

CHAPTER ONE

Recent produce marketing trends affecting fruit farm businesses

This chapter highlights recent demographic, produce marketing and apple industry trends taking place in the world, United States and in New York State. These trends point to why there are vast and rapid changes occurring in the marketplace and apple industry affecting farm businesses in our State. To make a plan for your businesses future it is important to understand the trends causing changes that are taking place in the industry, why these changes are occurring and how the changes are impacting your business today and in the future. Review this trend information and identify other trends that are affecting your business. Reflect on this trend data and the ones that you identify as you work through this planning workbook for your business.

A. World Trends

1. The world per capita production of apples has increased 50% in the last 10 years. Supplies of apples have grown at a faster rate than the demand (Figure 1).
2. Market share of the world's top 10 supermarkets will double from 1990 – 2005, giving tremendous buying power to the major supermarkets. This concentration has held New York growers share of the consumer's dollar to 13%.
3. The speed of computer processing power doubles every 18 months, and communications power doubles every six months, giving every business in the world the capability of near instant information at a very low cost.
4. The global forces of supply and demand have had a major influence on the apple industry in the last decade.
5. There has been a tremendous upswing in the world production of most major fruits in the last decade (Figure 2).
6. China and the Southern Hemisphere have taken many of the markets once dominated by U.S. suppliers. China's production of apples has risen fivefold to over 20 million metric tons in the last decade (Figure 3).
7. The mix of varieties produced around the world has changed dramatically in the last decade. In 1990, Fuji, Gala and Braeburn comprised less than 1% of European Union or U.S. production. In the 2002 growing season, they accounted for 15% of the EU, and 21% of the U.S. crop.
8. About 45% of the world's population lives in countries with per capita incomes below \$1,000 per year.
9. In the developed world, the total population is nearing a peak, and the number of older citizens is growing rapidly.
10. Demand for fruit is heavily influenced by the state of the world economy. Since 1995, many regions have suffered significant economic setbacks.

Identify other world trends affecting your business?

- a. _____
- b. _____
- c. _____
- d. _____



B. United States Trends

1. According to the U.S. Department of Agriculture, American consumers spend nearly 50% of their food dollar on food consumed away from home. Fresh apples are an exception however—94% of fresh apples are consumed at home.
2. Consumers are choosing to spend their money on prepackaged salads and other convenience foods that require less preparation time (Figure 4).
3. Sales of organic produce have increased 20% annually since 1990 (Figure 5), and organic products can now be found in 73% of all conventional supermarkets. While sales are still relatively small nationally, in some communities, with stores such as Natural Foods, organic foods account for a significant percentage of sales.
4. Apple sales have dropped to fourth in produce departments, behind lettuce and packaged salads, tomatoes and bananas; consumption of grapes, which is increasing, may pass apples shortly (Figure 6).
5. Markets have become increasingly segmented as consumers' interests diverge and they have the purchasing power to demand what they want.
6. Consumers are buying food from a wider array of store types than previously. Retail stores other than traditional supermarkets, such as supercenters, club stores and some convenience stores have increased their share of U.S. food sales.
7. Price or cost savings heavily influence consumers' purchase decisions. Low-cost retailers like club stores and dollar stores are taking sales away from traditional supermarket food retailers (Figure 7). When asked why they are purchasing food from outlets other than their primary store, 40% of consumers said it was due to price reductions and cost savings.
8. The concentration of the 10 largest U.S. supermarkets increased from 33% to 45% in the four years, from 1995 to 1999, and it is expected to increase to at least 55% and perhaps as high as 70% by 2004. Concentration in retailing and more organized procurement results in less spot buying and more contracting, thus creating a growing market segment for the largest produce suppliers.
9. It is estimated that 80% of day-to-day technology that will be in place 10 years from now has not yet been invented. The rate of change continues to increase and the adoption time for new technology continues to shorten (Figure 8).
10. Consumers are more than ever looking for convenience in their food purchasing decisions (Figure 9).



Identify other United States trends affecting your business?

- a. _____
- b. _____
- c. _____
- d. _____

C. Apple Industry & Demographic Trends

1. Smart Fresh® (I-MCP) will improve apple quality at the consumer level. It will extend the marketing season for varieties such as Jonagold, Cortland, McIntosh, Gala, Red Delicious, Empire and perhaps Macoun.
2. Consumption of fresh fruits and vegetables has increased, but the consumption of fresh apples has remained flat, at 19 lbs. per capita.
3. Fresh apple per capita consumption is greatest among Hispanic customers.
4. Suburban residents consume more fresh apples; metropolitan residents consume more processed apples.
5. Per capita consumption of fresh apples increases with income.
6. Children ages 2-11 had the highest per capita consumption of fresh apples.
7. Low carb diet is the choice among many consumers.
8. In general, in the U.S., family size is decreasing and a greater percentage of the population is reaching old age.
9. Consumption of applesauce has been flat. Only single-serve packaging has helped maintain demand. Single serve applesauce consumption has increased by 12% over the past three years. At the same time, sales of other fruit cups has increased by 84% (Figure 10). The applesauce market consumes 25% of the New York apple crop.
10. Washington State has increased both production and the number of varieties planted. From 1980 to 1999, the growth in Washington's production has averaged 4.2% per year.
11. Apple juice consumption, in general, has increased. Imports of low-price apple juice concentrate has also increased (Figure 11).
12. Apple marketing organizations have consolidated or disbanded.
13. Grower prices for canning, freezing and juice have fallen in the last two decades. The average juice price fell by over 50 percent between 1979-81 and 1999-2001 (Figure 12). Large domestic crops and large juice imports pull down prices in all major processing categories.



Identify other apple industry trends affecting your business?

- a. _____
- b. _____
- c. _____
- d. _____

D. New York Apple Industry Trends

1. Processing utilizes about 55% of the New York crop.
2. Markets for processing apples have declined in New York and in the Northeast as companies close or relocate to other regions.
3. Return on New York grower equity has been declining since 1979.
4. Total apple production in New York State has been fairly stable for the last 30 years, amounting to around 25 million bushels (Figure 13) per year.
5. Return per acre averaged \$2,200 from 2000-2002—a level insufficient to sustain profitability.
6. New York production is below average in yield per acre, with an average of 500 bushels per acre. This compares to Washington State's 850 bushels per acre and more than 1,000 bushels per acre in the Netherlands (Figure 14).
7. New York farms are located close to large urban markets.
8. There are a growing number of local, regional and state programs working to foster consumer support and loyalty to purchasing local/regional foods.
9. Growers have responded to the oversupply of apples by removing unprofitable acreage: Growers in Washington State have removed 25,000 acres; Michigan growers have removed 10,000 acres; New York growers have removed 6,000 acres.
10. Many growers are investing in high-density plantings of newer varieties of apples to sell to fresh markets and are reducing acreage devoted to processing apples.
11. Many growers are diversifying their marketing strategies to reduce dependence on selling to one market or to a few buyers.
12. Resources for variety research and product development are being investigated at Cornell, Geneva, and Highland, and by individual growers.
13. SmartFresh® (1-MCP) will extend the marketing season and improve quality for many New York varieties.
14. National mandatory country of origin labeling is included in the Farm Bill legislation.



Identify other New York apple industry trends affecting your business?

- a. _____
- b. _____
- c. _____
- d. _____

Figure 1. World Production of Major Fruits, 1979-81, 1989-91, 1999-2001 (Annual average, thousand metric tons)

Fruit	1979-81 (1000mt)	1989-91 (1000mt)	1999-2001 (1000mt)	Change 79- 81 to 89-91 (percent)	Change 89- 91 to 99-01 (percent)
Apples	34,362	39,724	59,894	+15.6	+50.8
Pears	8,592	9,529	16,504	+10.9	+73.2
Grapes	66,106	58,457	63,227	-11.6	+8.2
Citrus	59,321	77,073	105,451	+29.9	+36.8
Berries	2,487	3,340	5,007	+34.3	+49.9

Source: Belrose Inc.

Figure 2. U.S. Production of Major Fruits, 1989-91 and 1999-2001 (annual average, thousand metric tons)

Fruit	1989-91 (1000mt)	1999-2001 (1000mt)	Decade Change (percent)
Apples	4,426.8	4,675.7	+5.6
Pears	841.0	903.8	+7.5
Other noncitrus	9,164.1	10,470.6	+14.3
Citrus	10,684.0	14,250.5	+33.2

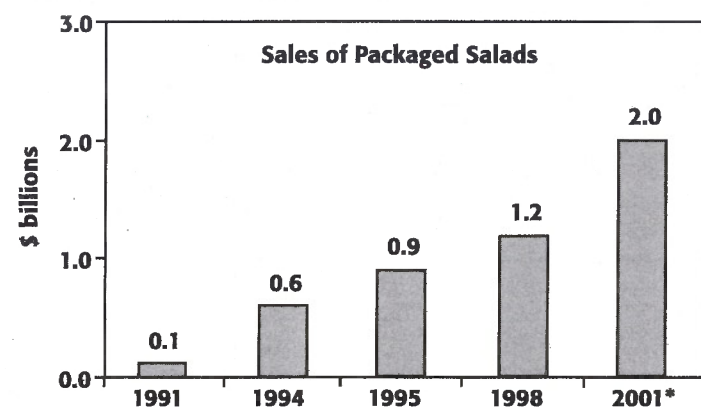
Source: Belrose Inc.

Figure 3. U.S. Trade in Fresh Apples and Apple Juice, 1990 – 2001 (thousand metric tons)

Product	Imports 1990 (mt)	Imports 2001 (mt)	Change 90-01 (percent)	Exports 1990 (mt)	Exports 2001 (mt)	Change 90-01 (percent)
Fresh Apples	106,146 (gallons)	157,121 (gallons)	*48.0%	379,433 (gallons)	692,365 (gallons)	+82.5%
Apple Juice	233.7	344.3	+47.3	15.0	7.3	-51.5%

Source: Belrose Inc.

Figure 4: Sales of Packaged Salads



Source: International Fresh-Cut Association, 2002

Figure 5: Sales of Organic Produce

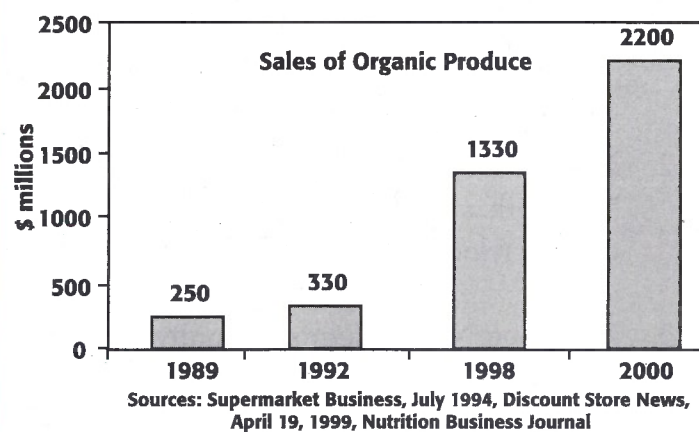


Figure 6: Retail Top Sellers by Percent of Produce Department Sales

Category	2000 % of retail produce department sales	2001
Lettuce & Packaged Salads	10.4	11.1
Tomatoes	7.0	8.0
Bananas	7.8	7.5
Apples	6.9	6.8
Grapes	6.5	6.3
Potatoes	5.5	6.2

Source: Produce Merchandising, May 2002

Figure 7. Fiscal year percent change in annual sales volume of leading retailers

Dollar Tree	17.7%
Dollar General	17.0%
Family Dollar	17.0%
Wal-Mart	13.8%
Costco	8.2%
Target	8.1%
Safeway	7.3%
BJ's	7.0%
Albertson's	3.2%
Kroger	2.2%

Source: Market Notes Newsletter, Premier Apple Cooperative Inc., August 28, 2003

Figure 8. Time to 25 % adoption in North American households

Technology	Years
1. Electricity	46
2. Cars	44
3. Telephones	35
4. Television	26
5. Personal computers	15
6. Cell phones	13
7. Web	<7

Source: Harris, Jim. 2002. *Blindsided: How to Spot the Next Breakthrough that will Change Your Business Forever*, Capstone Publishing LTD (A John Wiley & Sons Co.), Oxford, United Kingdom.

Figure 9: Forms and Examples of Convenience Foods

Some Forms of Convenience	Examples
Further prepared foods to reduce meal preparation time	Packaged salads, fresh-cut vegetables, frozen dishes, pre-seasoned meats
Fully prepared take out dishes or full meals to be eaten at home	Pizza, rotisserie chicken, chicken wings, deli salads, fresh-cut fruit
Lunch size servings for kids	Lunchables, drinkable yogurt, fruit juices
Fruits offered at varying stages of ripeness	Avocados, bananas, tree ripened stone fruit

Figure 10

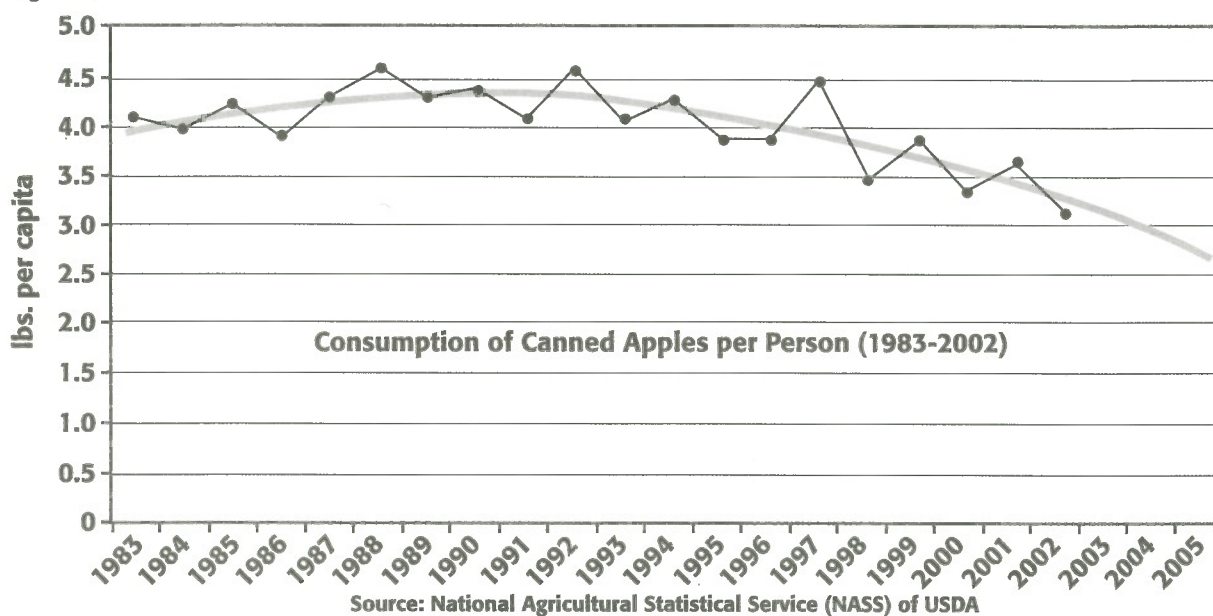


Figure 11. U.S. Trade in Fresh Apples and Apple Juice, 1990 - 2001

Product	Imports 1990 (mt)	Imports 2001 (mt)	Change 90-01 (percent)	Exports 1990 (mt)	Exports 2001 (mt)	Change 90-01 (percent)
Fresh Apples	106,146	157,121	*48.0%	379,433	692,365	+82.5%
Fresh Pears	40,942	85,316	+108.4	108,741	167,741	+53.7
Apple Juice	(gallons)* 233.7	(gallons)* 344.3	+47.3	(gallons)* 15.0	(gallons)* 7.3	-51.5%

* million single strength equivalent



Figure 12

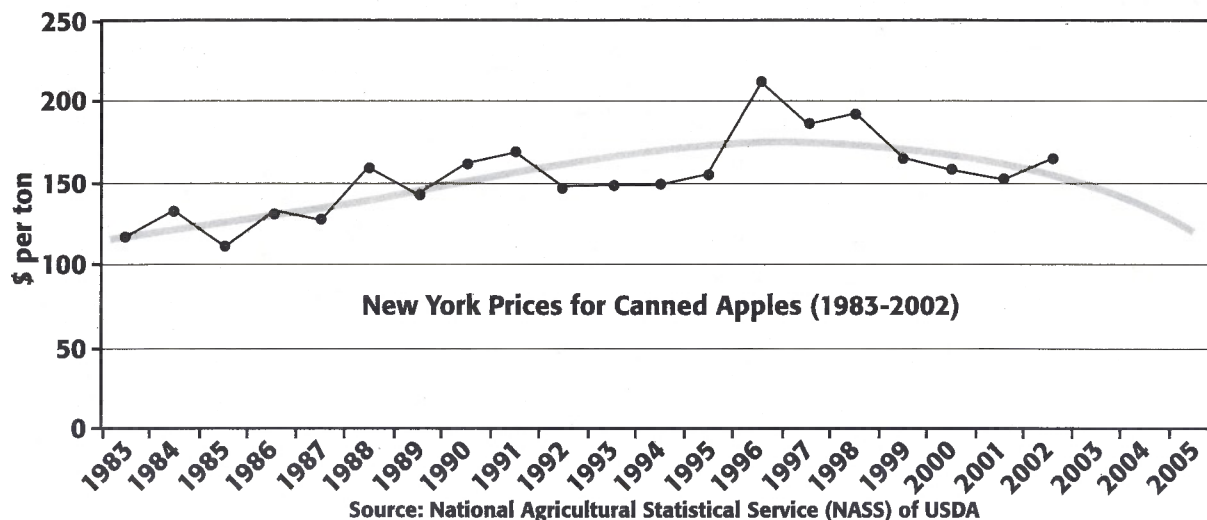


Figure 13. World Apple Production in Relation to Apple Producing Areas of the United States: 4 Year Average 1998-2001.

5 Year Average	Million bushel/year		Million bushel/year
New York	26.0	Michigan	22.6
PA, VA, WV	21.0	Washington	133.0
United States*	257.1	China*	1,043.6
Canada*	23.9	Japan	48.0
United Kingdom	9.3	Argentina*	60.5
Netherlands	27.1	Brazil	40.7
Belgium	25.1	Chile*	49.1
France	106.6	New Zealand	27.7
Germany*	103.4	Australia	16.4
Italy*	112.9	South Africa	36.3
Spain*	41.7		
Turkey*	131.2		
Poland*	86.4		

* These countries are major producers and exporters of Apple Juice Concentrate

Source: National Agricultural Statistical Service (NASS) of USDA

Figure 14. 4 Year Average Yields 1998-2001 from some competitor states.

	Bushels per acre
California	561
Michigan	465
New York	468
Pennsylvania	481
Virginia	475
Washington	793
United States	562

Source: Apple Crop Statistics & Market Analysis, Michigan Agricultural Cooperative Marketing Association, July 2002.



Chapter One Resources:

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