. Classic Cuts, by Meg Major, p. 109, 114-123.

#### 1999 operations review

Supermarket deli sales totaled \$12.24 billion in 1999, up 5.1% from a year earlier. The decline from the all-time high growth rate of 6.3% in 1996 is attributable to fast food outlets and specialty stores increasing their focus in this area. Still there is optimism among the majority of those polled that deli sales will grow in the coming year.

Although margins are up in both service and self-service deli, certain subsegments (particularly hot/cold entrees) have falling margins often attributable to shrink. The fastest-growing categories are fried/rotisserie chicken—mentioned by twice as many respondents as the next most frequently mentioned items, which

included sandwiches and salads. Overall, meat contributes more than 44% to deli department sales, followed by prepared foods at almost 39% and cheese at almost 14%. Labor tops the list of deli problems with recruiting and training employees at #1 and #2. Customer service takes 54% of labor time, followed by 27% for product prep and 12% for sanitation.

<u>deli department statistic</u>	<u>1999</u>
total # service delis	25,000
increase from prior year	1.6%
% supermarkets with service delis	80%
service deli sales	\$12.24b
share of total supermarket sales	3.3%
service deli gross margin	47.7%
self-service gross margin	43%
labor as a % of sales	22.7%
size of service deli sq ft	1400
% of total store	5.5%
average purchase	\$3.4

Source: Progressive Grocer, June 2000. 'A little over,' by Richard Turcsik & Walter Heller, p. 71-6.

#### Facts from the front line

According to a Solganik & Associates survey for Henny Penny among wholesalers and retailers, the labor shortage is triggering a trend toward more self-service in hot foods displays. Other findings: (1) Less than one-third of respondents operate central kitchens. (2) The most popular items are American basics, pizza and Asian food. (3) Most respondents display foods for only 1-2 hours. (4) Half prepare foods 30-60 minutes in advance; another 40% prepare them 1-2 hours in advance of display.

Source: Grocery Headquarters, June 2000. Report card on hot foods, p. 60.

#### Using private label

As supermarket look for new ways to differentiate themselves and establish their own brand, many are including perishables as well as center store categories. Since perishables are so important to shoppers in choosing supermarkets, the potential to leverage the store brand through perishable products increases. Private-label enthusiasts note that extending store brands to perishables departments improves profits as well. Shoppers are becoming increasingly brand conscious in store delis, in part because they are beginning to see nationally known brands from elsewhere in the store appear in the deli and because of fast food brands also appearing in deli departments. Key deterrents to establishing store brands are food safety: without a well-run food safety program in place and plenty of staff, the risks can be high. Cheese offers the easiest starting point.

Source: Grocery Headquarters, June 2000. Making deli a point of distinction, by Carol Radice, p. 42-4.

## ...Meat

#### Lowering fish/produce acquisition costs

Gofish.com is a Web site offering full transaction capabilities to buyers and sellers of frozen seafood. Multi-lateral bids across the real-time global market are expected to lower costs to buyers by 10%, according to a report by Bear Stearns.

Buyproduce.com, an e-commerce site that links produce buyers and sellers and provides educational information as well, has received additional funding from Sequoia Capital—a backer of Webvan, among other e-commerce investments.

Source: Progressive Grocer, January 2000. Online marketplace expanding, p.76.

1999 meat department review

Supermarket meat department sales rose 3.9% over the prior year to \$46.36 billion, with almost 70% of reporting companies citing sales gains. Still, more than three-quarters of respondents mention other supermarkets, restaurants and fast food as their most serious competition. More than two-thirds of respondents said they reorganized their meat cases during the year, either by meals solution, category management, cooking method or some other formula. Precooked meats/meal solutions were among the two most and least successful items added by respondents—suggesting which ones selected are critical. Trade associations and manufacturers of branded product are offering more generic material (cooking instructions, labels, recipe cards) as well as specific tie-in events for merchandising. Retailers promote meat aggressively in virtually all forms of store advertising, and note that holiday beef and limited time events are the most successful themes.

Labor continues to be a severe problem for meat departments, requiring an average of six full-time equivalent employees for operation. To help in recruiting, retailers offered high wages and instant benefits most frequently. Retailers are watching Wal-Mart carefully as it moves to case ready meat exclusively. The potential labor savings as well as the ability to trace product in the event of contamination or other problems are attractive. Store brands are also becoming more prevalent, especially among premium or natural products.

Source: Supermarket Business, April 15, 2000. Beefing Up the Meat Case, by Meg Major, p. 179-195.

Check out the meat department

The meat department is an example of supplier consolidation. Beef production has consolidated in recent years and is expected to slow. Pork production continues to consolidate because economies of scale are so great in slaughterhouse operations. Also noteworthy is that two of the top beef producers (IBP and ConAgra) are also among the top three in pork production. The byproduct of the industry consolidation in the '70s and '80s is great focus on packaged meats and case-ready cuts, including value-added (preseasoned, marinated, etc.) choices. Trend watchers expect more case-ready alternatives to answer the demand of the increasingly time-starved shopper. Within the poultry segment, further consolidation is expected as the current 45 broiler producers drop to 25 in ten years. Rather than economies in this business, consolidation is expected because of small family producers exiting.

<u>type</u>	<u># leaders</u>	<u>% control</u>	<u>source</u>
beef	4	80.0%	National Cattlemen's Beef Assn.
pork	4	56.3%	American Meat Institute
lamb	4	68.1%	American Meat Institute
chicken	8	64.0%	National Chicken Council
turkey	10	83.0%	WATT Poultry USA

Source: Progressive Grocer, August 2000. Here's the beef, by Terry Hennessy, p. 61-2.

Case-ready meat: shopper acceptance up

Case-ready meat offers several advantages: product consistency, food safety and lower labor demands. Still, the main hurdle to its growth has been consumer acceptance. Shoppers worry about freshness and case-

ready is a new concept for many. With Wal-Mart selling case-ready beef in 250 of its 800 supercenters, it is likely that American shoppers will learn to accept it. Kroger sells case-ready beef and pork in 150 stores.

With 30,000 supermarkets nationwide, these moves are more important because they reflect thinking of market leaders more than sheer quantity at this point. Today, insiders estimate that 7-10% of beef sold in stores is case-ready, and that could rise to 40-50% by 2005. (Ground beef will likely account for half that.) Currently, case-ready products are available as commodities or branded. Most processors offer standardized weights and pre-pricing. Retailers like the idea of partial case replacement along with full-case option.

Still, retailers known for their meat may be slow to convert. Their merchandising platforms may be able to sustain the shortage of trained meat cutters, and their operations may be well enough supervised to avoid cross-contamination. But larger retail operations will likely convert: case-ready stocking alone could produce significant savings. Research shows that some shoppers actually prefer case-ready packaging because it does not leak and they find the consistency reassuring.

Source: [SN](#), September 4, 2000. Ready for Case-Ready? by Wendy Joy, p. 35, 40-42, 45.

#### Perishables Trends: In the meat department

Mark Boyer, a perishables consultant, identified eight trends that will influence the supermarket meat department in the next five years. (1) As the prevalence of case-ready product expands, retailers will have to address labor changes (fewer meat cutters, different stocking needs), trucks that carry lower cubes that can result in lower in-stock positions requiring more frequent deliveries and more cooler space required instore. (2) The supply of trained meat cutters will decline and be harder to justify as producers move to case-ready product. It is unlikely that reduced labor costs will cover the landed cost of case-ready products, creating the need for significant transition planning. (3) Food safety will receive increased attention as irradiation becomes more popular and genetically modified products raise questions about higher costs and lower output. (4) If consumers face an economic downturn, they may eat in more, but would likely choose fewer premium meat products. (5) Meat branding will be ubiquitous, both as a result of case-ready offerings and store desires to create a point of difference. (6) Prepared meat products will increase. In England chilled ready meats are already a destination category and raw meat volume has declined. It is likely that the prepared meat department (offering convenience) will not be placed in the back of the store. (7) Retail consolidation will result in five key players with defined customer strategies. Data and category management will be prevalent in meat departments, which will offer a combination of case-ready and service products 24/7. (8) Packers will develop closer alliances with retailers, targeting specific consumer groups and using more data to do so.

Source: [Supermarket Business](#), November 15, 2000. Meat Case Trend Spotting, by Mark Boyer, p. 91-4.

## ...Produce

### Center Stage: Produce

Retailer consolidation has led to interesting developments within the produce department. Statistics show that the largest supermarket chains (those with annual sales of \$1.5 billion+) buy almost 60% of their produce from ten suppliers. However, these same large retailers use a total of 450 suppliers. The 440 suppliers with the remaining 40% of the business are selling out, merging or concentrating on niche markets. Retailers believe the consolidation of suppliers creates a more collaborative environment, assures consistency of supply and guarantees pricing and quality. Some predict that in time, four or five companies will control 40-50% of the market.

Retailers argue that there is still a place for small operators because seasonal produce is often sourced locally, even by giants such as Supervalu and Wal-Mart. Niche players remain because they either want to remain independent, adopt their own versus broader product standards or have their own brand.

In recent years, the Produce Marketing Association's membership has increased. The association attributes this to growing interest in health and produce and predicts that membership will decline as consolidation continues. Produce now accounts for almost 12% of total store sales, up from less than 10% just ten years ago.

Hannaford's 55,000-sq.-ft. prototype store in West Falmouth Crossing ME is a produce showcase. The produce department is 50% larger than those at other units, reflecting consumer interest in new varieties including organics, exotics and ethnic products. There is a demo station and more signage for explanation. Skylights give an open market feel to the area.

Source: Progressive Grocer, July 2000. The few, the big and the strong, by Terry Hennessy, p. 91-.6. SN, July 17, 2000. New Hannaford Format Reflects New Attitude, by R. Harper, p. 1, 32.

#### Opportunities in produce packaging

Produce growers and shippers are asking retailers to choose between corrugated cardboard cartons and returnable plastic shipping containers (RPCs). Today RPCs account for only 1-2% of produce shipped in the US. However, in Europe many companies mandate their use to reduced solid waste. Probably the biggest single factor signaling a probable move to RPCs is Wal-Mart's endorsement. With no standards, growers and shippers often customize corrugated boxes to retailer needs.

Proponents of returnable produce containers (RPCs) say these are more durable and can be more efficiently merchandised to display goods in-store. They come with handles, which offer ergonomic efficiency, and are display-ready. With 98% of the business and unwilling to relinquish it without a fight, the corrugated industry has developed full- and half-case configurations that fit on standard GMA/Euro pallets. This configuration offers interstackability, display readiness and optimal pallet fill. Corrugated proponents also cite sanitation, low costs to transport and revenue from used corrugated material as advantages of the existing system. Plastic producers and RPC manufacturers are trying to educate both the public and Congress in hopes of legislation and tax breaks for plastic users because of environmental concern. Cardboard manufacturers argue that RPCs will end up in landfill...and that is not environmentally friendly.

Source: Supermarket Business, August 15, 2000. Boxing Match, by Meg Major, p. 75, 82-88.

#### RFID improves supply chain

One of the newest tools in maintaining supply chain freshness is RFIDs—radio frequency identification monitoring systems. Retailers, including Wal-Mart, have announced they will use this chip technology throughout their supply chains. These chips are wireless Internet-based automatic data collectors. They transmit signals several times per minute, their transmissions are logged constantly. This literally provides 24/7 reports via phone, fax, computer, pager or cell phone to reduce spoil-related shrink. Manufacturers of the devices believe the technology can improve store margin by 0.5% yielding a 22% increase in net profit. They further claim labor savings through elimination of personnel checking case thermometers.

Beyond temperature variations in stores, which include incorrect thermostat settings, failed timers and malfunctioning equipment, growers and transport companies can benefit from the sensors because variations of a few degrees can lead to spoilage or shorter shelf life of food. Future applications include monitoring humidity and checking levels of ripening gasses for produce.

Chiquita checks the temperature and humidity of its bananas hourly from when they leave Costa Rica in shipping containers through arrival at warehouses in the US. In fact, the company employs consultants on call 24/7 to help supermarketeters when there is a problem. Bananas account for 3% of total supermarket sales and shoppers have distinct preferences ranging from #1 (quite green) to #7 (spotted, but 20% sweeter), making bananas often a bellwether in rating produce departments. Minor fluctuations in temperature, humidity or ethylene gas used to ripen them can be disastrous.

Source: Supermarket Business, August 15, 2000. Keeping Cool with RFIDs, by Paul Bubny, p. 95. The Wall Street Journal, August 14, 2000. When the Bananas Turn Brown, Who You Gonna Call? By Devon Spurgeon, p. A1, A10.

CPFR in produce

Currently most retailers are focussing their CPFR (continuous planning, forecasting and replenishment) efforts around non-perishables, hoping to develop expertise before risking expansion to higher-margin and higher-risk products. Not surprisingly, Wal-Mart is one of the first to pilot a fresh produce effort. As with packaged goods marketers, Wal-Mart began sharing strategic information as part of a long-term relationship. In produce, that means radical philosophical changes because there really was no industry precedent. Further, price negotiation and replenishment generally happened at the same time, so Wal-Mart had to get its pilot partners (Chiquita, CHRobinson, Melissa's, Fresh Express, Martori Brothers) to think differently.

Traditionally in produce, when prices go down retailers use it as a time to buy not to sell, and rarely lower prices so that margins expand. For Wal-Mart, that has never been the philosophy and the company looks for ways to pass the savings on to customers and boost volume. This is why Wal-Mart believes that despite trading exchanges, the Web and other technology, the haggling foundation of the produce business has not really changed. In produce a major hurdle to CPFR is inventory management since UPCs are not yet standard. Wal-Mart obviously has clout, and its suppliers believe that regardless of what EDI advancements others come up with, they will always be generations behind Wal-Mart.

On the supplier side, Del Monte demonstrates the new way to approach retailer relationships. Since distribution costs are high, Del Monte looks for back-haul opportunities when delivering high-volume products. The company is also developing regional processing facilities so it can fulfill e-commerce sales to retailers and wholesalers more quickly.

Source: Progressive Grocer, September 2000. Wiring the produce patch, by Terry Hennessy, p. 79-86.

Status report: The here and now

Since six in ten consumers agree produce departments are 'extremely important' in their decision on where to shop, it follows that retailers are focussing increasing attention on this department. With time-starved consumers looking for consistent quality, two trends are emerging: more precut and prepackaged goods and waterfall displays. These displays are hand-stacked so each piece of produce is in effect inspected by a clerk, enabling shoppers to grab and go. These improvements have paid off, since 90% of retailers report increases in produce sales in the last year. Reality tempers this good news because labor requirements in the department are increasing. The trend is toward more part-time employees, but turnover rates nearing 50% among part-timers make adequate staffing a challenge.

Web sites that promise fresher product, lower prices and a streamlined buying process are prevalent in this perishables industry. 35% of respondents say they are very familiar with them, 56% have visited the sites, and 17% have used them. More important, half say they plan to use them. This allows retailers to draw from new growers and shippers while they simultaneously increase their locally grown sourcing.

<u>produce department measure</u>	<u>chains</u>	<u>independents</u>
% gross margin	35.2	36.5
% \$ sales inc Jan-June 2000	3.9	4.4
% of total store sales	9.7	9.9
avg dept size (sq ft)	3100	3000
avg % of total store	9.2	10.9
% in front of store	90	94
% prep in backroom	97	100
% using category mngt	60	85

PERISHABLES IN SUPERMARKETS

# years using cat mngt	3.6	2.3
avg weekly \$ sales	27,500	12,600
median # items carried	340	280
% carrying locally grown	98	100
# locally grown items carried	35	23
# full-time equivalent employees	4.4	4.7
% part-time turnover	47	45
% full-time turnover	19	15
% using stand PLUs	92	90
# years using PLUs	5.2	4.1
avg consumer spending per trip	\$3.28	\$2.95

Respondents overwhelmingly cite labor (recruiting and training) as the toughest department challenge. Other top challenges include attracting more shoppers and competition from other supermarkets. The most prevalent merchandising practices are hot specials, special displays and newspaper advertising (all used by 81% or more of respondents). Shoppers who say produce is 'extremely important' spend more on average at supermarkets, wholesale clubs and mass merchants so they are important to court. This group is more likely to be employed full-time, less likely to shop on popular shopping days (Friday, Saturday, Sunday), have slightly lower average household incomes, are less likely to shop in the morning (they work!) and tend to be middle-aged. 65% cite some concern about genetically modified foods, but those with no concerns (26%) far outnumber the 9% who have major concerns.

Source: Progressive Grocer, October 2000. 2000 Produce Annual Report, by Richard Turcsik & Walter Heller, p. 59-84.

#### Predictions

Overall produce faces a bright future. Produce sales as a percent of total store sales have risen from 7% in the 1960s to an anticipated 12% this year. Research from Cornell University suggests that produce departments will grow even more.

Specific predictions include: (1) The size of the department will likely grow because of consumer interest in varietals, exotics and ethnic products. (2) With the trend toward convenience to serve time-starved shoppers, there will be more prepackaged produce. These products will benefit from improved processing technology and packaging. (3) organic sales will increase because produce is first area where shopper experiment with additive-free foods. (4) B2B trading exchanges are used by less than 20% of the industry now, but within ten years, insiders expect 50% of product to be sold this way. (5) Shipping containers will continue to be a point of conflict—corrugated paper and returnable plastic containers. While the industry is not moving to a single option, both sides are now adopting a common size.

Source: Grocery Headquarters Produce: Fresh for the future, by Alison Paddock, p. 35-40. SN, October 23, 2000 Produce Industry Moves Ahead in Post-Consolidation Era, by Robert Vosburgh, p. 51, 54-6, 62. Supermarket Business, October 15, 2000. Produce Perspectives 2000, by Meg Major, p. 89-100.

#### Perishables Trends: In the produce department

Produce buying and selling practices are changing as a result of supermarket industry consolidation, creating frustration and resentment among growers and shippers. Consolidation has resulted in buyers from supermarket chains with sales of more than \$1.5 billion annually purchasing about 60% of their produce from only 10 suppliers. The remaining 40% of produce sales (\$397 million) is spread among 400 small growers.

The large growers/shippers who have the resources to supply the larger supermarket chains are tailoring their operations to those customers. They have invested in technology and IT personnel to create more seamless transactions, product tracking and invoicing. They face the questions from big buyers about reducing costs and answer with solutions including packaging changes, centralized buying from farmers, crossdocking, etc. They are also less vocal about their opposition to slotting fees, which are becoming prevalent in produce departments.

Smaller growers/shippers argue that consumers are losing as a result of industry consolidation: larger operators rarely feature bumper crops sold at lower prices. Instead, they pocket the cost savings, maintain prices and sell just what it takes to preserve their margin. Shoppers end up paying artificially high prices for bumper crops. Smaller, regional retailers believe consolidation works in their favor. They have created alliances with smaller, local producers, often achieving better quality and lower prices to pass on to shoppers. Since produce plays the key role in consumer's decision to pick a store, small operators believe this gives them an advantage over giants.

Produce trade groups worry that consolidation will bring about permanent changes that may not benefit anyone in the long run: (1) Fewer popular crops will be planted, since larger retailers are reluctant to buy extra crops and prices will rise. (2) Family growers will be driven into cooperatives or out-of-business because of their size and inability to pay fees. (3) Foreign growers may not be able to respond quickly enough to changing food safety standards—creating supply and price problems.

Source: Progressive Grocer, November 2000. Growing resentment, by Terry Hennessy, p. 69-74.

#### Organic Guidelines Issued

The US Department of Agriculture, after 10 years of development and about 300,000 comments, issued its guidelines for labeling and processing organic foods. The guidelines ban the use of irradiation, biotechnology and the use of sewer-sludge fertilizer on any food labeled organic. Other specific guidelines include: (1) Products that are labeled '100% organic' must contain only organic ingredients. (2) Ingredients of products labeled 'organic' must be at least 95% organic by weight. (3) Processed products that contain at least 70% organic ingredients may be labeled 'made with organic ingredients,' and as many as three of those ingredients may be listed on the front of the package. (4) Processed products with less than 70% organic ingredients may list those ingredients on the information panel but may not carry the term 'organic' anywhere on the front of the package. (5) Products meeting the requirements for '100% organic,' 'organic' and 'made with organic ingredients' may display those terms and the percentage of organic content on the front. A 'USDA' seal may appear on products in the first two categories and in their ads, but not on products in the two others.

As important as the content is the fact that these regulations replace state guidelines in at least 44 states that vary. The standardization comes at a time when organic sales are growing at 20% a year—totaling \$6 billion in 1999. The USDA calls the standards the 'strongest and most comprehensive in the world,' but predictably, reactions are mixed. Conventional food processors and their trade associations gained the concession that the seal resembles that which is on eggs and not on other government-inspected products. This faction did not achieve the concession that labeling say that there is no evidence that organic foods are safer than non-organic ones. Those representing organic producers praised the guidelines saying the standard is 'strict'...is 'a great boost to the organic industry' and is 'in no way...less than what the industry expected.

For the record, many companies find themselves on both sides of the issue: General Mills owns organic producer Cascadian Farms and Muir Glen, Heinz owns Earth's Best and Smucker owns Santa Cruz and Knudsen...all organic brands.

Source: The New York Times, December 21, 2000. U.S. Imposes Standards for Organic-Food Labeling, by Marian Burros, p. A22. The Wall Street Journal, December 21, 2000. Rules on Organic Food Are Issued, Including USDA Seal on Items, by Bruce Ingersoll, p. B9. PG Daily News, December 20, 2000. USDA Says New Organic Standards "Strictest in the World." SN, December 25, 2000. USDA Releases Final National Organics Standard, p. 4.

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