Risk Management Training
for Diversified Family Farmers

Workbook 5

Overview — Managing Marketing Risk for Diversified Family Farms

Managing Marketing Risk for Diversified Family Farms

The New Dynamics of Buying and Selling — It's Change and Opportunity, Not Doom and Gloom

By Geraldine Warner, Good Fruit Grower December 27, 2000

The last couple of years have been a period of tremendous change in the produce industry, but also a period of great opportunity, according to Bryan Silbermann, Produce Marketing Association (PMA) president.

Silbermann was in Yakima, Washington, this spring to share results of research done at Cornell University's Food Management Program, New York, on the new dynamics of buying and selling.

"It's not doom and gloom," Silbermann said, "it's changes you can take advantage of."

However, not all the players in the industry will benefit equally from the opportunities, he warned, and producers need to develop strategic plans that take the changes into account.

One of the positive trends in retailing is that produce departments are growing faster than the rest of the grocery store in terms of space, sales, and the number of items (referred to as stockkeeping units, or SKUs). And that's because produce generates higher profits than most other departments, Silbermann said.

"Produce is the one department showing tremendous growth. The news is good. Retailers are saying, 'We're going to depend more and more on produce, and give it more space, and have more items.'"

In contrast, meat sales have declined dramatically. Dairy and grocery business is also down.

For smaller retailers, produce accounts for more than 20 percent of their total sales, and it is expected to increase to 24 percent by 2004. Overall, 11 percent of retail sales come from produce. That figure should rise to 15 percent within four years.

Between 1960 and 1990, the average number of items sold in the produce department increased steadily from 200 to 275, but then rose dramatically. The average store now stocks almost 600 produce items, and the amount of space devoted to each item has declined slightly.

The consolidation trend continues. In 1994, the top eight retail chains took almost 30 percent of total supermarket business. By 1999, they were doing 60 percent of the total business. The latest trend is the merging of large retail chains with food service companies.

Although there are fewer retail firms than in the past, there are more buyers and category managers per firm than ever before, particularly in regional and field offices.

Retail produce buyers usually work strictly on the supply side, handling negotiations, procurement, and logistics, and are increasingly sourcing produce from around the world.

They have nothing to do with the demand side. "The people you're dealing with are great buyers," Silbermann said, "but they don't understand merchandising and consumers."

Just because the trend is for retailers to get larger, it doesn't mean that buying is done the same way by all the various retailers, he pointed out. Direct buying continues to increase, but there are still many retailers—particularly the smaller ones — who like to buy from wholesalers. Brokers are surviving by providing more services to their retail customers.

People questioned in the survey expect half of all fresh produce will be bought directly from shippers by 2004, up from 43 percent in 1999.

Retailers seem less interested in playing the market than they used to be, and are doing more business with fewer suppliers. This is reflected in the fact that the top 20 shippers of Washington apples supply almost 60 percent of the state's total apple sales.

Available year-round

Although year-round availability of product does not rank at the top of buyers' needs, it is becoming increasingly important to many, as they look for ways to make their life easier. However, this is not the strategy of all retailers. Costco jumps in and out of different items and couldn't care less about year-round supply, Silbermann noted, whereas other chains like to tantalize their customers with absolutely everything that's available.

There are mixed signals about contracts. In 1994, retailers did little buying on contract, and that was mainly with banana suppliers. Now, almost half the retailers buy a significant proportion of their produce under contract. That's expected to increase to 86 percent of retailers by 2004, although Silbermann said that figure could reflect some wishful thinking on the part of respondents.

There is increasing use of technology, by retailers of all sizes. In many cases, the larger chains are having the greatest difficulty with new technology because of having merged multiple companies.

Use of new technology by growers and shippers lags behind that of retailers, Silbermann said, and those who are experimenting and working with retailers are developing a competitive edge.

Fear of Y2K glitches made retailers hesitant to fully computerize their transactions in the 1990s, but by 2004, most retailers will prefer suppliers who use Electronic Data Interchange (EDI), and 40 percent will want case coding, Silbermann reported.

Bottom line

The response of growers and shippers to the changes in buying practices must be strategic, he emphasized. "You can't tinker around the edges and make small modifications in how you're doing business."

The response of shippers has been to:

- Expand horizontally by offering more products.
- Integrate vertically.
- Develop new products.
- Launch programs to expand demand.
- Adopt new technology to cut costs.
- Develop new distribution systems.

While retailers are wanting to sell more produce, there are more people competing for that business, Silbermann warned.

"More sophisticated management will be needed at the shipper level because you're not just marketing apples anymore. You're being asked to provide a whole bunch of different services and understand the needs of your customer."

He said suppliers must focus on value, not just volume. "Just selling what you grow is history."

Big retailers are getting larger, but Silbermann said suppliers should not forget the many other players in the business, such as the regional and independent retailers.

"Things are changing dramatically. You have to act now because in the long run, being a spectator only guarantees that you'll watch the game from the sidelines. If you want to be a player, you have to be on the field."

For a copy of the FreshTrack '99 report, contact the PMA at (302) 738-7100 or check on the Internet at www.pma.com/ prodserv/ft99newdynamics.html.

Building Your Brand

By Nancy Giddens and Amanda Hofmann

Value added products need a distinct identity — they need a brand. This article is the first of a five-part series and will examine what branding is, why it is important, and the necessary steps to brand your new product. Next month, we will discuss flanker branding.

What is Branding?

Branding is one of the most important factors influencing an item's success or failure in today's marketplace. A brand is the combination of name, words, symbols or design that identifies the product and its company and differentiates it from competition.

Businesses use branding to market a new product, protect market position, broaden product offerings, and enter a new product category. Four types of branding are:

New Product Branding: creating a new name for a new product in a category completely new to the company. *Example:* A Taste of the Kingdom jellies.

Flanker Branding: protect market position by marketing another brand in a category in which the firm already has a presence. *Example:* HORMEL® chili and its flanker brand, STAGG® chili.

Brand Line Extension: use of the company's brand name in the firm's present product category. *Example:* PepsiCo's Pepsi and Diet Pepsi.

Brand Leveraging (Franchise Extension): use of the existing brand name to enter a new product category is called leveraging. *Example:* Mr. Coffee (a coffee maker) and Mr. Coffee coffee.

Why is it Important to Develop a Brand for Your Product?

A brand offers instant product recognition and identification. Consumers identify branded products and, as a result of effective advertising, have confidence in product quality. Retailers like branded products because they make the store profitable — shoppers attracted to branded products spend three to four times more on groceries than do private-label shoppers.

Branding is beneficial for four reasons:

Differentiation — A brand provides a clear and definitive reason for customers to buy your product. If this reason does not exist, your product is a commodity and the only measure of value is price. Small, value added businesses cannot compete on price successfully and need to incorporate some form of differentiation.

Conveys value — Consumers perceive brand-name products as higher quality, more reliable and a better value than non-branded products. Generally speaking, the number-one brand in a category can command a 10% price premium over the number-two brand, and a 40% premium over the store brand. This price premium is known as a brand tax. Consumers understand that a strong brand can reduce getting stuck with disappointing or faulty products.

Builds Brand Loyalty — Brand loyalty is the recurring stream of profit generated by repeat and referral sales of a specific brand. Repeat sales can be as much as 90% less expensive to a company than new customer development.

Builds Pride — Branded, recognizable products invoke a sense of pride in those associated with production, promotion, sale and distribution of those products.

What is the Process of Branding a Product?

A brand must be clear, specific, and unique to your product. For example, the Wheaties brand differentiates the cereal from its competition due to its association with health and "sports excellence." To achieve the same successes with your products, you need to execute four main steps to establish an effective brand:

1. Choose an appropriate name that is easily remembered and specific to the product. The name should be restricted to three words or less — anything longer is difficult for customers to recall. This process may require legal screening to guarantee availability of the name and customer input to assess attractiveness and appropriateness of the name.
2. Develop a slogan. The selected slogan needs to be two to three words, catchy, and easily remembered. To generate slogan ideas, you must stay focused on the buyer. Why should they buy the product? What will they like about the brand? How does competition compare? The slogan should take into account answers to these questions.
3. Create an appropriate symbol or logo. It can be as simple as a geometric shape or as elaborate as a silhouette of a person or object.
4. Use the name, slogan and symbol on every piece of correspondence related to the product — e-mails, invoices, letterhead, business cards, advertisements and promotions, etc. This system will eliminate inefficiencies in creative and production fees and extend the branding process throughout everything you do. In a sense, it will prevent "recreating the wheel" with each new media effort.

What are the Challenges of Building a Brand?

The greatest challenge faced when developing and building a brand is creating just the right name, slogan and symbol for the product. It will take a great deal of time and consideration! A thorough thought process and feedback from others will help to get past this obstacle.

It is often difficult to achieve initial customer recognition of a new product, regardless of branding. However, branded items are more recognizable and memorable. Effective advertising before and after the sale is key to overcoming this obstacle. Advertising and promotion before the sale are essential to obtain first purchases and follow-up advertisements after the sale will promote customer satisfaction and repeat purchases.

Repeat purchases are one of the primary objectives in brand development. Repeat purchases are critical to your businesses long- term success and contribute to brand loyalty, which will be discussed in the final article of this series.

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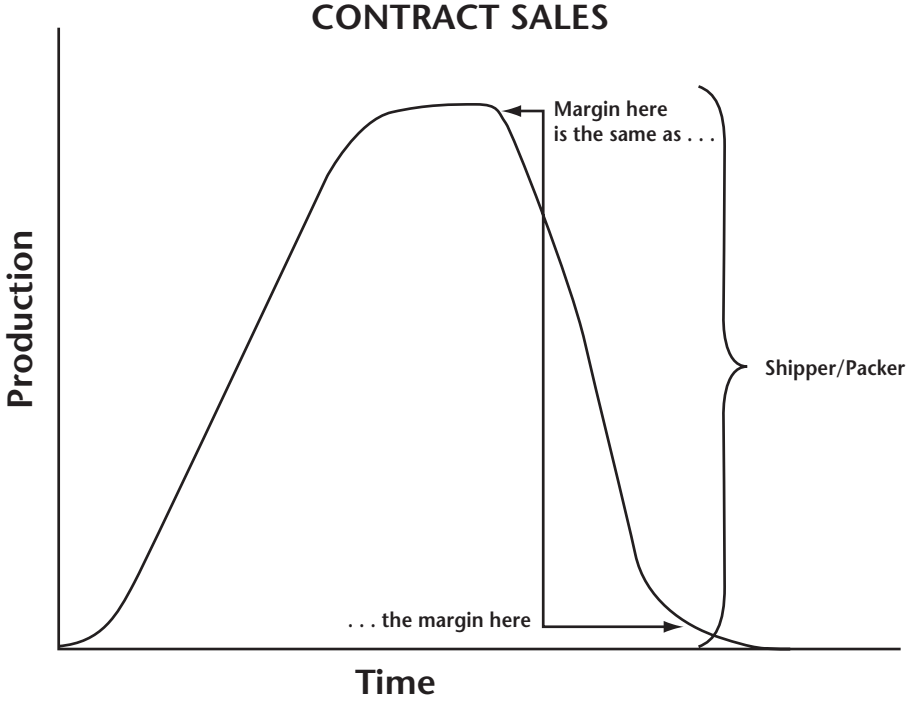

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