

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

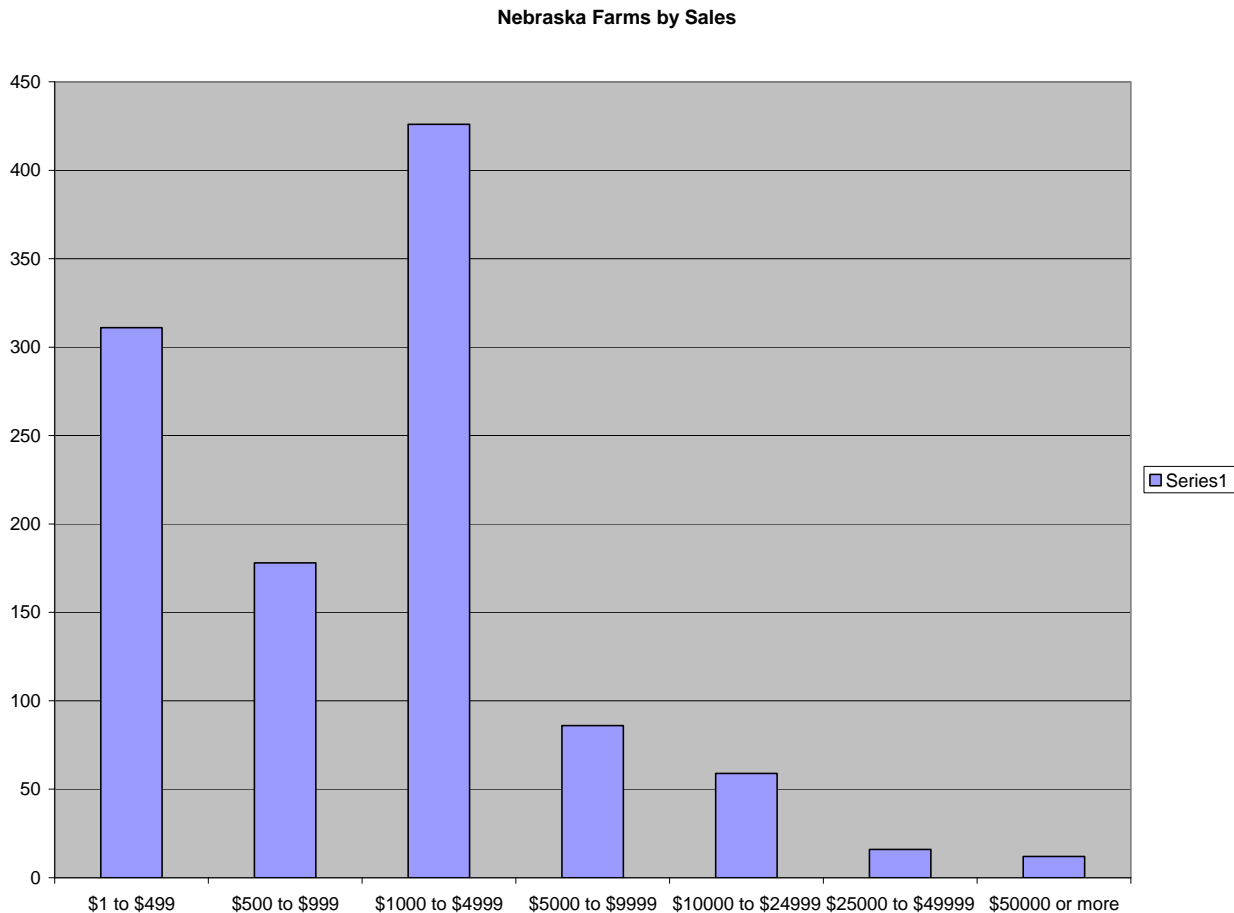
INTRODUCTION

A Situation Analysis is a document that attempts to collect all relevant key learnings from primary and secondary research and combine them with objective third-party observations in one strategic document. The Situation Analysis serves as the basis for recommendations made in the subsequent Marketing Plan, especially from the Challenges and Opportunities identified in the document.

I. OVERVIEW OF NEBRASKA PRODUCE GROWERS

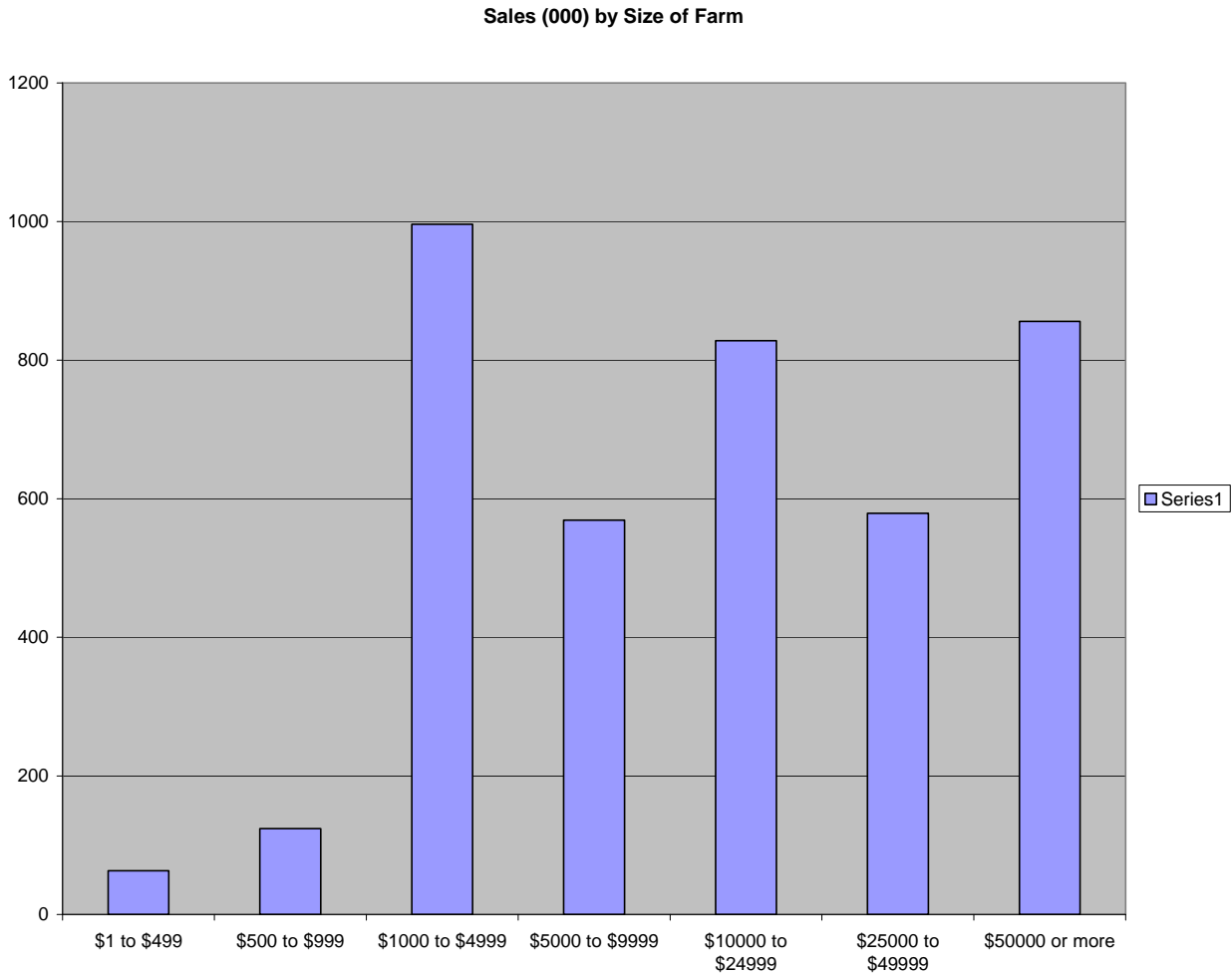
A. Market Value and Size of Farms

According to the 2002 Census of Agriculture for the state of Nebraska, there is a wide range in terms of the size of operations which are selling *agricultural products directly to individuals for human consumption*. While nearly 1,100 farms reported sales in this category, the vast majority (84%) had total sales less than \$5,000.



NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

However, the farms in the \$1,000 to \$4,999 size category, by virtue of the large number of them, accounted for the single largest aggregate sales of any of the size categories. As show in the chart below, those farms accounted for nearly \$1,000,000 worth of produce. The larger farms—those above \$5,000 in sales—accounted for over 70% of all produce sales, with the 28 farms falling in the categories above \$25,000 accounting for 36% of all produce sales.

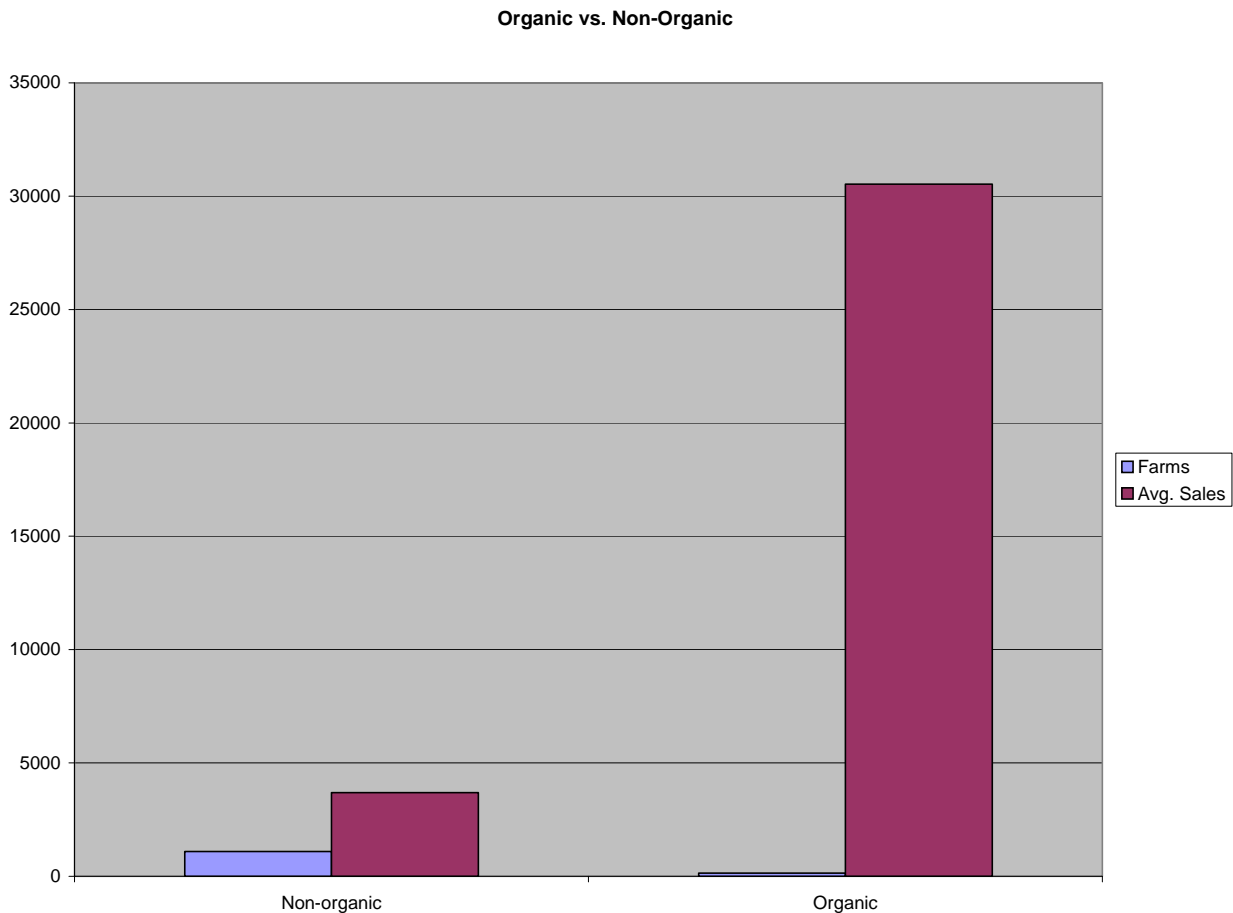


NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

B. Organic vs. Non-Organic Produce

It is interesting to note the dramatic increase in value of organic vs. non-organic produce. While there are only a fraction of farms reporting sales of organic produce (137 farms vs. 1,100 non-organic), the chart below shows the marked increased value of their production. The non-organic farms reported average sales of \$3,690 while the average reported from organic farms was nearly 10-fold, or \$30,259.

The assumption could be made that this disparity should have increased since the 2002 census as more and more consumers view organic produce as desirable and worth the extra cost. In fact, research has shown that some 30% of consumers buy organic with some regularity and 60% of households said they purchased organic in the last year. The rapid growth and popularity of retail chains such as Wild Oats and Whole Foods would attest to the ever-increasing popularity of organic produce, and consumers' willingness to pay a premium for it.



The 2002 Census also reports sales of \$58,337,000 for vegetables, melons, potatoes and sweet potatoes from some 261 farms, and \$1,375,000 for fruits, tree nuts and berries. One can assume from the way the census data is presented is that these are large commercial operations selling through traditional distribution channels rather than direct to consumers or retail intermediaries.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

II. PRIMARY RESEARCH—CONSUMERS AND RETAILERS

A. How Consumers Make Produce Buying Decisions

Consumers are becoming increasingly conscious of making healthy decisions about their diet. A recent survey of 2,500 adults by Harris Interactive found that 71% of those surveyed indicated they would consider getting specific nutrients from the source vs. from supplements or pre-packaged foods. This is very good news for growers of fresh fruits and vegetables.

The survey done by the Food Processing Center at the Institute of Agriculture and Natural Resources at UNL showed that the majority of Nebraska households prepare meals at home five or more times per week, and some to most to all of the meals prepared at home include fresh produce. The percentage of usage of fresh produce does not vary significantly between the local growing season and the rest of the year.

When asked to rate attributes that are most important regarding fresh produce, “freshness” and “quality” were mentioned by well over 90% of Nebraska consumers as being very important. Over 60% rated “appearance” and “free of chemical residue” as being very important—while only 37% rated “grown in Nebraska” as being very important. However, there was a marked difference in that rating between the two area codes in Nebraska—45% of those consumers in the 308 area code rated it very important, while only 31% of those in area code 402 considered it very important. Additionally, those consumers who regularly or occasionally visited a farmers’ market rated “Nebraska grown” as being very important as follows: 52% (regular visitors) and 37% (occasional visitors). Of note, “price” was rated very important by 48% of consumers.

B. Sources of Fresh Produce During the Local Growing Season

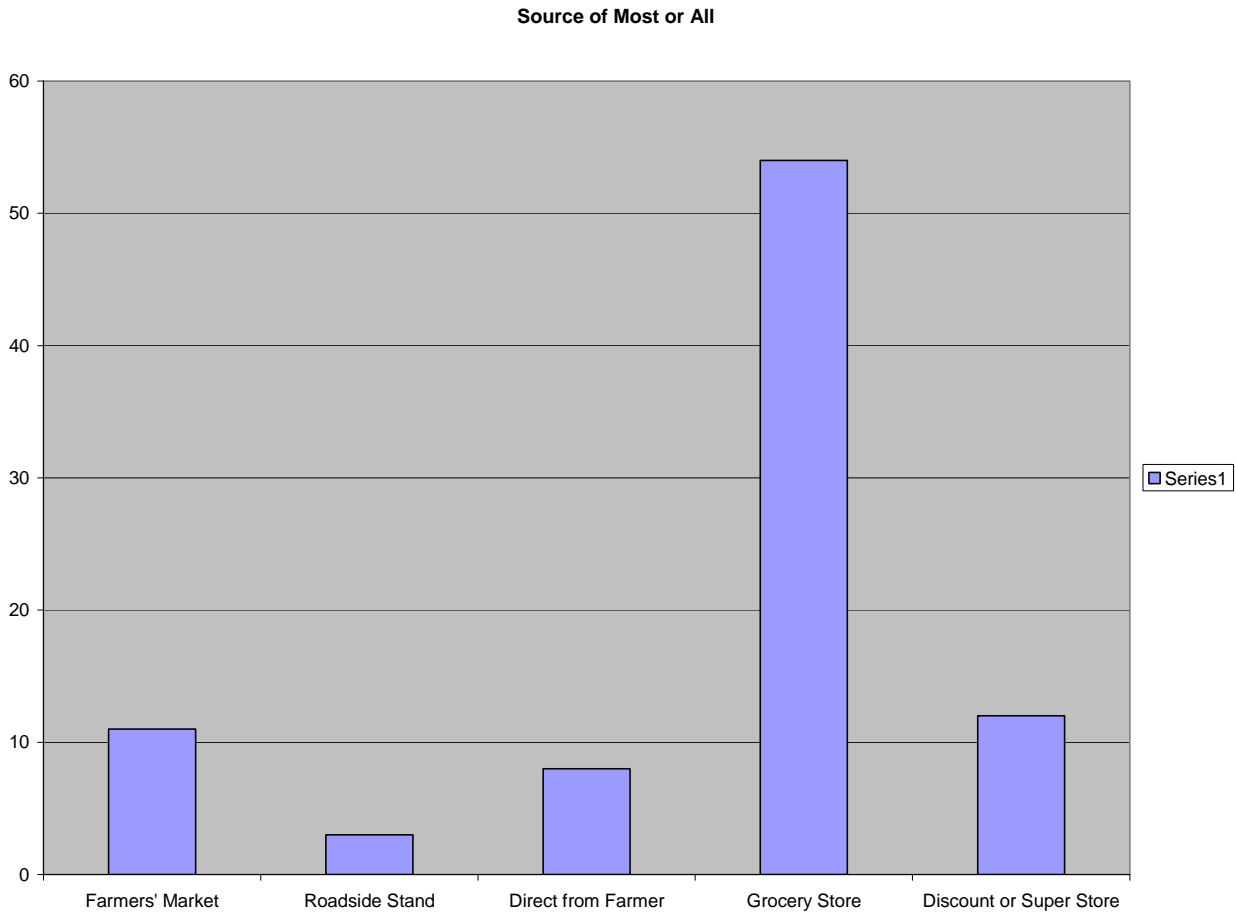
The UNL Food Processing Center survey asked Nebraska consumers “During the local growing season, how much of the fresh produce you prepare at home, including fruits and vegetables, come from each of the following sources?”

Frequency of Use	Own Garden or Orchard	Friend’s Garden or Orchard	Farmers’Market	Roadside Stand	Direct from Farmer	Grocery Store	Discount or Super Store
All	5%	1%	2%	0%	1%	14%	2%
Most	19%	6%	9%	3%	7%	40%	10%
Some	32%	55%	56%	51%	37%	43%	45%
None	44%	38%	33%	45%	54%	4%	43%

It is interesting to note the differences in response based on demographics. Forty-seven percent of households in the 308 area code said they purchased some, most or all of their produce from roadside stands, while 63% in the 402 area code said they purchased some, most or all of their produce from roadside stands. This of course underscores the importance of proximity to urban population centers to this distribution method.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

In reviewing the outlets from which Nebraska consumers purchase **most or all** of their fresh produce during the local growing season—or an “opportunity analysis”—would indicate that it would be wise to look at multiple distribution strategies, including tapping into the local retail market.



C. Expectations of Locally-Grown Produce

Fifty-seven percent of Nebraska consumers expect locally-grown produce to be higher quality than non-locally grown produce, and another 38% expect it to be equal in quality to non-locally grown produce. While that speaks well for the Nebraska grower, only 14% of consumers expect to pay a premium price for that local quality, and fully one-third of them expect it to be lower in cost. Of note, their expectations for variety are low for locally-grown produce, with only 15% of consumers expecting more variety from Nebraska produce. This could represent an opportunity for local growers to exceed expectations and benefit from new and different fresh produce offerings.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

D. Expectations and Usage of Farmer's Markets

The UNL Food Processing Center survey examined the expectations and usage patterns of farmers' markets in the state. Two-thirds of respondents state that there was a farmers' market within a 20-minute drive, and another 22% said there was one within a 1-hour drive. While shorter distance encourages attendance, it does not guarantee it. Eighty-one percent of households who regularly attend a farmers' market have one within a 20 minute drive, fully 42% of households who never attend also have one in the same 20-minute proximity.

Regarding frequency of visits to a farmers' market, only 17% of Nebraska consumers said they regularly attend, and an equal number said they never attend. The vast majority (66%) said they occasionally or rarely attend a farmers' market.

When asked what attendees like most about a farmers' market, over half (52%) said "freshness". When asked what the liked least, the largest percentage (33%) said "nothing"—indicating broad support for the experience and products offered.

Once again, respondents expected the produce offered at a farmers' market to be of higher quality than that purchased elsewhere (73%) but only 16% expected to pay a higher price. This echoes the findings of the report mentioned earlier for all fresh produce, no matter the avenue of distribution.

E. Findings Regarding Availability of Local Food Products

When Nebraska consumers were asked whether they agreed with the following statement—"I actively look for and purchase local food products"—67% said they agreed or strongly agreed with the statement. When asked whether they agreed with this statement—"I find it difficult to identify which food products are local"—over half (54%) said they agreed or strongly agreed with the statement. This would lead one to surmise that better identification of local produce would lead to better sales of a local produce, especially at the traditional retail level.

Respondents were then asked "Would you support funding, by the State, for development and implementation of a 'Made in Nebraska' label of logo program?" Seventy-three percent of all households said yes.

F. Retailers Views of Locally-Grown Fresh Produce

In an effort to learn how retailers viewed and promoted locally-owned produce, individual interviews were conducted with several Nebraska retailers and a literature search was conducted for viewpoints from other states. Key findings include:

1. How Retailers View Locally-Grown Produce:

- Three key drivers for retailers (whether the buying decision is centralized or at store-level) are quality, reliability of supply and their ability to make a reasonable margin on the local produce.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

- By large measure, retailers recognize the value of locally grown produce, and make every effort to offer it to their customers. Many recognize that such purchases can cost them some margin, but it often results in a more satisfied shopper.
- Retailers recognize that growing seasons vary from state to state. In Nebraska, they are comfortable featuring local products only during the growing season—as long as the growers can deliver a reliable supply for those months of the year.
- Depending on the chain, corporate approval may be needed before a local grower can supply a store within that chain. In many cases, it will be the local produce manager who will encourage a local grower to secure corporate approval so that they can carry that local produce. Other chains de-centralize those decisions to store level, but continue to supply the majority of produce to the store from their central warehouse.

III. SECONDARY RESEARCH

A. What Nebraska Growers Can Learn from Other States and Local Retailers

In an effort to determine best practices and results from fresh produce promotions of other states, a literature search was done to identify what other states are doing to promote fresh produce. Following is a summary of current and recent reports of state activities:

1. Funding of Fresh Produce Promotions:

- California Grown will spend some \$8 million dollars this year to promote state-grown produce. The governor will be featured visually. An advisory committee of the major chains as well as independents has been formed. The group is supplying point-of-sale materials to more than 3,000 stores, and has just announced a deal with Subway and Fresh Choice to promote the state-grown produce in 1,400 restaurants.
- Pride of New York has some 700 members who identify their products with a point-of-sale symbol. Growers, retailers, marketers and wholesalers all complete a participation agreement and pay a one-time fee of \$25 for the rights to use the Pride of New York materials. Additionally, the state department of agriculture has helped facilitate a farm to school initiative to encourage schools to buy local produce.
- North Carolina, with its NC Fresh Link, has developed a directory of growers and shippers on-line and on CD so retailers can source produce easily.
- In Michigan, Select a Taste of Michigan and Great Lakes, Great Tastes, are themes for state produce promotions. They have some 60 supermarkets taking part, with the governor actively involved in a special kick-off event. Research showed that 75% of Michigan consumers would be more likely to buy a food product if they knew it was state-grown.
- Fresh from Florida showed increases in sales based on promoting the fresh products of the state. Posters, shelf cards and a bin wrap were used. Retailers agree to increase their purchases and agree to include the theme in ads, inserts and point-of-sale materials. A portion of the program funding came from the USDA.
- Kentucky Fresh (a program funded in part by a grant from the USDA and additional dollars from the State Department of Agriculture) has done a good job of penetrating both Kroegers and WalMart. By one account, WalMart has built a network of some 40

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

independent growers, and reported an increase of nearly 50% over previous year in terms of local produce purchased.

2. Quality Control:

- In Virginia, the Virginia Grown programs leaves transportation to the grower and the retailer. If the produce goes direct to the retailer, the grower and the department manager discuss specs; if it goes via the warehouse, the items are inspected like any other produce. Retailer Food Lion sent out a spec sheet to growers of some 30 items they were seeking from local sources.
- Jersey Fresh products must pass through grading at the warehouse before they can use the Jersey Fresh sticker. If there is no USDA standard for any given produce item, a state standard is established and used.
- Midwestern retailer HyVee leaves quality control and purchasing decisions in the hands of local store producer managers (with a few notable exceptions that are controlled on the corporate level). Store produce managers sample and inspect product before purchasing for their individual stores.

3. Merchandising:

- In Kentucky, both WalMart and Kroegers use special in-store labels and displays to call attention to Kentucky Fresh produce. At the onset, WalMart featured the items in a separate display, eventually moving them side by side with non-local produce to give consumers an immediate choice.
- Jersey Fresh, considered by many to be one of the leading programs in the nation, found that 84% of consumers who were aware of the program looked for Jersey Fresh labeled product at least occasionally. Eighty-seven percent of consumers have a very positive attitude toward purchasing New Jersey produce, and three-fourths were willing to pay at least some premium for it. Sixty-four percent said they would buy more produce than they had planned when they encountered the Jersey Fresh signage, and 88% wished grocery stores had more produce marked Jersey Fresh. Jersey Fresh is also letting retailers list their featured local produce on the Jersey Fresh Website.
- The success of any in-store merchandising rests with the department manager at store level. But in many cases, it is best to reach them on a “top down” approach. Each Spring in New Jersey, the Secretary of Agriculture invites the CEOs of major supermarket chains to the governor’s mansion for a lunch with the governor. The governor thanks the retailers for supporting the states agricultural sector and asks for a commitment to continue that support. This message works it way then back down to the individual store level.
- Retailer Wild Oats uses their own signage to identify locally grown items, but allows growers to sticker individual pieces with signage. The store signage simple reads “Local” next to the usual store descriptor. Some Wild Oats stores have featured an organic fest and asked local growers to participate and sample their products either in-store or in the store parking lot.
- Pathmark stores used circulars showing their produce department managers in the farms of local growers inspecting product.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

- A Nebraska HyVee store set up an indoor “roadside stand” complete with umbrellas to feature Nebraska-grown products at the beginning of the growing season. Other stores in the chain have found success by using signage next to the local produce identifying the name and farm name of the grower who provided the produce. Such signage needs to have a feel of being homemade, not slick and flashy.

IV. CHALLENGES AND OPPORTUNITIES

A. Challenges

- While the key motivators for Nebraska consumers who purchase fresh produce are “freshness” and “quality”, only 37% of them rated “grown in Nebraska” as being very important. Nebraska consumers, therefore, need to make a better mental connection between freshness and quality and the local source of the produce.
- Only 14% of Nebraska consumers expect to pay a premium price for locally-grown produce, and another one-third of them expect it to be lower in cost. Nebraska growers need to create the perception of increased value of the locally-grown produce.
- Nebraska growers are not organized to take advantage of potential resources that could move the state’s produce industry forward. These could include federal and state funding sources, self-funding and/or wholesaler and retailer funding to create an image and increase demand for Nebraska produce.
- Nebraska growers—like growers nationwide—are fiercely independent by nature. It may be difficult to organize and cooperate with other growers to achieve greater success.
- Nebraska growers who choose to market through wholesalers and retailers need to have realistic expectations for prices they receive for their product, and must be willing to accommodate the margin that their customer must have to be interested in buying that product.
- Working independently to supply a wholesaler or retailer, a single grower must be in a position to be a reliable source of produce for that customer. This could present a challenge based on weather and other factors affecting supply throughout the growing season.
- Direct to consumer sales of produce, especially roadside stands and pick-your-own are dependent on an area population base that can support the business. This limits opportunities for growers whose farms are not located within a reasonable distance of larger cities and towns in the state.
- Advertising can be an expensive proposition for any grower, yet establishment of a customer base may require an investment spend to kick start the operation.
- While roadside signage is considered an effective method of attracting business to a roadside stand or you-pick-it operation, Nebraska laws limit the ability to use these signs on highways.
- Setting prices for direct to consumer operations are often a major challenge for producers. Individual growers need to be mindful of other direct to consumer growers prices as well as prices at traditional retail grocery stores.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

B. Opportunities

- Consumers across the nation—including Nebraskans—are becoming increasingly aware of the need to eat healthier, and that includes a renewed interest in fresh fruits and vegetables. This mind set creates a favorable environment for growers who deliver those products to consumers
- Nebraska consumers—by a margin of 3 to 1—favor state-supported funding for a “made in Nebraska” logo program. AS demonstrated in any number of states, programs such as this provide opportunity for state growers and a favorable rate of return on the spending investment. Jersey Fresh, for example, estimates that for every dollar spent on the program, nearly \$47 was returned to the local agricultural economy and \$15.20 in net farm income for local growers.
- Nebraska retailers **want** to offer Nebraska-grown produce. They view it as a chance to offer a fresh, quality product to their customers to solidify the relationship that customer has to the local store. They have demonstrated a willingness to merchandise local produce in-store, especially with the cooperation of the local growers.
- A Nebraska grower needn’t—and shouldn’t—appear too flashy in the appearance and merchandising of a direct-to-consumer outlet, be it a roadside stand, a farmers’ market booth or a pick-your-own operation. Consumers want to experience the ambiance of direct from the farm so additional costly trappings are not necessary to portray the image that consumers are seeking.
- Likewise advertising and promotion need not be an expensive proposition if it is conducted with a clearly focused strategy. Simple ads and in-store signage can all be done in a manner that speaks to freshness and quality without appearing too slick. Additionally, sampling and word-of-mouth referrals are powerful marketing tools, and cost little to nothing to execute.
- Nebraska growers have a multitude of avenues for distribution of their fresh produce, and many can take advantage of multiple distribution strategies. These can be governed by labor availability, location in relationship to population centers and the predisposition of working with local growers by wholesales, retailers or food service establishments.
- Internet-based communications can reach large numbers of people with timely information with a minimal investment. Opportunity exists for pooled resources of Nebraska growers to develop Internet-based tools that benefit all growers involved.
- Consumer trends for convenience in at-home food preparation can represent opportunity for value-added products that can increase the opportunity for additional revenue and profits for the grower.
- Agriculture is critical to the Nebraska economy. Legislators and state government officials are predisposed to helping ensure that the agricultural economy prospers.
- In any state, there is a general regard for the well-being of the family farm. Consumers, wholesalers and retailers want the family farm to succeed and will take actions to support those farmers.
- Consumers enjoy the experience of farmers’ markets—and that has proven itself by the dramatic increase nationwide in the number of farmers’ markets over the past several years. Once a market has been established, it can grow exponentially just by word of mouth.

NEBRASKA FRESH PRODUCE SITUATION ANALYSIS

- With every generation, more and more Nebraskans grow farther away from connections to a family farm. Therefore, the experience of a roadside stand or a pick-your-own becomes even more appealing since there are fewer family ties to a farm.