KPMG Consulting

Survey of Produce Trade: Marketing of IFP Grown Apples

Background Report no. 3

Prepared for
Growing With Care Committee

June 2001

KPMG Consulting

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1 Executive Summary

Following is a summary of insights and conclusions about marketing IFP grown apples based upon a phone survey of the retail and wholesale trade that handles fresh produce in Canada, the USA and western Europe.

- A grower group would need to determine if the IFP grown attribute is sufficient to make their product line stand out from the range of options that is available to the consumer and trade buyer. It is especially important to understand the likelihood for capturing a price premium and/or higher market share through promoting this attribute. The results of this survey indicate that IFP production, while an important part of the total product mix, is not sufficient, on its own, to provide a stronger retail demand or price premium.

- The Growing With Care Committee trade survey of North American retailers and distributors revealed an antipathy to introducing a third line, between organic and conventionally grown produce, because of concerns around creating negative impressions about conventionally grown produce and confusing consumers.

  This perception is likely a false dichotomy on the part of managers engaged in day-to-day selling activities. Canadian and American consumers respond favourably to being given a wide range of buying choices. The enthusiasm for new apple varieties is evidence in the fresh produce area. Organic production has not dented consumption of conventionally grown fresh produce and has likely contributed to better understanding of the benefits of fresh produce consumption. Another example is in the dairy case where introduction of fat free products has attracted former non-dairy consumers; the no fat lines it increased the size of the dairy market and did not harm fatter line sales.

  This is an example of where industry insiders have fixed views on what is right for the consumer instead of attempting to understand what the consumer wants. The consumer wants variety, i.e. a range of sizes, a rainbow of colours, an array of tastes and more than two choices in fresh produce growing practices. The Growing With Care Committee consumer survey (report no. 2) presented a strong case for this.

- European and North American retailers are moving in opposite directions on the matter of IFP grown apples and produce. Rather than acting as a constraining influence, European retailers are moving towards mandating IFP growing practises for their suppliers. In anticipation of this trend and to protect its large European market share, the New Zealand tree fruit industry developed an IFP protocol, instituted trials in the mid 90s, and achieved its target of having its 2001 export crop fully IFP compliant[1].

[1] Marketers of New Zealand apples in Canada and the US have neither sought a price premium for IFP grown product nor have developed a promotional campaign around this growing method.

Twenty major European food retailers united to write their own production guidelines in 1998[2]. Their organization is called EUREPGAP. European orchardists and wholesalers selling to these retailers must obtain certification from an approved EUREPGAP certification organization within a specified time period, two years in the case of the large UK retailer Sainsbury. The first phase of EUREPGAP's requirements are oriented towards bringing producers into compliance with current national standards[3]. The second phase is expected to specify IFP standards.

- There is a perception within the North American trade that grower practices have improved in recent years and that many farmers are now reducing their use of chemicals and exploring alternative methods of orchard management within conventional production systems.

- If it is determined that IFP will be part of the grower group's platform, then the promotional terminology needs to be consumer friendly, easy to identify and understand. There is a high level of confusion about the various growing terms and what they actually represent to the trade buyer or to the consumer.

- Certification of IFP production is essential. It provides a degree of credibility and allows a buyer (or a consumer) to have a comparison model.

- The dynamics of timely transportation, distribution, storage of the brand so as to guarantee, as much as possible, the quality, consistency and appearance buyers rate as their primary reasons for purchase need to be determined and adhered to. The overall strategy for producing and delivering high quality apples to retailers is viewed as being the lynchpin to ultimate marketplace success.

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[2] In the UK, the government uses a "name and shame" approach, whereby the retail sources, of fresh produce that exceeds maximum allowable residue levels, are publicly named. UK food retailers have built up a high level of trust with their consumers about food quality and seek to avoid any situations that reduce their brand equity. For example, Sainsbury supplies growers with acceptable produce specifications, including pesticide use (when and what), varieties, size banding, etc. Its apple buyer visits growers and packers throughout the world. European retailers have embraced EUREPGAP as a method to minimize the risk of chemical residue problems. EUREPGAP evolved out of the UK's Assured Produce Scheme [pers. comm.. Jerry Cross, HRI].

The Assured Produce Scheme was developed jointly between the National Farmers Union and a group of retailers. Under this program, growers complete a self-assessment questionnaire and there is an inspection of every enrolled farm, every year. Checkmate International, a quality assurance firm, undertakes the inspections. The growers pay a fee to support the program and there is no government financial support. The main food retailers will only buy from growers who are enrolled in this program, an estimated 80% of UK produce producers. Jerry Cross of HRI says there is a high failure rate at the inspection stage, which entails a re-inspection and additional fees in order to re-acquire full membership. Accredited members of the Assured Produce Scheme can use a "Red Tractor" eco-label on their product and packaging to communicate compliance.

[3] The national standards may already be consistent with IFP practices.

- There is no current system for identifying IFP fruit at store level during ring-out. Price look up (PLU) codes are used by many retailers, and while organics are identified by "9", there is not a system that identifies produce grown using non-conventional methods. This shortcoming is of considerable concern to retailers who forsee problems at the check-out in the absence of a PLU code for IFP grown produce.

- Education about IFP production and its benefits is essential at all levels (buyer, store staff and consumer levels). A strong marketing program geared to the various audiences to create awareness, desire and demand is strongly advised. Buyers and staff need to learn to differentiate eco-labeled fruit from both conventionally grown and organically grown produce. The grower groups needs to feature the line's consumer benefits and position the brand as a potential profit centre to the trade by opening up a market tier that is currently inactive.

- Future consideration needs to be given to best merchandising practices for IFP or ecologically grown produce. There are no widely understood practices at this time.

2 Introduction

This is the third background document (along with a trip report)[4] that has been prepared for Part I of the Growing With Care Committee's process of developing a marketing strategy for Integrated Fruit Production (IFP) grown apples and pears from the Okanagan.

KPMG Consulting's sub-contractor, Yli-Luoma Marketing, undertook the phone survey of the produce trade. Stratigis Management Consulting undertook in-person interviews of several representatives of the UK trade. The report was drafted by Yli-Luoma Marketing in cooperation with another sub-contractor, Crane Management Consultants Ltd.

The goal of this report is to report the findings of an interview program of the produce trade on the subject of marketing Integrated Fruit Production (IFP) grown apples. The document will be one of several sources for preparing a marketing strategy for IFP grown apples and pears from the Okanagan region of British Columbia.

Phone and personal interviews were undertaken in May and June 2001 of brokers, distributors, retail store buyers, and other industry professionals in Canada, the USA and Europe.

The survey covered the following six areas:

- Product management
- Certification
- Labeling
- Consumer awareness
- Pricing
- Promotion

Respondent responses were qualitative, impressionistic and anecdoctal, and are valuable both as opinions of pivotal decision-makers in the front lines of produce sales and as those of our potential marketing partners. An interview guide was presented, emailed or faxed to each potential respondent in advance of his or her interview. The guide was used as an outline. Thirteen retailers returned the surveys (and in several cases they did a shorten version of the questionnaire). Several retailers only wanted to answer one or two questions. With the others we found that the best way to gain their feedback was to engage them in informal conversations. The in-depth interview guide is attached as Appendix I.

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[4] Report no.1 – World Apple Production and Outlook
Report no.2 – Survey of Consumers: IFP Grown Apples
Report no. 3 – Survey of Produce Trade: Marketing of IFP Grown Apples
Report no. 4 – Strategic Review of Eco-Branding and Eco-Labelling of Apples
Trip report – Interviews with UK Apple Industry Representatives

One hundred and fifty potential respondents were contacted. Within some groups we attempted to contact various departments. With a success rate of 20% we were able to obtain feedback from about 30 individuals. The following list and table shows respondent numbers by nationality and trade role.

Exhibit – Respondent Numbers by Nationality and Trade Role

Trade Role	Canada	USA	UK
Retail chain buyers	7	6	4
Merchandisers/Other	2	2	
Distributor buyers/ Wholesalers/ Brokers	3	2	1
TOTAL	15	10	5

The following are some key issues and trends that are current within the retail and wholesale sectors and influence the perceptions of respondents for this survey exercise.

- **Industry Consolidation.** Larger retailers continue to buy out smaller retailers, thereby reducing the number of produce and apple buyers. These buyers are then responsible for a greater number of stores and save time in a hectic business by reducing the number of suppliers and/or vendors they use.

    - ☐ **Challenge: Getting the buyer's undivided attention; establishing a vendor relationship.**

- **Cost-Accounting and Margins**. An accounting-based approach is developing, ie. buyers rely more on ordering what the computer tells them. As a result competitive pricing is uppermost in their minds, and margins are more important than the taste or other product attributes they can offer to customers.

    - ☐ **Challenge: Getting buyers to recognize the profit potential in produce outside the best cost accounting model and setting prices that create a win-win relationship.**

- **Personal Wellness and the Environment.** Food safety remains a huge issue for the consumer – and therefore for the retailer. The rapid growth of organics from a tiny niche market to a mainstream category underlines the fact that consumers will pay significantly more for non-commercial produce with special benefits beyond safe eating.

    - ☐ **Challenge: Getting buyers to see how IFP grown or pesticide and fungicide free apples and pears can open a new market tier and capture consumers concerned about food safety but unwilling or unable to pay higher organic prices.**

- **Branding.** In an attempt to capture and keep consumer awareness, both private labeling and national brand labeling are on the rise in the produce section.

    - **Challenge: Developing labeling, packaging and merchandising tactics to position Okanagan IFP grown apples and pears in a fragmented and evolving produce sector.**

3 Survey Findings

This research has garnered "informed opinions" from professionals who work in the same industry but within different organizations that cater to consumers who may fall into a variety of demographic and psychograhic categories. The respondents answered a few structured questions but the interviews relied on open-ended questions to elicit informed responses. There are many variables that may make the opinions of respondents differ, one from the other. In order not to be led astray, only those issues that were clearly of concern to the majority are reported.

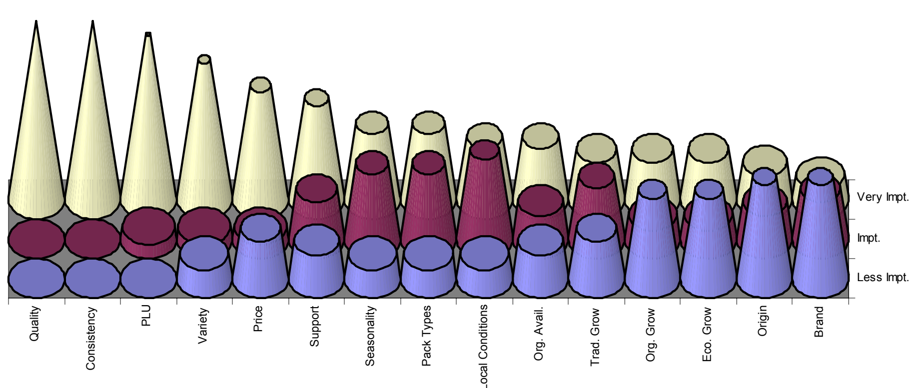
3.1 Product Management

3.1.1 Consumer Purchasing Decision

- **According to trade respondents, the main concern of consumers in their buying of apples is apple quality, followed by consistency.**

The following chart indicates the distribution of importance that respondents attached to some important apple buying dimensions. Respondents were asked to rate on a scale of one (less important) to five (most important) the importance of different elements when purchasing apples.

Exhibit – Trade Perceptions of Apple Consumer Decision Factors



Next on the buyer's radar screen is PLU stickering, followed by variety (taste) and price. Marketing support (demos, etc.), organic availability, pack types and local market conditions are clustered in the mid-range of concerns.

Interestingly, while conventional and organic growing methods score about even, ie. at the low end of influencing the purchasing decision, eco-friendly growing methods have less influence.

Trailing behind is origin and brand. With brand, the elements that are considered important are all part of a branding image, however the trade does not see branding as an important element for consumers' purchasing decisions. Origin may rank lower because consumers can access apples year round. What is more important is the quality and consistency of the day's offerings.

A Canadian wholesaler/broker summed up by stating that: " Continuity of supply – which is in part based on quality and part on price that allows me to compete is what I need". He went on to add that newer buyers are more price, price, price.

3.1.2 Are consumers looking for something else in apples

- **Even with the vast range of apple varieties in existence, a large number of retailers feel that consumers are looking for something different.**

73% of the respondents think that consumers are looking for something different in apples, while 27% think that consumers are pleased with current offerings. Taste and variety are the key components as demonstrated in the following quote.

"Consumers are still hunting for taste – good tasting apples like the Gala" (Retailer, Canadian)

The buyer today is challenged with a variety of factors when they make the buying decision to list a new produce item for the consumer. Many elements come into play:

- What is the right size to carry for the consumer?
- Which varieties should be offered?
- What type of packaging will move volume?
- Does the consumer want organics?
- How does a retailer ensure that the correct ring takes place at the cashier's desk?
- What is the basic merchandising stance of the retailer (what type of customer do they attract)?

The real difficulty that was voiced by many buyers was how much more do you offer the consumer. Shelf space is limited, the consumer has a limited about of money to spend on fresh produce, and there are so many options available (from country of origin to growing methods).

In The Packer's *Fresh Trends 2001* (a consumer report) sixty-seven percent of consumers named one or more things that are better with purchases of fresh produce over the past five years. More variety was cited by 29% of respondents, better year-round availability with

18%, and freshness/ripeness by 10%. On the flip side, 33% of consumers named price as one of the changes for the worse over the past five years, as was freshness/ripeness (8%), and safety - chemicals/pesticides/bacterial (7%).

The last point is one, that if continues to grow, would be a strong selling stance for anyone growing ecologically grown apples.

3.1.3 Consumer Awareness about Health and Environment

Buyers are aware of consumer concerns about personal and family health, allergies and the environment. They see these concerns increasing over time, potentially motivating the purchase of eco-labeled fruit rather than conventionally grown fruit.

The growth in organics has been due to a variety of factors: greater consumer awareness and acceptance; organic produce more readily available – especially in the mainstream grocery groups; and the price spread between conventionally grown and organics being lessened.

Health is the overriding element when it comes to consumer awareness. Concern about family and personal health seems to be increasing due to a variety of reasons such as allergy factors, aging, concern for children's welfare and so forth.

In the "Fresh Trends 2001: Understanding Consumers and Produce" report consumers stated a strong relationship between fresh produce to lifestyle and health issues.

- Eighty-one percent of respondents said they are addressing health issues through food consumption. Some of these issues include reduce fat, maintain weight, lose weight, increase fiber intake, lower cholesterol, fight cancer, and control diabetes. For 52% of consumers, produce is considered a main element of meals; for 47%, produce is a meal supplement.

- There is growing consumer awareness and developing attitudes toward genetically modified fresh produce. (Note: One will have to look closely at whether or not ecologically grown apples include produce that is GMO free or not).

- Consumers at this stage are of mixed feelings towards GMOs – some can easily see the benefits but others have a degree of discomfort with the concept. Four percent of consumers considered themselves extremely knowledgeable (4%), very knowledgeable (15%), or somewhat knowledgeable (43%) about the benefits/risks of genetically modified (GM) fresh produce; however, only 23% were aware that fresh produce items have been modified for special features.

- Sixty-one percent noted one or more benefits of growing GM produce. The expected benefits of growing GM produce are improve health/nutrition/disease fighting, longer shelf life, better taste/flavor, decreased use of chemicals/ pesticides, and increased food supply.

- Conversely, 59% of consumers noted one or more risks in growing GM produce with expected risks that included concerns for health, unknown short- and long-term implications, it would not taste good, lower, nutritional value, and higher prices.

3.1.4 Ecological Growing Methods

- **One-third of respondents had not heard of the "IFP" or "IPM" terms, and three-quarters had not heard of the term, "ecologically grown" apples. We found that only one-third of respondents had purchased IFP or ecologically grown fruit.**

Buyers, who are open to adding or considering an eco-labeled "brand" to their produce departments, say they will need a lot of marketing support from growers including: information on shelf life, appearance, availability, competition with organics, price, and certification process, merchandising, PLU number and consumer education.

Canadian and American respondents are concerned that adding another line (between conventionally grown and organically grown) would only create confusion. An observation was made that the term "transitional"[5] is already found to be confusing by consumers. IPM/IFP/Pesticide Free – most retailers do not use these terms as they find them misleading. The recently released new organic standards seem to be welcomed by the trade.

There is also concern by the North American trade about the impact that IFP apple sales would have on same store sales of conventionally grown apples. Some retailers felt that, by drawing the eyes of consumers to IFP product, they would distract customers from their normal offerings.

As one Canadian contact pointed out, "To further fragment the apple category is tough. You have to do a HUGE job selling the value of it". He went on to add that most growers now use best growing practices. Chemicals are so expensive that they want to step away from it."

<u>A key point is that Canadian and American respondents did not want to create an impression that current offerings are not safe.</u>

- **European and North American retailers are moving in opposite directions on the matter of IFP grown apples and produce.**

Rather than acting as a constraining influence, European retailers are moving towards mandating IFP growing practises for their suppliers. In anticipation of this trend and to

[5] One retailer mentioned that a third category was tried once via the PEIB (a prefix 7 was proposed to indicate fruit that was in a transitional phase). This retailer said that growers are not being recognized for trying to improve growing standards.

protect its large European market share, the New Zealand tree fruit industry developed an IFP protocol, instituted trials in the mid 90s, and achieved its target of having its 2001 export crop fully IFP compliant[6].

Twenty major European food retailers united to write their own production guidelines in 1998[7]. Their organization is called EUREPGAP. European orchardists and wholesalers selling to these retailers must obtain certification from an approved EUREPGAP certification organization within a specified time period, two years in the case of the large UK retailer Sainsbury. The first phase of EUREPGAP's requirements are oriented towards bringing producers into compliance with current national standards[8]. The second phase is expected to specify IFP standards.

3.2 Certification

The area of certification and which certifying bodies would be appropriate was explored with respondents. The responses indicated that a certification process must be adhered to, with its terms and conditions clearly outlined.

3.2.1 Third-party versus second-party certification

- **Third-party certification is preferred over self-certification.**

Those who suggested self-certification felt that third-party certification would be more costly. Only one respondent indicated that certification was not necessary.

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[6] Marketers of New Zealand apples in Canada and the US have neither sought a price premium for IFP grown product nor have developed a promotional campaign around this growing method.

[7] In the UK, the government uses a "name and shame" approach, whereby the retail sources, of fresh produce that exceeds maximum allowable residue levels, are publicly named. UK food retailers have built up a high level of trust with their consumers about food quality and seek to avoid any situations that reduce their brand equity. For example, Sainsbury supplies growers with acceptable produce specifications, including pesticide use (when and what), varieties, size banding, etc. Its apple buyer visits growers and packers throughout the world. European retailers have embraced EUREPGAP as a method to minimize the risk of chemical residue problems. EUREPGAP evolved out of the UK's Assured Produce Scheme [pers. comm.. Jerry Cross, HRI].

The Assured Produce Scheme was developed jointly between the National Farmers Union and a group of retailers. Under this program, growers complete a self-assessment questionnaire and there is an inspection of every enrolled farm, every year. Checkmate International, a quality assurance firm, undertakes the inspections. The growers pay a fee to support the program and there is no government financial support. The main food retailers will only buy from growers who are enrolled in this program, an estimated 80% of UK produce producers. Jerry Cross of HRI says there is a high failure rate at the inspection stage, which entails a re-inspection and additional fees in order to re-acquire full membership. Accredited members of the Assured Produce Scheme can use a "Red Tractor" eco-label on their product and packaging to communicate compliance.

[8] The national standards may already be consistent with IFP practices.

Third-party certification was preferred for a variety of reasons:

- Presents objectivity
- Ensures integrity
- Provides credibility
- Builds consumer awareness
- Increases believability
- Creates legitimacy
- Generates confidence with both consumer and trade
- Sets standards that are unbiased
- Provides uniformity

3.2.2 Acceptance of certifying organizations

> ➢ **Respondents expressed a strong preference for either the environmental product certification organization, or a government-type group, such as the USDA/Agriculture Canada.**

Respondents were presented with the following four options for third-party certification.

- An environmental product certification organization (Green Seal in the US, Blue Angel in Germany and Environmental Choice in Canada)
- An environmental organization (i.e. Greenpeace or World Wildlife Fund)
- A food certifying organization
- USDA/Agriculture Canada

A food certifying organization and an environmental organization did not meet trade perceptions of what a certifying group should be. Several respondents felt that none of the options were appropriate.

Several certification elements were deemed important to consumers and the trade.

- Guidelines and rules to regulate the IFP program and growers
- A trustful, recognizable, independent, credible and unbiased source of guidelines and rules

- For Canada, a Canadian source
- A source that would keep the best interests of consumers in mind

One respondent commented as follows.

"A private company that should not have any persons that have affiliations with any growers or packing houses nor any financial interest in either. There should not be even a hint of conflict of interest or bias". (Retailer)

3.3 Terminology and Labels

- **The trade whole-heartedly prefers the designation "ecologically grown" rather than "IFP", however some respondents felt that neither reference is suitable.**

Less than 10% of respondents like the phrase "Integrated Fruit Production". A phrase like "Ecologically Grown" is seen as being:

- Identified more easily by consumers (at least until they are more educated in this area);
- Perceived as a friendlier term for consumers; and
- More meaningful to consumers, not just an empty term

General comments from the trade, on what the eco-label should convey to consumers include the following.

- Reduced in chemicals and environmentally conscious
- Certified product
- Safe product (a very topical issue at this time)
- Healthy product

Other comments included the following.

- A symbol conveying the eco-label message.
- Some retailers want basic information: varieties, textures, and availability.

- Others want the label to act more as an educational tool.

Labels on apples can be improved by:

- Making them easier to remove - the easier, the better
- Giving additional tips on the labels such as usage ideas

Some respondents felt that the label should not even be on the fruit – "Forget the label, no one cares or reads them", or "People hate the labels, no one looks at them".

3.4 Pricing

- **The general consensus was that consumers would pay more for IFP/Eco-labeled apples but putting forth the caveat that consumers need to be aware of the advantages of IFP in order to capture a premium. However buyers will look at a variety of factors and price is important. A small premium (i.e a few dollars) might be paid but a large gap (i.e. $6.00) is not acceptable.**

Several retailers pointed out the difficulty of determining the right pricing levels. The following quotes point out the source of these difficulties.

- "That is a question I cannot answer because pricing is based on many factors - seasons, availability, organics, local, import, etc."
- "Urban areas and suburban areas are different - city people don't know who the farmer is and who is selling organics".
- "A small percentage of people will pay a small percentage more - I don't get my volume from them".
- "There are many times I pay premiums for product that isn't "eco", etc. In short, I don't think that this is an applicable question because prices are what they are, and you buy or you don't".

One important consideration is that many retailers have a maximum limit of what they will pay for value-added lines[10].

The following quotes are illustrative of respondents' perceptions about consumers' price sensitivity to apples.

- "People will pay extra for eco products"

[10] Value-added in this case means organics, or other features that may be offered to buyers.

- "Apples are a staple shopping list item. The only decision the consumer makes in the store is what taste do I want today?"
- "Usually not a price sensitive item. Quality first, price second"; "Willing to pay a little more for quality and value"
- "Not scared of $1.00 per pound" versus "The $1.00 per lb. is a barrier to cross"

3.5 Marketing and Promotion

3.5.1 Introduction

> **It is clear from the trade survey that motivating wholesalers and retailers to buy an eco-label line of apples will require a complete and sophisticated marketing campaign, including product development to create a high quality product, consumer and trade education, public relations and advertising and "right" pricing, to "create the market".**

While consumer education, POP material and in-store demos are deemed essential to the successful roll-out of the growing method, if the apples do not deliver consistent quality, appearance and taste, the sale will not occur.

A very important barrier, not insurmountable, but definitely requiring considerable attention, is frustration amongst buyers and merchandisers as they grapple with handling a third line, having many varieties and pack types. The trade does not see itself in the role of commanding the creation of a third line because of their concerns about health or the environment. Instead they want to minimize their costs in what they view to be a low margin business. As a group, they do not see how a third line is going to grow (or even protect) their revenues so what they see are potential extra costs. Within the trade, some niche players will see the potential for servicing a certain customer segment but eco-labeled apples are not viewed as a mainstream opportunity at this juncture. The following quotes capture the flavour of this issue.

"I am not going to answer this question because the problems at retail would be horrendous. We have many problems today with conventional and organics…we could not handle more". (Retailer)

"Right now, we only segregate produce between conventional and organically grown. There is no interest at this time to add a third class of products to market to consumers" (Retailer, 270 stores)

3.5.2 Displaying IFP product at store level

> **Two thirds of the respondents would group IFP produce with organics while one-third would display it alongside mainstream fruit.**

The trade respondents were given three options as to how they could display IFP produce.

- Separate from other apples
- Grouped with organics
- Displayed with conventionally grown apples

Best practices for merchandising apples is an ever changing field. If a retailer were clearly shown a practice that would increase sales of apples in their produce department they might try it. Otherwise they follow what they feels works best for their organization.

In certain states there are legal issue that must be addressed. For example, in the past, Texas had guidelines as to how organics must be displayed. Each retailer has his own method for merchandising apples at store level.

With 300 to 400 fresh items being sold in the average produce department there is fierce competition for floor and shelf space. Add in the large number of apple and smaller number of pear varieties, the range of count sizes; the diversity of packaging, and there is resistance to creating a separate line for IFP produce from a logistical viewpoint. How to merchandize a third line is part of the overall matter of how to market it.

3.5.3 Creating interest among wholesalers and retailers

- **To create anticipation and demand by the buyer requires a complete package being offered – something that creates interest with the consumers and something that generates sales for the buyer. It is the right combination of product, pricing, packaging, availability and timing.**

Respondents commented on how to stimulate wholesaler and retailer interest. Many of the answers mirror those in the section that outlines what determines the success of an IFP offering. (The comments in brackets are what trade respondents actually said or wrote).

- Understand distribution patterns. ("Learn a lot more about the actual distribution and retail business and the difficulties this type of idea would create").

- Create consumer demand by education.

- Develop pricing strategies. ("The cost cannot be too far off between IFP and regularly grown product").

- Provide strong and relevant communications to both consumers and the trade. Market and educate these audiences.

- Outline the Unique Selling Proposition ("There must be a selling tool or hook, differ the produce – market research and testing").

- Some retailers felt that many of their consumers thought that without certification it was a scam. What would the certification program be?

- A trade desire for more information on IFP.

- PLU scenarios would have to be worked out.

- How would IFP be added to the apple category.

- Must create the market and price must be right.

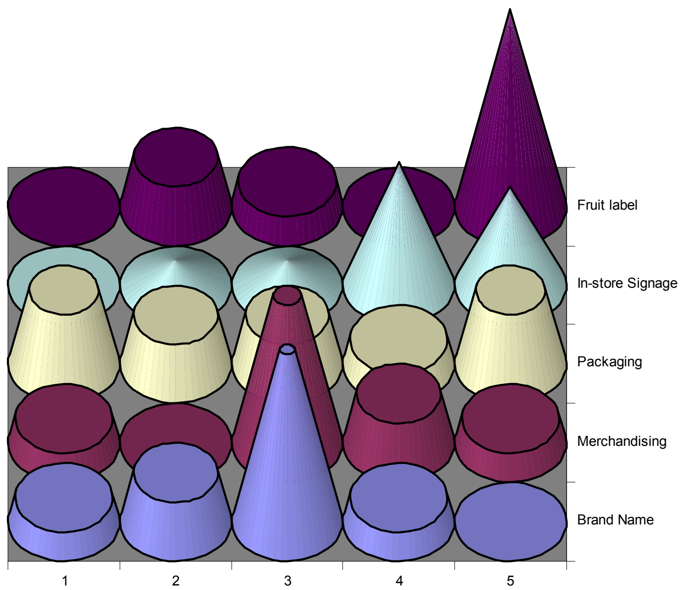
- Cosmetics of fruit is important – must look good.

3.5.4 Distinguishing IFP fruit from other methods of production

> **Respondents think that the best way for consumers to distinguish IFP fruit from conventional or organic fruit is through in-store signage, brand name and merchandising.**

The graph below gives a visual weighting to their preferences. On the horizontal axis of the graphic one (1) means least important and five (5) is most important.

Exhibit – Distribution of Importance about in-store tactics to differentiate eco-apples



3.5.5 Raising consumer and trade awareness

- **Respondents were unanimous in their choice of primary tactics to raise both consumer and trade awareness for eco-apples - demonstrations and tastings for consumers, plus education for their produce staff.**

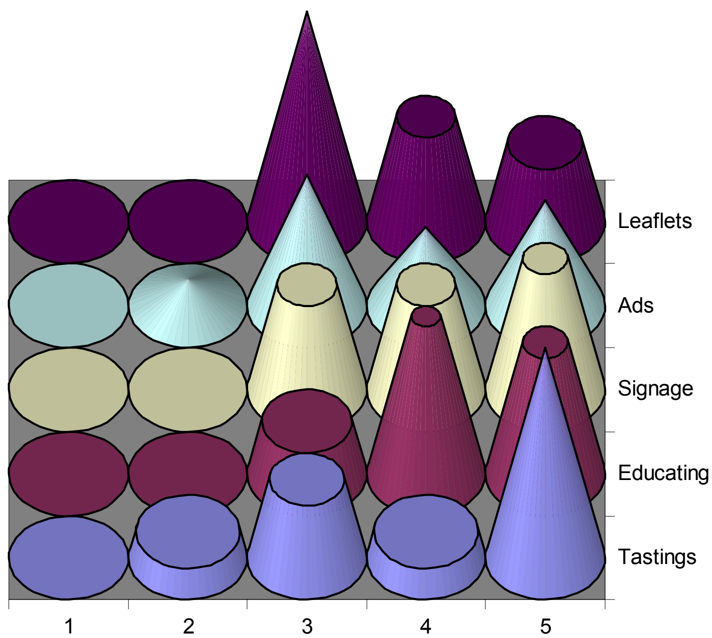
In-store signage and advertisements in circulars are their next choice for effectiveness.

While they see some marketing possibilities with in-store information, booklets, plastic bag packaging with graphics and price-off introductory coupons, they do not feel that display size and location are that important to market development of the brand.

This rejection of the importance of a classical merchandising tactic (location/display) may well reflect retailers' self-protective stance against the endless pressure to feature assorted brands the cost of floor space, and the refrigeration they absorb.

Interestingly, buyers see little value in a "brand" sticker on the fruit, apart from the PLU label. However, brand stickers remain a good way to build brand recognition for the grower group, because they register in consumers' minds once they get the fruit home and are ready to eat it. The following two graphics show the level of importance that respondents attached to each promotional tactic.

Exhibit – Distribution of Importance of Tactics to Raise In-Store Awareness



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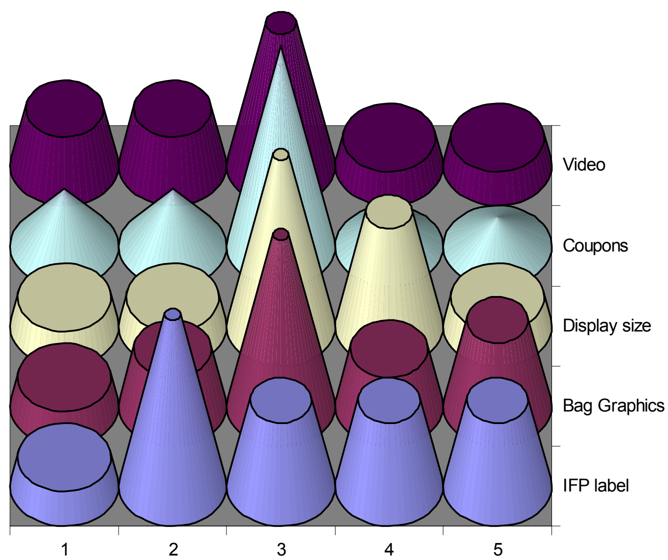

3.5.6 The role of branding

- **Respondents demonstrated an even split on the value of branding eco-apples.**

There is a strong bias for and against branding reflected in the responses, as demonstrated in the following two quotes.

“People like what they are familiar with. As more companies become larger and merge or just expand into growing ecologically it is great for the consumer because they have been buying many of these labels all of their lives and now they offer more natural options”.

Versus

“[Branding is] About as far as this will go…..retailers cannot handle assorted brands. You can’t handle assorted brands. You can’t afford the display space at today’s cost for floor and refrigeration…the investments at retail are great and a growing majority of retailers do not need three SKUs of the same variety and will not even consider the possibility….we would not at this time”.

Over the years, fresh produce branding has been fighting for a sense of legitimacy. Often there is confusion as to what the brand is. Is it a brand or a country of origin? Perhaps it is a combination of both. The positive elements of branding stated by the trade are as follows.

- The level of comfort that it provides to a consumer
- How it allows a relationship to be built between the product and the consumer
- Positive reinforcement
- The on-going growth of branding
- Some of the better-known brands such as Sunkist and how it stands out
- The consumer awareness factor
- An indication that the product is good
- Branding is not as important as consistently good taste
- Some customers do relate to branding, so it is somewhat important. Again quality first, taste, price

The downsides to branding, or rather why the trade feels that branding is not sufficient, are the following.

- Quality comes first over the fruit label
- Consistently good taste is more important
- Branding will continue to have limited importance in produce. Variations in consistency due to growing conditions, seasons, store handling will continue to hinder brands
- No one cares about branding, they care about type of apple
- There is more interest in the area that it is grown – i.e. Washington, New Zealand, British Columbia. We don't care about the actual brand
- It is costly to develop a brand
- If the price gap becomes to large brand no longer plays a part – the price is what will have impact.

3.5.7 How the trade stays informed

- **Retailers and wholesalers keep abreast of industry issues and trends most commonly through industry publications and other trade communications.**

E-mail, seminars and personal experience are lower rated.

This finding suggests that it will be important in a successful eco-apple marketing campaign to take advantage of industry publications, whether through a formal ad campaign or a strategic PR campaign designed to give increased coverage of the operation/product line.

While e-mail gets a relatively low response, over the years we expect this to increase as more companies become more efficient with this mode of communicating.

3.5.8 Success factors to introducing IFP grown apples

Success factors are presented by critical marketing element. The listed success factors represent the consensus, gleaned from respondents' answers.

- Distribution: A vital success factor is persuading the Canadian and American trade to handle a third line of apples.
- Trade Support: Demonstrations to the trade of quality and consistency are important.
- Point of Sale/Purchase Materials: Point of purchase materials would help convey key messages to consumers.
- Right Pricing: The price of the product will go a long way to determining product success (this includes what the trade will purchase it for, what margins they will want, and how much of a premium, if any, consumers will be willing to pay).
- Product Quality: Many buyers feel strongly that the marketing, consistent quality, appearance and taste must be as good as traditionally grown apples.
- Consumer Demand: Strong consumer acceptance and demand must be created through education.
- Trade Demand: Some buyers feel that consumers should not be part of the marketing equation - that the offering should be only directed to the trade. The feeling is that the trade will determine what is provided to consumers, and that excess information to consumers would not be positive.

4 Conclusions

Certain areas in the preceding results jump out for immediate review and discussion:

- The grower group needs to determine if IFP is enough to make their product line stand out from the range of options that is available to the buyer and to the consumer. The results of this document indicate that IFP, while an important part of the total product mix, is not enough on its own to provide a stronger retail demand or price premium.

- Canadian and American retailers are reluctant to add a third line of IFP grown apples, between conventionally and organically grown products.

- Western European retailers are pushing the adoption of IFP growing practices to avoid chemical residue problems and respond to consumer concerns about food safety.

- There is a feeling amongst the retail trade that grower practices have improved over previous periods of time and that many farmers are now reducing their use of chemicals and exploring alternative methods of orchard management.

- If it is determined that IFP will be part of the grower group's platform the terminology used to promote it need to be consumer friendly, easy to identify and understand. There is a high level of confusion between the various growing terms and what they actually represent to the buyer or to the consumer.

- Certification of IFP production is essential. It provides a degree of credibility and allows a buyer (or a consumer) to have a comparison model.

- The dynamics of timely transportation, distribution, storage of the brand so as to guarantee, as much as possible, the quality, consistency and appearance buyers rate as their primary reasons for purchase need to be determined and adhered to.

- There is no current system for identifying IFP fruit at store level during ring-out. Price look up codes are used by many retailers and while organics are identified by "9" there is not a system that identifies produce grown using non-conventional methods

- Education of this type of growing method is essential at all levels (buyer, store staff and consumer levels). A strong marketing program geared to the various audiences to create awareness, desire and demand would be strongly advised.

- Buyers and staff need to learn to differentiate eco-labeled fruit from both conventionally grown and organically grown produce. The grower groups needs to feature the line's consumer benefits and position the brand as a potential profit center to the trade by opening up a market tier that is currently inactive.

- Future consideration needs to be given to best merchandising practices for ecologically grown produce. There are not accepted practices.

5 Appendix I – Interview Guide

KPMG Consulting LP has been contracted by a group of tree fruit growers to ask your opinions on eco-labeling and fresh fruit grown with fewer chemicals. As a stakeholder in the retail industry your input is highly valued. All information will be kept confidential. Interview responses will be aggregated together so that individual responses will not be reported.

Date:
Respondent:
Position:
Type of Organization:
Number of stores represented:
Province/State/Country:

PRODUCT MANAGEMENT

1. On a scale of one (1 being less important) to five (with 5 being most important) how would you rate the following elements when purchasing apples for your retail group?

	1	2	3	4	5
Price					
Quality					
Country of Origin					
Brand Name					
Consistency					
Local Market Conditions					
Variety/Taste					
Time of year/seasons					
Pack Types					
Conventional Growing Methods					
Eco-Friendly growing methods					
Organic growing methods					
PLU stickering					
Marketing support (demos, etc.)					
Other_______________________					
Availability of organics					

2. Do you think the consumer is looking for something different in apples? If yes, what?

3. Have you heard about Integrated Fruit Production or IFP grown apples? (A method of growing produce with reduced amounts of pesticides and other chemicals than with

conventional growing practices. Chemicals are only used when essential to protect the crop)?

4. Have you heard about Integrated Pest Management or IPM grown apples? ☐ Yes ☐No

5. Have you heard about ecologically grown apples? ☐ Yes ☐No

6. Have you purchased IFP or ecologically grown fruit? If yes, what were the major reasons for doing so?

7. If not, how interested is your company in purchasing IFP or ecologically grown apples? Why or why not?

8. When marketing apples grown with less chemicals, which term do you think is better (and why)?

- ☐ IFP grown
- ☐ Ecologically grown

9. How interested would your company be in purchasing apples grown with no chemicals (i.e. fungicides or pesticides)? Why or why not?

CERTIFICATION PROCEDURES

1. Do you think third party certification of IFP (Integrated Fruit Production) apples labels is needed or would you rather see self-certification, as is done by Stemilt in Washington state? Any particular reasons why? How important is this to you?

2. (If desire third party certification) If there is a third party certification program, Who do you think that third party should be?

- ☐ Government Environmental product certification organization label (Green Seal in US, Blue Angel in Germany and Environmental Choice in Canada)
- ☐ Environmental organization label (such as Greenpeace or World Wildlife Fund)
- ☐ Food certifying organization label
- ☐ USDA (Agriculture Canada/European equivalent) label

Any particular reasons why?

3. Would you rather see the industry self-certifying, as it is done by Stemilt in Washington state? (If prefer self-certification) Do you have a preference between either the retailer or grower organization having the self-certification responsibility? Again any particular reason?

FRUIT LABELS

1. What information should an Eco-label convey to the consumer?

2. Do you think that labels on apples can be improved? If so, how?

3. On fruit branding, what do you see as the direction for fruit branding of apples and how important is it? (Some examples include: Mott's, Dole, Sunkist and store brands)

CONSUMER AWARENESS

1. In your opinion, what are the most important motivations that will persuade a consumer to buy IPF/Eco-labeled fruit instead of conventionally-grown fruit?

- ☐ Concern about health
- ☐ Concern about environment
- ☐ Concern about both, health and environment

2. Two years from now, as a purchasing decision factor, do you see concern about family and personal health….

- ☐ Increasing
- ☐ About the same
- ☐ Decreasing

PRICING

1. What price premium would you pay for IFP/Eco-labeled apples?

2. Do you think your consumers would pay more for IFP/Eco-labeled apples if they were aware of how they are grown?

- ☐ Yes, how much more? _______________
- ☐ Maybe
- ☐ No

3. How price sensitive do you think consumers are about apples?

IFP MARKETING/PROMOTION

1. We are interested in your opinion on the best way to distinguish IFP fruit from conventional or organically grown fruit at the store level for the consumer? On a scale of one (where 1 means least impact) to five (where 5 means the most impact) how would you rate the following on this task? What is the best way to identify IFP fruit from conventional or organically grown fruit at the store level for the consumer?

- ☐ Fruit label
- ☐ Brand name
- ☐ Packaging (i.e. a special box or bag)
- ☐ Merchandising
- ☐ In-store signage

2. If you were offering IFP apples at the store level, would you:
   - ☐ Create a separate section in the store
   - ☐ Group them together with organics
   - ☐ Display them alongside mainstream fruit

3. Consumer and trade awareness will have to be raised to develop a market for IFP apples. Based on your experience, which of the following do you feel would be the most effective? Rank on a scale of 1 (least effective) to 5 (most effective):

At Store Level:

	1	2	3	4	5
In-store educational sign					
Demonstrations / tastings					
Display size and location					
Educating your produce staff					
Text and graphics on a plastic bag of apples					
Specific IFP sticker on the fruit, apart from PLU label					
Price off coupons					
In-store video					
Advertisements in your circulars					
In-store Information leaflets					

Outside the store:

	1	2	3	4	5
Consumer newspaper and magazine articles/public relations					
Consumer advertising					
Trade advertising					
Other: ____________________					

4. What will be the main success factors in a product roll- out of apples grown with IFP's reduced chemical methods?

5. What will growers have to do in order to interest wholesalers and retailers in buying IFP or ecologically grown apples?

6. How do you keep on top of industry trends?
   - ☐ Personally, by email
   - ☐ Industry publications
   - ☐ Industry trade shows
   - ☐ Industry seminars
   - ☐ Networking
   - ☐ Personal experience

Thank you for lending us your valuable time.