

PRODUCE PRESENT AND FUTURE

Perimeter star must evolve to stay strong

BY ANDY NELSON



Fresh produce, more than any other department — fresh or center-store — plays the biggest role in helping consumers decide which brick-and-mortar grocery store to shop.

If your department brings them in via their eyes and keeps them there by engaging their other senses and their minds, chances are you've got a successful store.

But retail fresh produce is at a crucial juncture in its history, said Bruce Peterson, president of Bentonville, Ark.-based Peterson Insights Inc. How it responds to this moment will play a huge role in determining whether it continues to enjoy its coveted status.

At the height of COVID, online shopping — including for fresh fruits and vegetables — soared. Will online produce sales continue to expand? That's the million-dollar question retailers are facing, Peterson said.

Older shoppers will continue to buy their produce predominantly in brick-and-mortar sales, but there's probably no changing younger consumers' shift toward online.

"I think produce departments are very vulnerable," Peterson said.

One reason is that, traditionally, buying fresh fruits and vegetables has always been a sensory experience. You see it, smell it, squeeze it and maybe even taste it before you buy it. How your senses react at point-of-sale is enormously important, and there are numbers to prove it.

"About 80% of produce sales are made on impulse in the store," Peterson said.

Online shopping, by contrast, is an intellectual experience. Another contrast: produce departments are designed to make people slow down and take their time picking out their fresh fruits and veggies. That's the opposite, Peterson pointed out, of how most people shop online.

Brick-and-mortar produce departments are also facing serious labor-related problems. For starters, there's the worker shortage that's affecting so many industries worldwide right now. On top of that, the



*Merchandising
inspiration*

THINK FARMERS MARKETS

Retailers looking to make their produce departments stand out would do well to imitate the farmers market model, which is making a big comeback, said Anne-Marie Roerink, principal of San Antonio-based 210 Analytics.

"During the first pandemic year, many farmers' markets and fruit stands were closed, and all those dollars ended up in traditional channels," Roerink said. "Farmers' markets are back with a vengeance and it seems each time I go to check one out, it has doubled in size or is now open multiple times a week."

The lesson for retailers? People love farmers and the fun of farmers' markets, Roerink said. That means meet-the-grower events, having unexpected items, local and experiential elements are important to create that same vibe.

"There are even some retailers that do mini farmers' markets in their parking lots on the weekends," she said.



HIGH MARKS

In its most recent national grocery shopper survey, Lake Success, N.Y.-based Retail Feedback Group found that produce is the second highest rated department, in terms of satisfaction, across all channels, with a rating of 4.29 on a five-point scale and with 51% of those surveyed rating it a five.

When shoppers said the produce department in their local store did not meet their expectations, Retail Feedback Group wanted to know why, said Brian Numainville, principal. Top reasons were price and in-stock availability of product, followed more distantly by variety and quality.

On the plus side, Numainville said, the produce department is an area where shoppers have pleasant interactions with employees. Among shoppers who indicated they had a pleasant interaction with an employee on their most recent trip, produce registered third with 28%.

workers that grocery stores do have are increasingly being taken out of produce and other departments to focus on filling orders for customers taking the online route.

It all points to a retail grocery produce feature that could be two-tiered, Peterson said. On one tier, you have people buying their bananas, potatoes and other staples that don't vary much online from Walmart or another relatively low-priced industry giant.

On the other tier, they're supplementing those staple stockup orders with the occasional visit to a smaller, more boutique brick-and-mortar store for the items they still want to see, touch, smell and maybe taste before buying.

Those stores will be smaller and will invest in the staff necessary to help people make their produce-buying decisions. To buy a lot of produce effectively, you have to be knowledgeable, and consumers have always relied on educated on-site produce clerks and managers to fill their knowledge gaps where necessary.

For those stores caught in between, expect the produce departments to get smaller and the SKUs fewer, Peterson said. They'll be more diverse, with more salad dressings, nuts and other products that have migrated from other departments. But don't expect them to have 25 varieties of apples.

Fruits lead the way, but vegetables poised for surge

All things considered, the fresh produce department of 2022 is holding its own and then some, said Anne-Marie Roerink, principal of San Antonio-based 210 Analytics.

“Fresh produce is doing remarkably well in the face of incredible inflation and economic pressure,” Roerink said. “Both fresh fruits and vegetables are boosting performance, though fruit is much stronger at the moment.”

Early on in the pandemic, vegetable sales were tremendous as cooking moved to the home, Roerink said. In 2022, however, fruit is the clear sales and growth leader. That said, economic conditions could give fresh vegetable sales another boost in the near future, as consumers retighten belts.

“We have seen a lot of strength for basic cooking vegetables in the past few months, including potatoes and onions,” she said. “In comparison to other categories, shoppers are seeing less impact of supply chain shortages in produce. While some commodities are obviously seeing big price inflation, availability in produce is much better than the rest of the store.”

In the COVID Era, the produce industry has seen “a lot of patterns come and go,” as Roerink puts it.

Initially, produce sales were heavily shifting towards vegetables, and frozen and canned made big inroads as a percentage of total fruit and vegetable dollars.

It took a few years, but fresh is back on top. In fact, she said, the fresh share of total fruit and vegetable dollars is higher than it was prior to the pandemic. (The supply chain disruptions frozen and canned are facing is admittedly a big reason why, she added.)

Another trend that peaked early on but has since slowed, Roerink said, is online purchases of fresh produce.

“Instead of people feeling out online shopping with center-store purchases first, the entire basket moved from in-store to online, including fresh,” Roerink said. “And today, online shopping for fresh produce is definitely still ahead of the pre-pandemic levels, but we’re no longer seeing significant growth in the area, as many shoppers have moved their purchases back to the store and farmers markets.”

Meal kits: opportunities and challenges

Meal kits could become a huge opportunity for produce departments to successfully adapt in the new online world, Peterson said.

One huge barrier to that growth is the territorialism that often plagues departments. Every one wants to credit for the sale if it includes something from their department, which can make it hard to cross-merchandise from different departments — pulling disparate items together for a meal kit, for example.

“It’s why you don’t always see cabbage merchandised with corned beef for St. Patrick’s Day,” Peterson said, citing an extreme example of the lack of cooperation that can plague the perimeter.

“You have to have somebody who can look at things horizontally across the different departments.”

The more brick-and-mortar fresh perimeter departments work together, the better chance they’ll all cope with the digital onslaught.

Getting the upper
hand on brands



PRIVATE LABELS

Produce departments past, present and future

One of the main differences between the produce departments of yesterday and today, Roerink said, is the enormous surge in packaged and value-added products.

"We're making it easier and easier for consumers to plan, shop, prepare and clean up with product and packaging innovation."

As for the US produce departments of the future, Roerink, a native of Holland, believes she got a glimpse this summer on an extended trip to her home continent.

Trends that will likely cross the pond in the coming years, with commentary by Roerink, include:

- **Thinking green.** "More than half of the retailers I visited had initiatives underway to reduce the amount of packaging as well as no longer made plastic bags available when buying bulk items. All touted the annual reduction in plastic usage. Others focused on local growers or packaging improvements and also pointed to environmental benefits."
- **Taking care of the growers.** "I saw a lot of retailers highlighting growers, which we've seen for a while, but also developing programs specifically designed for the fair pay and treatment of farmers."
- **Consumption goals.** "Retailers are giving a lot of guidance to shoppers about how much fruit and vegetables to eat. I think this is actually a massively overlooked opportunity in the US. Depending on the country, I noticed guidance on contribution to the five-a-day

Look for brands to play a smaller role in the produce departments of the future, consultant Bruce Peterson said. The number of private-label products in grocery stores has exploded in recent years, and produce has been no exception. Add to that inflation, and now consumers have even more reasons to opt for an alternative to more expensive branded products.

When Peterson ran the fresh produce program at Walmart, he bought bananas exclusively from Chiquita. And if Walmart's bananas were the same price as those from another shipper at another retailer, they were considered a better value because of the Chiquita name.

American grocery stores, with the shift to private-label, are resembling European stores more and more, Peterson said. You need look no further than the success of Aldi and Trader Joe's for proof.



Take advantage of the other fresh departments in your store by cross-merchandising and creating value-added products that combine produce with meat and other fresh items, like these bacon-wrapped asparagus and mushroom value-added products. Items like these can do especially well during summer grilling season.



(52 weeks
through
July 10)

SALES UP. VOLUMES DOWN

Sales	Volumes	Per pound price
\$73.4 billion, up 4.2% from year before	41.7 billion pounds, down 3.7%	\$1.76 up 13 cents

Top fruits and vegetables


by sales, change from year before

Berries , +10.7%	Tomatoes , -1.8%
Apples , +8%	Potatoes , +4.2%
Grapes , +8.7%	Salad kits , +5.5%
Bananas , +2.2%	Lettuce , +5%
Melons , +12.1%	Onions , +7.1%
Avocados , +9.4%	Peppers , -1.7%

Source: IRI OmniMarket™ Integrated Fresh, a Chicago-based market research firm



initiative or the goal of 250 grams of fruit and vegetables a day. Signage in the store reminded shoppers of easy solutions to help get to the 250 grams plus two pieces of fruit and packaging labels indicate the contribution to the five-a-day or other goals."

- **Smaller households.** "In the US, packages are still geared towards your 'traditional' family of four, which isn't very traditional any more. European retailers seem to be catering to household size variety much better. I noticed single-portion cauliflower and cabbage – miniature versions that fit in the palm of my hand. But also cut veg/fruit adjustments that are marketed as "small" single-portion packages, whether mixed salad or cut veg for meal preparation. While obviously moving less volume, the price per pound was a bit higher and in today's world where food waste is high on consumers' radars, this is a great solution, especially in markets with high 1-2 person households."
- **Creative promotions.** "A lot of mix and match promotions, either just a variety of produce items or even mix and match with meat and produce in areas that were set up for grilling."
- **Snacking.** "Produce in Europe continues to go hard after the produce snacking occasion, especially for kids with small fruit and veggies in to-go containers."
- **Produce-based meal kits.** "Rather than having all items for dinner, including the animal protein, Europe is really focusing on produce meal kits, including lots of adventurous international items." 

Surveys continue to show that fresh and local are near the top of produce consumers' wish lists, and that the two are integrally related: The more local, in consumers' minds, the fresher. Depending on what part of the country you're in, it's not always easy to source locally, but get creative with merchandising and promotions – shoppers will reward you for it.

