



The Pull of Produce

EXCLUSIVE RESEARCH SHOWS THAT THE CATEGORY MAINTAINS ITS DRAW FOR PRIMARY SHOPPERS. **By D. Gail Fleenor**

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roduce department managers have a lot on their minds these days. The product that arrives at stores must be fresh, but transportation costs can't be too high.

As one retailer participant in *Progressive Grocer's* annual Retail Produce & Floral Review put it, he hopes for "procurement of the right item at the right price." Also, product must be maintained in a fresh manner by employees who care about freshness to limit spoilage and shrink.

All of these things contribute to the bottom line. In *PG's* survey of retail produce and floral executives, profit is the second-highest-rated

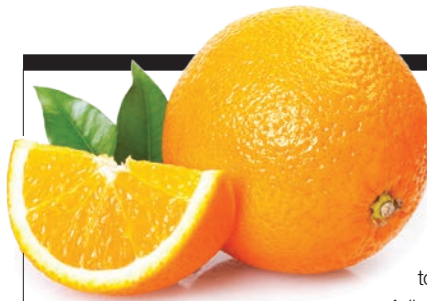
issue facing produce departments today, after product quality. At the same time, produce managers are confronting competition from other supermarkets and online retailers.

By the Numbers

Produce sales were almost flat in comparison with last year, with an increase of only 1.1 percent, but the importance of produce as a consistent draw for supermarket shoppers remains as important as ever. Total produce dollar sales were \$59.8 billion for the 52 weeks ending Aug. 12, according to IRI, a Chicago-based market research firm.

A confident 72 percent of participants in *PG's* survey projected that their same-store department sales would increase for the entire year of 2018. In last year's survey, only 63 percent of respondents expected same-store sales to increase for 2017. The emphasis in media concerning healthy eating may have influenced this response.

High-quality fruits and vegetables continue to be the top draw of all departments for



supermarket shoppers, with 80 percent citing their availability as the reason that they select a primary store, according to the latest research from Arlington, Va.-based Food Marketing Institute (FMI) in its “U.S. Grocery

Shopper Trends 2018” report. Shoppers expect more from brick-and-mortar stores in terms of freshness, selection and price/value, according to the annual report.

Dealing With Challenges

When PG’s 2018 survey participants were asked what the most serious challenges are for produce departments today, more than half cited quality of product (56 percent) and profits (53 percent). These two responses are linked in most cases by respondents concerned about product received from suppliers, and the price charged.

One respondent said that she was concerned about the “quality of products coming in the door. Our vendor has had quality control issues. Out-of-stocks and poor quality have had a bad image to the customer.” Another cited “freshness, and cost to the retailer to turn a profit.” The challenge for another retailer was “getting a reliable supplier of fresh, reasonably priced produce.”

Meanwhile, Rob Larrison, store manager for Big John Store Inc., in Metropolis, Ill., notes: “We work with our wholesaler directly about quality of product.”

Shrink and spoilage were concerns for 47 percent of those surveyed. “Shrink is always a problem,” one produce merchandiser admitted. “Not sure if it is any worse now than it has ever been.”

For his part, Eddie Roberson, general manager at Miller & Sons, in Verona, Wis., observes: “We run about a 5 percent shrink on average. Shrink has been, and will continue to be, an issue in our stores if we don’t embrace it. We feel that we have outlets for merchandise that we shrink that helps somewhat, i.e., food pantries, reworking package products, using products on our salad bars if quality is still present, and training our employees in proper prep.”

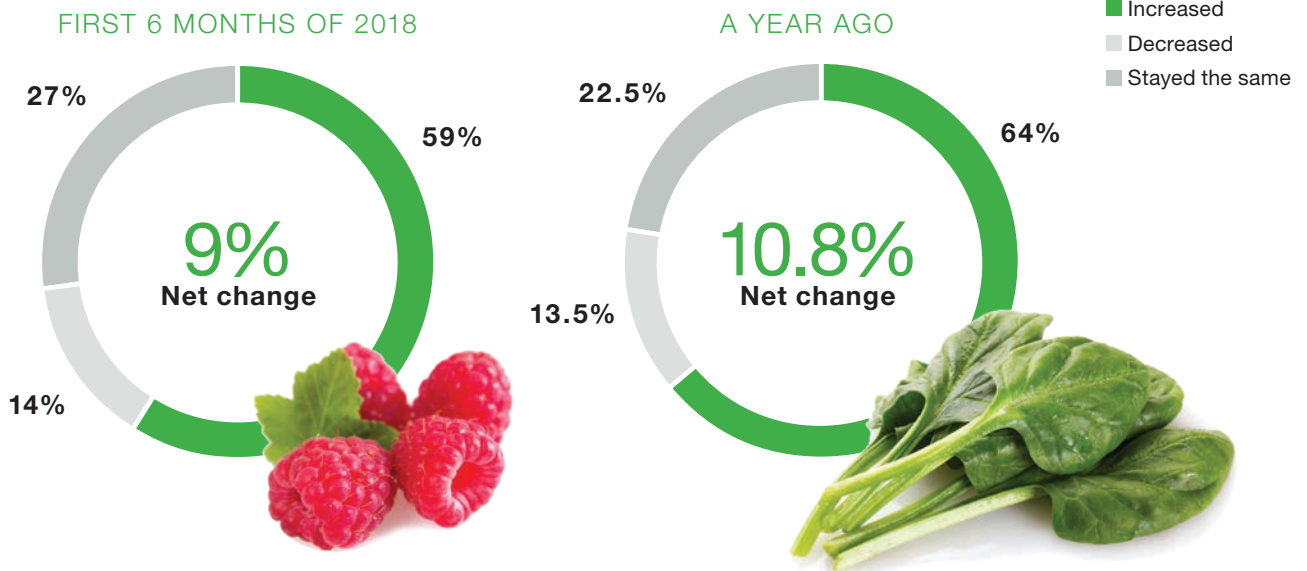
Terry Esteve, produce director for Robért Fresh Markets, a New Orleans-based six-store chain, combats shrink in a variety of ways. “As far as shrink goes, we do a big prepared food and salad bar business with cut fruit and vegetables,” Esteve says. “Salad bar is part of our

Produce Operations

	Current	Year Ago
Average produce department (square feet)	2,766	3,461.4
Average total store (square feet)	34,764	29,619.8
Percent of total store	16%	16.7%
Gross margin percent	34%	31.8%
Net profit percent	21%	20.7%

Source: Progressive Grocer market research, 2018

Produce Sales Change



Source: Progressive Grocer market research, 2018

produce department. We grill veggies as well as chop, steam and send [them] to the kitchen. We pull early to convert to some kind of sale, even if it is in another department. Our guys are bonused on the department's and store's profitability, so we know that all departments are working together to stay fresh and convert whatever we can. Typically, our actual dump shrink is 2 percent to 3 percent."

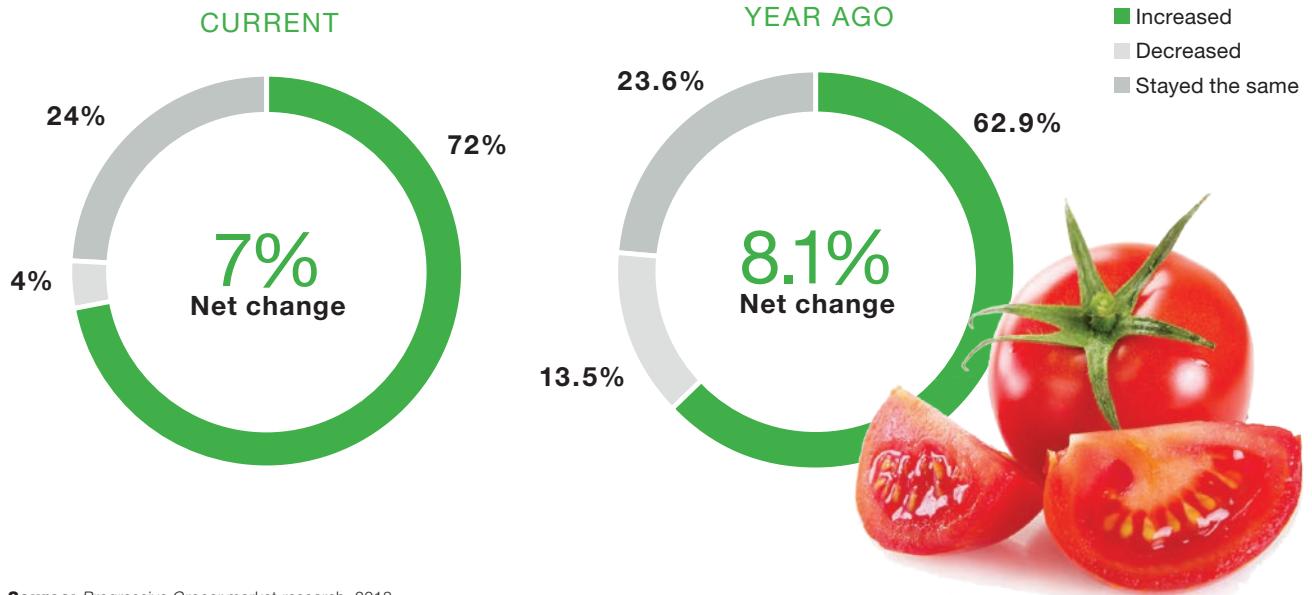
Top efforts to reduce shrink ranked in PG's survey include donation to food banks (56 percent), use in fresh-cut programs (56 percent), use in prepared foods (56 percent), and "ugly produce" initiatives (42 percent). Big John's Larrison advises, "Keep track of inventory, kill items that don't sell, and refocus on rotating product."

Labor and recruitment costs (42 percent) are also challenges for many stores. Working in a produce department can be hard, physical work — something that many potential associates spurn. While it can be rewarding, it takes a while to realize this, and many employees don't stay long enough. "The grocery business is hard work with little pay," Larrison concedes. "That's not real appealing to people anymore."

According to one survey respondent, staffing is the biggest problem in the produce department: "It is challenging to find good talent that we can retain."

Another respondent noted the difficulty

Same-Store Projected Total Sales for 2018



Source: Progressive Grocer market research, 2018

of “finding, training and retaining friendly, self-motivated associates that can understand that we are a customer-oriented business and interaction is required.” A third survey participant suggested: “Supply more training versus less, and engage with new associates regarding expectations from the first day so that they understand what the job entails and what the expectations are. Also, make sure that associates are held accountable to the expectations while making sure that they are recognized when they succeed.”

“Our stores are comprised of a lot of part-time schoolkids,” notes Miller & Sons’ Roberson. “I have explained to the department managers that we are trusting these young people to take care of our customers and our livelihood when we go home for the day. I feel that if we expect that from them that we have to make it as interesting as possible and to help them grow. A well-trained employee is the best and most rewarding experience that we can all have during our time in retail.”

“Hiring is a big challenge,” asserts Robért Fresh Markets’ Esteve. “We offer employee discounts and free lunches, trying to attract more qualified people. We often — I am sure like many others — do not designate enough time to training. That happens more due to the fact that most new hires are rushed because there is a need to get them working — reactive instead of proactive. We try to

encourage creativity and include everyone in display contests and reward the entire team at the winning store as a way to try and give the associates some sense of being part of that decision-making process.”

In looking at departments’ physical needs, many managers and merchandisers are frustrated by the lack of space and display equipment for the many new products being introduced. “Most produce departments have a fixed amount of display space, and we continually have to find new space opportunities with the increased organic-segment sales,” one respondent said. Another contended that the biggest challenge of the department was “physical size, limited by our current offerings.” These executives know that if they can’t carry what customers want, competitors can gain an edge.

The biggest competition specifically mentioned in survey comments was from local product markets. For example, one respondent mentioned “roadside markets” as the biggest challenge.

Local markets weren’t the only competition viewed as a challenge, however. “Walmart, Kroger — we’re an independent, and it gets tougher for us to compete with the big guys,” one produce manager said.

After all, as another respondent noted, “Customers can go anywhere.”

“Shrink has been, and will continue to be, an issue in our stores if we don’t embrace it.”

—Eddie Roberson,
 Miller & Sons

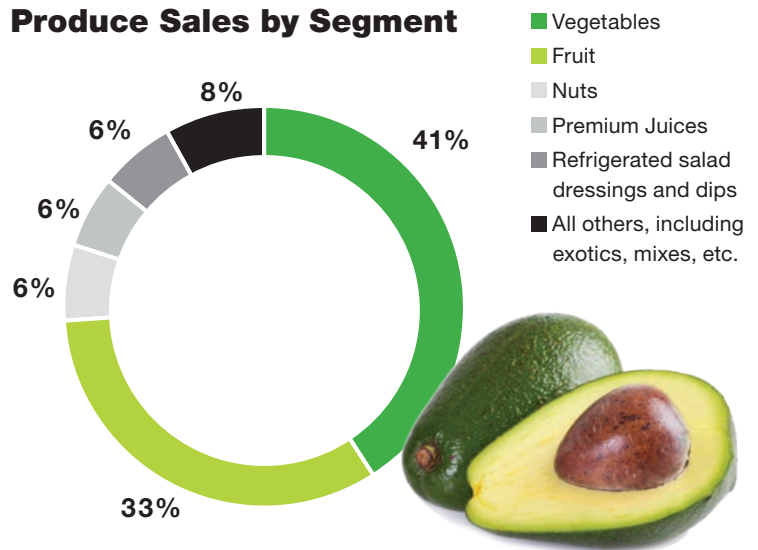
Produce Components

The average gross margin percent reported in PG’s 2018 survey was 34 percent, up slightly from last year’s 31.8 percent. Net profit percent reported by respondents this year was 21 percent, the same as last year. Produce department average percent of total store sales was 16 percent, roughly the same as in the 2017 survey.

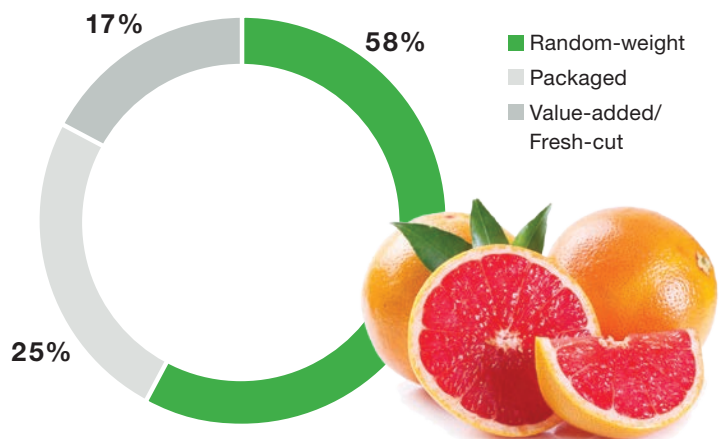
Vegetables were the primary produce purchase for respondents, at 41 percent, compared with 37.6 percent last year. Fruits were a strong second, at 33 percent, almost the same as 2017’s 32.3 percent. Sales of nuts were flat according to respondents, at 6 percent in 2018 versus 5.7 percent in 2017. Premium juices and refrigerated dressings and dips were both at 6 percent in the current survey, down slightly from 7 percent and 7.7 percent, respectively, in 2017. The catchall category of “all other,” which includes exotics and mixes, was down slightly at 8 percent in 2018, versus 9.7 percent in 2017. In the 2018 survey, 59 percent of respondents said they sell exotic produce.

Sales of organic produce have increased, according to respondents to the 2018 PG survey, with 46 percent citing a larger percentage of produce sold being

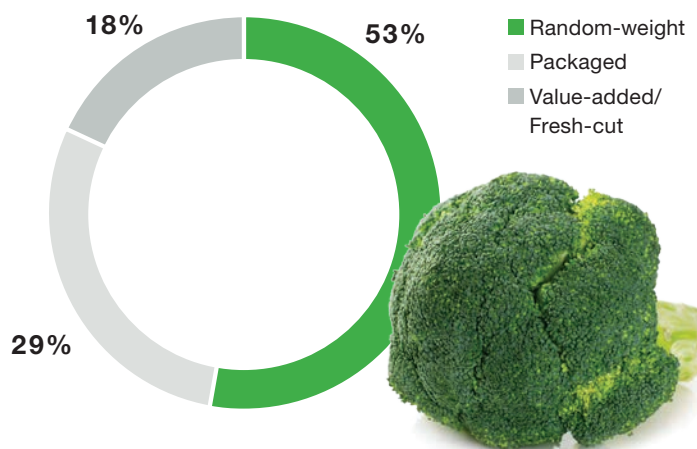
Produce Sales by Segment



What percent of fruit sales are ...

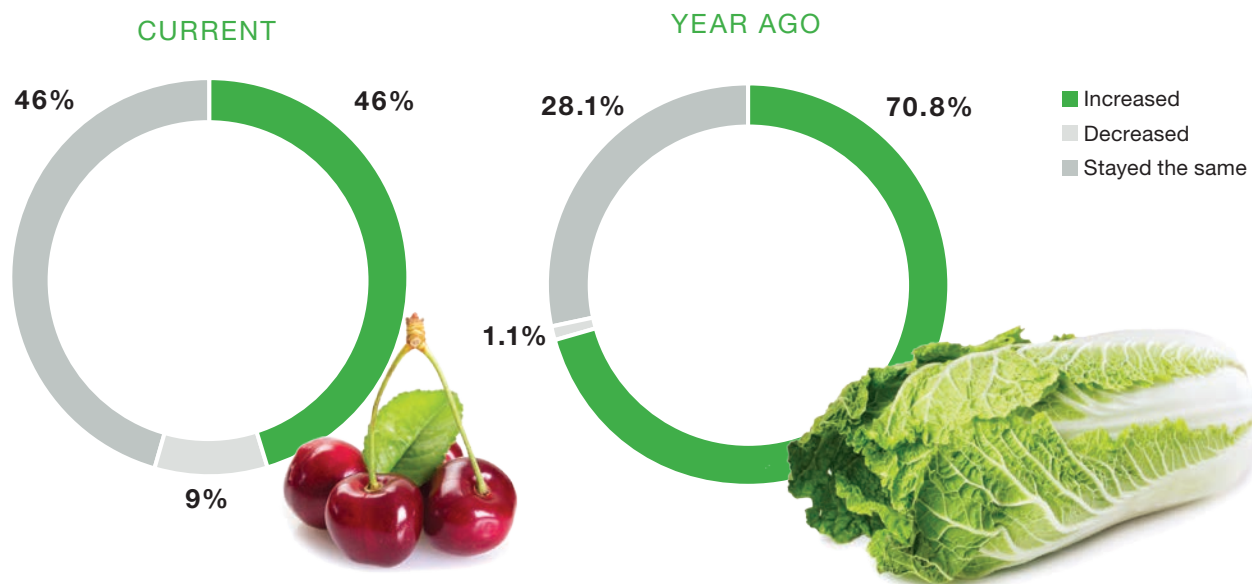


What percent of vegetable sales are ...



Source: Progressive Grocer market research, 2018

Compared with a year ago, sales of organic produce ...

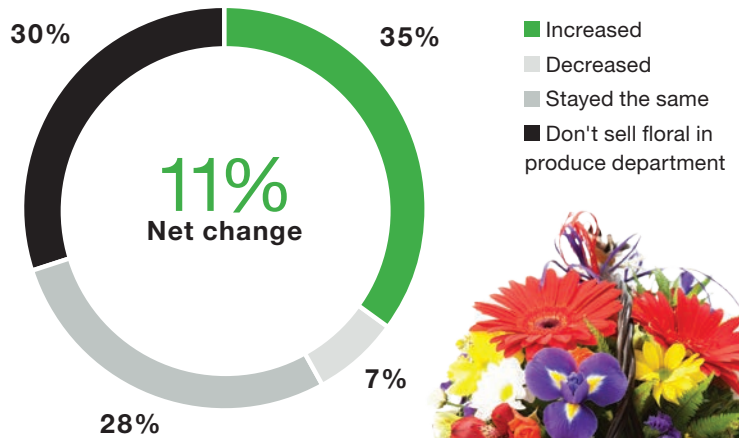


Source: Progressive Grocer market research, 2018

organic. According to research by Chicago-based Nielsen for the latest 52 weeks ending June 9, the top five categories in organic produce in order of sales are pre-packaged salads, apples, carrots, herbs and spices, and strawberries. At the same time, 46 percent of PG survey respondents said that there had been no change in organics sold; according to survey comments, some produce departments have limited or no room to add organic produce to their product mix.

Signage for weekly specials within the department remains the most popular form of promotion, according to the current survey. According to respondents, 91 percent do this within the department, while 54 percent use signage elsewhere in the store. Signage promoting meal and eating suggestions is used elsewhere in the store by 52 percent of those surveyed, and in the department by 46 percent. Sampling items is still strong in the produce department, according to 63 percent, and deployed elsewhere in the store by 48 percent. Signage denoting the local origin of produce is used within the department by 85 percent of those surveyed, and elsewhere in the store by 52 percent, while signage providing country of origin is used in the produce department by 76 percent.

Floral Sales Change in the Past Year



Source: Progressive Grocer market research, 2018



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Promoting Produce

	In the Produce/Floral Department	Elsewhere in the Store	Social/Digital Media (Cross-Promotion)	Don't Use
Signage for weekly specials	91%	54%	33%	7%
Signage for meal/eating suggestions	46	52	30	28
Sampling	63	48	20	26
Cooking/new product demonstrations	30	30	20	46
"Local" signage	85	52	30	4
Country-of-origin signage	76	41	17	11

Investment Plans for Produce/Floral

	Recently Invested	Investment Within the Next 1-2 Years	Future Investment	Wish List	No Interest/No Response
Energy-efficient lighting	50%	18%	20%	7%	11%
Energy-efficient chill cases	32	25	18	20	9
Signage	45	30	20	5	7
Mobile merchandisers	27	23	18	16	20
Portable bins	45	16	20	11	11
Floral displays/bins	36	18	9	11	25
Total department renovation	20	16	27	25	16
"Ugly" produce	30	14	9	11	36
Composting	23	5	7	18	50
Donation of unsold produce	52	5	9	5	30

Source: Progressive Grocer market research, 2018



Produce managers and merchandisers know that cross-merchandising within the produce department and in other sections of the supermarket can bring added sales. The trick today is to get more creative with cross-merchandising. Potatoes displayed near steaks, and shortcakes near strawberries still create sales. Respondents mentioned new-item signage, one-day

sales, seasonal displays with locally grown produce, use of the intercom, and sidewalk sales as viable cross-merchandising strategies. Outside the produce department, respondents' cross-merchandising ideas included placing fruit near the deli counter, value-added items in the meat department and placing produce at the front of the store.

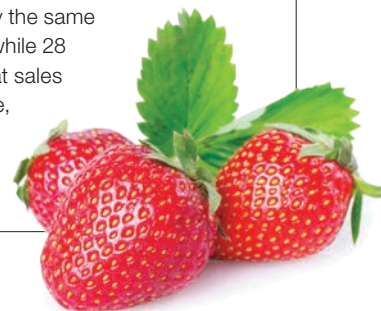
Meal kits are the current rage in many supermarkets, as well as a way that produce can be easily cross-merchandised. In the 2018 survey, 41 percent of respondents said that their supermarkets have meal-kit programs, with 63

percent noting that their produce departments are involved in the offerings.

A different idea is offered by Little House Green Grocery, with its weekly Veggie Box. According to owner Erin Wright, the Richmond, Va., store fills the above-named item for subscribers with unusual fruits and vegetables sourced from local farms.

Blooming Sales

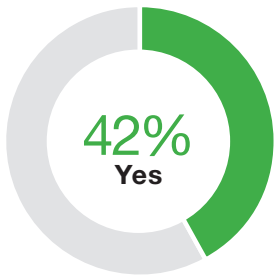
According to 35 percent of survey respondents, in the past year, floral sales have increased — by 36 percent, roughly the same as last year — while 28 percent said that sales stayed the same, which was no real change from 2017's



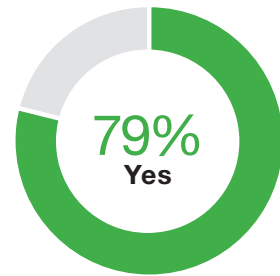


Click and Shop

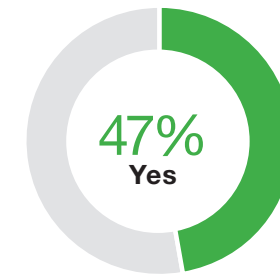
Does your store offer a home delivery/grocery-ordering (with store pickup) service?



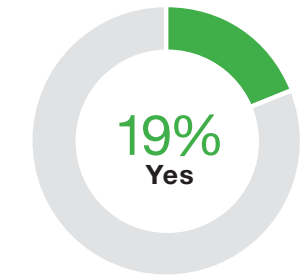
Have you expanded these home delivery/grocery-ordering (with store pickup) services in the past year?



Has the home delivery/grocery-ordering service increased produce sales?



Do you plan to add store pickup or home delivery services in the next year?



Keep track of inventory, kill items that don't sell, and refocus on rotating product."

—Rob Larrison, Big John Store Inc.

Rating Problems Facing Produce/Floral Department

Rated on a scale of 1-6, where 1=not serious through 6=extremely serious

	Current	Year Ago
Quality of product	4.64	4.33
Profits	4.49	4.43
Labor/recruitment costs	4.18	4.10
Shrink/spoilage	4.11	4.09
Competition from other supermarkets	4.09	4.43
Employee training	4.09	3.94
Price perception of fresh produce	4.09	4.13
Competition from other outlets (Farmers' markets, natural food stores, etc.)	3.89	4.20
Transportation costs	3.80	3.70
Wholesale prices	3.73	3.94
How to increase consumption	3.69	4.13
Produce/floral department overhead (building upkeep, energy costs, etc.)	3.49	3.71
Competition from Walmart	3.44	3.74
Outbreaks/recalls	3.31	3.21
Leveraging produce as snacks	3.29	3.63
Traceability (point of origin)	3.00	3.36

Source: Progressive Grocer market research, 2018

29 percent. An additional 30 percent said that they didn't sell floral in their produce departments.

Roberson, of Miller & Sons, says that his floral department is self-service, and that it's a problem at times when customers request floral arrangements, which the store isn't equipped to do.

Meanwhile, Robert Fresh Markets' Esteve notes, "Sales in floral have increased for us about 9 percent year to date." He attributes this in part to a recently introduced consumer/grower bunch program in which all flowers are two for \$12 and all fillers are two for \$10, along with a \$9.99 everyday dozen-rose bunch.

"We have licensed florists; Louisiana is the only state that requires that," he says. "They will arrange any of those combinations at no charge. It is an added value to the customers. This is where the bulk of our sales increase is coming from."

He also sources out the best cost on Phalaenopsis orchids and keeps the retail in the \$12.99- \$13.99 range every day. "That is another big item for the department that comes across as a value to the customers," Esteve observes.

Floral sales have increased slightly since last year at Big John's, according to Larrison. "We have tried to grow our floral department over the last couple of years, basically to compete with one other florist and two nurseries in town," he points out, adding that he thinks that growth in department size and offerings has helped his store's sales. **PG**