

Supermarkets as Alternative Market Outlets for Virginia-Grown Berries

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Introduction

Virginia consumers are increasingly interested in consuming locally grown berries such as strawberries, blueberries, raspberries, and blackberries. This demand has piqued Virginia growers' interest in berry crops as a potential specialty product. Nationally, there is rising demand for berries among consumers, and the high value per acre of these crops is particularly attractive to growers in Virginia who typically operate on a relatively small scale.¹

Currently, nearly two-thirds of Virginia's berry crop producers sell through direct market outlets such as farmers markets, roadside stands, pick-your-own operations, and Community Supported Agriculture (CSA) programs.¹ Some producers are also interested in selling to alternative market outlets such as supermarkets. This publication assesses the potential demand for berry crops among supermarkets in Virginia and examines the requirements producers must adhere to in order to successfully sell to supermarkets. In the remainder of this publication, a general overview of the U.S. market for berries is given, then results from market research in Virginia are presented, focusing on demand trends, market-entry requirements, and

considerations for Virginia producers interested in selling to supermarkets. Information about Virginia berry markets is drawn from face-to-face interviews with produce buyers for three major supermarket chains, as well as from producers selling to various types of market outlets.

An Overview of the U.S. Market for Berries

The U.S. market for fresh fruits and vegetables is dynamic and has changed considerably in recent years. On the demand side, Americans are consuming more fresh fruits and vegetables. Several factors – including increasing consumer incomes and the greater variety and year-round availability of fresh produce in mainstream market outlets – have contributed to the rising demand for berries. U.S. consumers have also become more health conscious and are eating more berries because they contain high levels of antioxidants, which have been proven to lower cholesterol levels and reduce the risk of cancer and heart disease.² As a result of this growing demand, berry consumption increased 55 percent per person between 1990 and 2004. Most of this increase is due to rapid increases in strawberry consumption, which rose



1. *Describing Commercial Berry Crop Production and Marketing in Virginia: Results of a 2006 Survey*, Virginia Cooperative Extension publication 448-507, provides additional insight into Virginia's berry-market structure and production. <http://pubs.ext.vt.edu/448-507/>.

2. More information on the health benefits of berries can be found at Oregon State University's Berry Health Benefits Network. <http://berryhealth.fst.oregonstate.edu/>.

www.ext.vt.edu

by 59 percent during the same time period, while consumption of other types of berries experienced little or no change.³ Strong demand has provided opportunities for suppliers to specialize in producing and marketing for their region – an activity that offers the advantages of fresher products and lower transport costs.

On the supply side, more and more food sales are accounted for by fewer and fewer retail firms, and sales arrangements between producers and produce buyers have become more complex. Historically, most produce moved from the producer to a wholesaler, then on to a retailer before being sold to the final consumer. Today, however, most retailers buy produce directly from growers, reducing the volume that passes through wholesale markets and intermediaries.

At the same time, written or verbal contracts and long-standing, service-oriented relationships between buyers and growers have become more common. Contracts can help to reduce risk by ensuring a consistent supply for buyers and a market for growers. For example, once a contractual agreement is made between a produce grower and a buyer, the grower can make production decisions based on specific purchase expectations, and the buyer can plan merchandising with confidence that the product will be available. Additionally, contracts can protect growers from fluctuating prices on the open market, which reduces the price risk they face.

As the structure of retail markets and their supply chains has evolved, another trend has been the rapid growth in direct sales between the producer and consumer. Nevertheless, sales through retail outlets like supermarkets still dominate. In general, consumers who prefer to buy produce through retail outlets over direct outlets do so for three main reasons: (1) year-round availability of fresh products, (2) convenience, and (3) variety. In contrast, taste and flavor, freshness, market atmosphere, and supporting local agriculture are the main reasons consumers buy produce through direct outlets.

Supermarket Demand for Berries

Supermarket buyers report that demand for berries is growing in Virginia, just as it has grown nationally. In general, supermarkets sell a large volume of berries, with those sales accounting for between 6 percent

and 10 percent of all produce sales. For large national chains, this amounts to millions of dollars annually in berry sales alone. Strawberries are the most popular berry, representing between 70 percent and 85 percent of total berry sales in terms of volume. One buyer who purchases for approximately 100 regionally based stores indicated that in recent years, consumers have purchased as much as 20,000 cases of strawberries in a week—the equivalent of eight semitrailer loads!

Blueberries are the second most-frequently purchased berry from retail outlets, accounting for 10 percent to 18 percent of total berry sales in terms of volume. Several retail buyers reported that consumer demand for blueberries – relative to all other berry products – has grown the fastest in recent years, due in large part to media reports about the health benefits they provide, such as antioxidants to help reduce the risk of cancer and heart disease. Blackberries and raspberries each account for less than 10 percent of total supermarket berry sales in terms of volume.

Although strawberries are by far the most popular berries among consumers who shop at supermarkets, buyers showed interest in purchasing local berries of all types from growers during the growing season. In order to meet the rapidly growing demand for blueberries, two supermarket buyers indicated their interest in buying as many blueberries from local growers as possible. One buyer for a large chain also said he was willing to purchase a local supply of other berry products, such as golden raspberries and gooseberries, to fulfill niche demand. While the majority of consumers do not purchase these products, retail outlets are still interested in providing them seasonally to meet their customers' need for unique products. A small but significant percentage of consumers also seek organic berries from supermarkets, and two supermarket buyers indicated their interest in obtaining certified organic berries of all types from Virginia growers.

While demand for berries is growing in large part due to publication of their health benefits, many consumers also want berries that are locally grown. In fact, consumers frequently associate locally grown berries with other attributes that they value, such as product quality, flavor, and freshness and support for local farmers. Reflecting this demand – as well as the firms' own commitments to support local agriculture – two retail buyers emphasized their commitment to obtaining produce

3. U.S. Department of Agriculture Economic Research Service, Food Availability (per Capita) Data System. Food Consumption: Berries by Type of Fruit, 1990-2004. www.ers.usda.gov/data/foodconsumption/FoodAvailQueryable.aspx.

from local producers. Some buyers have expressed a willingness to fill orders with berries from adjoining regions (such as North Carolina) and then substitute them with Virginia berries as they become available.

Supermarket Sales Arrangements and Market-Entry Requirements

Compared to other fruits and vegetables, berry crops are highly perishable. As a result, berries need to reach consumers quickly once they are harvested. In the United States, the majority of berry-crop production is concentrated in relatively few geographic locations. For example, strawberries are mostly produced in California, where they can be grown for 11 months of the year. The perishability of berries and Virginia's distance from the major berry-growing areas means that – along with meeting their consumers' demand for locally grown products – supermarkets have an incentive to purchase from local berry-crop producers in order to reduce transportation costs and to provide the freshest, highest-quality product possible. For these reasons, buyers from local and regional retail chains indicated that they would be willing to pay above-average prices to obtain locally grown berries when they are available. In fact, each supermarket buyer interviewed expressed a desire to build lasting relationships with local producers who have the capacity to meet their berry merchandising needs.

Most transactions that take place between Virginia berry producers and supermarkets are made through verbal contracts based on trust. Though these contracts are informal, they usually include specific terms regarding minimum volumes, quality expectations, service performance, and specific fee payments. Daily communication between the producer and buyer during the growing season is common for these sales arrangements.

In order to sell to supermarkets, growers must be able to meet several entry requirements. In addition to price

and quantity specifications, produce contracts frequently include requirements regarding quality characteristics, payments of fees and promotional costs, and requests for services, such as third-party food-safety certification, grading, packaging, and labeling. When it comes to berries in Virginia, however, the requirements tend to be less demanding, particularly given supermarket buyers' recognition that the value of being able to sell local berries merits working with suppliers, provided that they can meet the most important stipulations.⁴ Despite their willingness to work with local producers, supermarket buyers do have significant market-entry requirements that would be a challenge for the typical berry producer in the state to meet.



In general, supermarket buyers in Virginia require local producers to adhere to minimum volume and frequency of delivery stipulations in order to maintain a consistent supply of uniform products throughout the chains' stores. For a small chain with 30 stores, for example, this could amount to a total of 200 cases of berries per week, made through at least two separate deliveries to a centralized distribution center. This number could grow as the number of stores in the retail chain or the volume of sales increases.

Quality specifications are standard among all supermarket buyers. If quality specifications are not upheld, buyers will typically refuse the load at the producer's expense. Supermarket buyers generally follow grading standards specified by the U.S. Department of Agriculture (USDA). One large retail chain uses its own set of standards, which exceed the USDA's top standards. In addition to meeting minimum standards, one buyer representing a large national chain explained the importance of having a product that has consistent taste so that the product gives the same eating experience regardless of which store the customer visits.

Delivery of berry products is also the responsibility of the producer. While some producers may be required to deliver their product directly to the stores of smaller

4. Most buyers indicated a willingness to work with suppliers if they cannot meet the agreed-upon stipulations due to a one-time, unforeseeable reason, but multiple breaches of sales arrangements are often grounds to terminate the supplier-buyer relationship.

retailers, larger retail chains generally channel their products through a centralized distribution center. Retail chains that have centralized distribution centers have strict rules regarding delivery due to the high volume of traffic they have to coordinate throughout the day. Furthermore, two retail buyers require berry-crop suppliers to transport their products in a temperature- and humidity-controlled truck that is compatible with their warehouse docks.

Additional requirements vary depending on the supermarkets. For example, two of the three supermarket buyers interviewed require local berry-crop producers to pay an additional fee to help cover promotion and advertising expenses. Likewise, in order for local berry-crop producers to sell to one national chain, they must subscribe to a specific online buying system, hold a minimum of \$3 million worth of product liability insurance,⁵ package and label their products according to criteria specified by the grocery chain, provide proof of third-party food-safety certification, and invest in appropriate postharvest technology, such as precooling storage, which is used to remove the field heat from harvested berries.

In contrast, the local and regionally based retail-chain buyers are not as strict in their service requirements for berry-crop growers. While these buyers require specific packaging, labeling, and postharvest technology, they require less along the lines of product-liability insurance and food-safety certifications, and neither buyer requires growers to subscribe to an online buying system.

Recommendations Regarding Virginia Producers as Suppliers to Supermarkets

In considering the potential for berry producers in Virginia to supply supermarkets, the producers' ability to profitably meet supermarket requirements must be taken into account. Typically, berry-crop producers in Virginia are small operations that depend on income from direct-outlet sales. In fact, nearly two-thirds of Virginia's berry-crop producers currently sell through direct-market outlets such as farmers markets, roadside stands, pick-your-own operations, and CSA programs.

The berry producers that sell to supermarket chains in Virginia operate large-scale berry farms (an average of 131 total farm acres with 3.3 acres of berry crops), which puts them in a better position than smaller

producers to meet supermarkets' demand for minimum volume requirements; products consistent in quality, grade, taste, and flavor; and the provision of fees and services commonly required by supermarket buyers. In contrast, market-entry requirements make it difficult for small- and medium-scale producers to meet these demands. An alternative for smaller producers is to sell to a broker or other intermediary who compiles deliveries from numerous farms to send to buyers, or to work in association with other producers to market a branded product together. While there is potential for smaller producers to form associations or cooperatives and work together to meet these requirements, it is essential that they do so carefully to ensure that the quality of product is consistent and that the supermarkets' other requirements are consistently met.

For growers interested in selling berries to supermarkets, it is appropriate to contact potential buyers at least one season before the crop is ready to be harvested. In order to communicate to buyers that they are professional and serious about growing and selling berry crops, producers should familiarize themselves with the supermarkets' requirements and be prepared to meet them before they seek commitments from buyers. Such requirements will frequently include a product-liability insurance policy; third-party food-safety certification; adequate transportation; and the willingness and ability to provide additional fees and services.

For those producers who intend to scale up their operations in order to supply supermarkets, some initial investments will be needed. These include a postharvest cooling facility (used to remove field heat and store harvested berries), irrigation (used to provide a consistent supply of water to plants and protect them against frost or freezing temperatures), fencing materials (to keep unwanted animals such as deer away from berry plants), production equipment (used to plant and maintain berry plants), spray equipment, and crop protection such as plasticulture or high tunnels. Along with these investments, large-scale producers need access to adequate labor for harvesting their berry crops; this is often the biggest expense incurred by large-scale, berry-crop producers serving supermarkets and is a factor that frequently limits the expansion of these operations.

Discussion and Conclusions

Consumers in Virginia are increasing their consumption of berries, thus presenting market opportunities

5. According to one person interviewed, a \$3 million product-liability insurance policy costs approximately \$150 per month.

for local berry producers. Most consumers purchase berries at supermarkets, and those supermarket buyers interviewed reported increasing demand for berries in general and locally produced berries in particular, as well as demand for specific types of berries, such as exotic and certified organic berries.

Supermarket chains are interested in purchasing large volumes of berry crops from local growers. They are particularly interested in purchasing locally grown strawberries, blueberries, and other novelty berries such as golden raspberries. Sales arrangements between local berry-crop producers and supermarket buyers typically rely on verbal agreements with recurring transactions throughout the growing season. Supermarket buyers are interested in cultivating ongoing relationships with local growers to ensure a constant supply of berry crops during the growing season.

Supermarkets have relatively strict requirements in place for purchasing local products, including berry crops. These terms and conditions usually require growers to produce a minimum volume; follow packaging and labeling standards; purchase product-liability insurance; obtain a third-party food-safety certification; pay a promotional allowance; and implement specified technology to be used after harvest and during delivery. For large-scale berry-crop producers in Virginia with the resources to satisfy these requirements, supermarkets are a potentially attractive opportunity to move large quantities of their produce in relatively few

transactions. In contrast, smaller-scale producers will find it challenging to meet these requirements profitably and should consider other alternatives, such as selling through a broker or intermediary.

Any producer who is interested in selling to supermarkets or any other type of market is advised to consult with their county Extension agent for help in considering how such an enterprise would fit into their current farming operation as well as their overall business mission.

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