

Fresh fruit & vegetable retail - Reinventing the value chain

If you find it difficult to kick start or manage your exclusive fruit and vegetable retail stores effectively, innovation may be the solution you are looking for.

We present here opportunities for innovation in F&V retailing. The focus here is on exclusive fruit and vegetable retailers and retail chains which operate as neighbourhood retailers with small format, sometime mobile, low cost stores.

While in many countries most F&V are sold in supermarkets, the business approach of these chain retailers is much different from the one of exclusive small format fruit and vegetable retailers. Selling F&V from supermarket platform is a fairly recent phenomenon in many countries. Even at supermarket format, many retail companies are yet to find right clues to F&V consolidation, distribution and retail. However, given the opportunity and low entry barriers, entrepreneurs of all hues and dimensions have expressed lot of interest in exclusive small fruit and vegetable retail chain format. Health benefits, growth & profitability prospects, economic & social benefits of fruit and vegetable trade and wide publicity of same have ensured that this excitement is spread uniformly across practically all time and climate zones.

Most of these exclusive F&V retailers still operate on a traditional business model that is buying and selling. However, there is a potential to transform the industry's current commodity-based value chain from *distributing fresh produce* to the *catering of meal solutions and health contributions* for the 21st century food consumer.

Other retail industries have experienced systemic change during the last decades. For instance, in many countries during the last 30 years the bakeries went through a significant transformation from street bakers to in-mall sales outlets or stand alone confectionery shops that now handle most of the baking needs of the customers. Pharmacies and chemist shops that used to be places to buy drugs now offer cosmetics, toiletries and cell phone accessories etc.

However, little has changed in the way F&V is retailed in neighbourhood and yet the F&V stores could offer many value-added F&V offerings in addition to fresh and unprocessed produce. They could cater to the health and convenience needs and wants of modern consumers.

Small format's value chain – present status

The basic value chain model for any business distinguishes between primary activities and support activities. Primary activities are directly concerned with the creation or delivery of a product or service. The primary activities are linked to support activities (which give rise to overhead cost) that help to improve their effectiveness or efficiency. If a bundle of activities (the value chain) is managed well, an organisation will be able to sell its products/services at a profit (margin). Hence, value is created that is higher than the sum of the costs of all activities in the value chain.

Much of the traditional activities of typical F&V stores are centred on produce procurement, display and storage. Value is created by procuring produce at the lowest possible price and selling it at the highest possible one. Given that the F&V supply chain is generally highly competitive, traditional retailers are typically price takers, i.e., the market sets maximum sales prices.

If a F&V retailer is good at produce storage and handling (e.g., by using effectively potentially existing cool storage facilities, managing the detrimental effects of light and/or moisture on fresh produce), he may be able to increase shelf life and to reduce produce wastage.

In addition, by managing effectively inventory, promotions and sales prices of produce that needs to be sold rapidly, a F&V retailer can increase revenues while reducing wastage, thus creating value and gaining competitive advantage vis-à-vis their peers.

Finally, as in every business, there are general administration activities, such as human resource management, accounting, store facility maintenance, etc. In a

typical F&V store, these tasks may, however, be minor (but very important) and can be summarised into one single support activity called store management.

Building blocks for the future value chain

Is there a need to bring in some classical management knowledge into selling common place food products like fruit and vegetables? The answer is a resounding yes, with capital Y. Some theory is pertinent beforehand.

The concept of the value chain was developed by Michael Porter. A value chain analysis identifies the different activities an organisation performs, and links them to its competitive position. It is a quantitative analysis tool aiming at an evaluation of which activities add value, and which do not. Behind the concept is the insight that an organisation is more than a random collection of machinery, equipment, people and money. Only if these things are arranged into a workable system with interlinked activities it will become possible to produce something for which customers are willing to pay. Porter argued that the ability to perform particular activities and to manage the linkages between them is a source of competitive advantage.

In light of above concept, a reconfigured value chain of the future F&V retail chain assumes that some modern management approaches and techniques are implemented in order to support a strategic re-orientation from distributing fresh produce to the catering of meal solutions and health contributions for the 21st-century food consumer adding value through *product, process and system innovations*.

Value-adding is a must in highly competitive fresh produce industries. But, it has also become a much-misused and jargonised term in recent years. Let's cut through the crap and talk straight.

Product innovation

Three different forms of value-adding can happen here:

1. Differentiate the products on quality or size, and sell same at different prices to different customers;
2. Minimally process items to a form and shape which is closer to the final consumer product (fresh-cut vegetables and ready to eat salad mixes).
3. Process the whole item or its functional components, or lower grade, waste or by-products by converting short shelf-life product to storable form (e.g., freezing or dehydration of F&V).

The basic aim of these forms of value-adding is to create a substantial benefit to the next user or end user of a product, saving time and / or cost, or providing some sort of additional benefit from the product such as health advantage, taste, versatility or storage life.

A modern neighbourhood fresh retailer would offer value-added, processed F&V products, spends time on processing activities rather than on produce sourcing and storage, adds complementary products and services related to healthy eating and living, and tries to better understand and to respond efficiently to its local customer wants and needs.

Process innovations

Category management, again a misused and jargonised term, is a key to add additional value. Category management basically is a marketing strategy in which a full line of products (instead of the individual products or brands) are managed as a strategic business unit.

In a fruit and vegetable store, category management could be improved first by trying to implement a different marketing approach for fruit than for vegetables. Both categories are purchased, bought and consumed in quite a different way by many consumers. An even finer approach to category management would be to differentiate marketing and sourcing efforts between different product sub-groups like apples, banana, citrus, leafy vegetables, exotics, tubers, organic etc.

Certain fruits and vegetables could be especially promoted due to their health proprieties. In addition, health information in form of books, booklets or leaflets

could be distributed free or sold. Offering some fresh preparations in the shop such as juices, or ready-to-eat snacks may result in impulse purchases. A category may be created after fruit / vegetable - based health link and could even include complementary products which are usually sold (without prescription) in drug stores.

Home gardening of fruit and vegetables also play a significant role for some income groups, at least in cities, in some countries. A specific new category of products could be "grow your own vegetables". Seed kits, seedlings, small fertilizer packs could be sold together with some necessary equipment and books, CD / DVDs on how to produce one's own herbs, vegetables, berries etc.

Why not go a step further and create horti-tourism as a separate product category? Who would not like to visit an apple or mango orchard when these fruits are in-season?

We believe that small exclusive retail chain operators would be more agile and responsive in fulfilling these low cost wants and latent needs of their customers than supermarkets.

Having said above, a prerequisite of such an enhanced fruit vegetable retail concept would be to gain a thorough understanding of the local market and in particular of customer needs and wants. This requires systematic consumer study and demand management.

This brings us to another process innovation which is obviously called Demand management and efficient consumer response (ECR).

ECR is a form of logistics management through which multi-product supermarkets incorporate aspects of quick-response inventory planning, electronic data interchange, and logistics planning.

In essence, ECR requires collaborative business partnerships in order to better fulfil customer demand. That no systematic assessment of customer needs and

wants are conducted due to a lack of time and technical skills is one of the major problems with fresh produce retailers.

However, specific demand studies could be easily and very cost-effectively be conducted by university students as part of their study projects. Using established statistical methods retailers can better understand what their customers want and how they could optimise their product assortments, pricing, promotions, etc. This would result in a much more systematic marketing process.

Lastly, improvement in staff training, one of the most neglected areas in fruit and vegetable retail, could bring miracles, particularly if some of the above said suggestions are to be implemented as that would very likely require, at least partly, higher qualified staff. More skilled staff would surely help to increase customer loyalty by building trust in a store, an aspect which is increasingly important in food and health industries.

System innovations

Changing the business model in the above said way would have implications for the entire F&V supply chain. If a fresh produce retailer's main tasks evolve from distributing fresh produce to the "catering of meal solutions and health contributions" for the 21st-century food consumer they need to reorganise their current way of conducting business.

This would probably mean that a significant amount of time will be spent on managing business partnerships and there will be less time for traditional tasks such as the frequent personal procurement visits of wholesale markets, mostly for reasons of physical inspections to verify produce quality which could now easily be outsourced. This brings in use of third-party logistics providers (3PLs). In many industries, non-core tasks are being transferred to more competent business partners, logistics service providers, specialised transporters and of course by implementing modern reverse logistics tools, equipment and systems.

The modern neighbourhood fresh retailer thus adds and creates value by managing business partnerships with suppliers, third-party logistics providers, processing technology providers and consumers rather than adding a small margin from commodity distribution activities. As a result, the modern neighbourhood-based fresh retail store could achieve significantly higher profits.

Conclusions

The fresh produce retailer of the future would be much different to the one of today. They would be more technology-intensive, using state-of-the-art equipment and machinery for F&V processing and storage. Skill levels of both staff and management would be considerably higher than compared to today. Staff would need to be able to handle processing, packaging and storage technology while being competent in advising customers on consumption and health issues. Management would be able to competently handle business partnerships with 3PLs, processing technology providers, and market research providers in order to better understand customer needs and wants.

If the exclusive fresh produce retailer remains traditional they may just disappear. The competition from large retailers / supermarkets is strong. As in so many other industries, "grow or go", is a reality here also. But action should happen soon. The best way to build the future is to start now.