

# The Strategic Marketing Institute

## Rapid Opportunity Assessment: Fruit Sector

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## **How to use this Rapid Opportunity Assessment**

If you are reading this assessment, then there is a strong probability that you are interested in understanding and seeking out high-value products and businesses. That is to say, you are seeking differentiated or niche products and not commodities. Business success and profitability with differentiated or niche products typically rely on three success factors: (1) a unique idea for a product or service, or a unique process to produce, deliver, or market a product or service, (2) the entrepreneurial skill and drive to commercialize the idea, and (3) a sound business or product development plan to bring the product to market.

*This rapid opportunity assessment gives insights into where potentially successful and profitable unique product ideas may be found in today's marketplace.* The assessment points the direction toward likely uniqueness in two ways. First, critical customer trends are highlighted: wellness, indulgence, convenience, value, and ethnicity. In addition, demographics are presented to support these trends. Any unique product idea today must address the five trends or the key demographics in some significant way. Second, product categories are then analyzed to determine which have greater or lesser potential to capitalize on the trends and demographics. Profitable business and product ideas will be those that are more unique, more likely to fit the trends, and more likely to fit the product categories with the greatest potential.

*What this assessment does not do is present profit or detailed sales estimates for a particular product or business.* At the specific product level, prices, costs, and market volumes for these high value products are not necessarily known. If they are known, the information is likely proprietary. Profit and sales estimates for unique products can only arise from the additional work typically done in a business or product development plan. Feasibility studies to determine profitability are often complex and rely on specific and well defined product ideas. In addition, they analyze the set of current and likely competitors for that product or service, a defensible competitive strategy, estimates of total capital required to be successful, and an assessment of the major risks involved in the proposed venture. All of these factors must be done for the specific opportunity under consideration. If this assessment provided information on specific products claiming to be

unique, such a claim would not likely be true because the idea would be well known and the profit potential has probably already been tapped by others.

***If you are an agricultural producer or other business person elsewhere in the agri-food system, you can use this assessment in one of two ways.*** First, if you have a specific product idea in mind, you can use the analyses in this assessment to confirm or test the potential of that idea in regard to (1) whether it goes with or against the five trends and demographics driving consumer demand today, and (2) whether it fits in a product category that has broad, selective, or limited potential. Ideas that go against trend or arise from a more limited category are not necessarily ideas to avoid. These ideas need considerably more care to define whether customers see the value in the product.

If you do ***not*** have a specific product idea but would like to create one, then the second way to use this assessment is to learn about key market trends and product categories. Product or business innovations that are on- trend or fall into the broader opportunity categories are good places to spend time developing a unique product attribute or unique method of production, marketing, or delivery. The process of idea creation is not an easy one, but there are ways to take on this task. For example, you can ask yourself what is missing from existing products or businesses in the market. You could also visit with potential customers and ask what they like or dislike about current market offerings. Your creativity is central to discovering the specific idea.

***If you are a policy maker, economic developer, industry association executive or faculty member interested in these markets, you can also use the assessment in your work.*** You may be asked to support business efforts in developing or commercializing new products or businesses. Policy changes, industry-wide strategies, product-based research or infrastructure development are some of the many supporting activities that may be critical to allowing agri-food firms to convert opportunities into profitable businesses or products. This assessment suggests potential areas for judging where your support might be most beneficial. Again, greater potential for success arises from product ideas that go with the trends and fall into the broader opportunity categories. If an idea that is seeking support falls outside the trends or in the narrower opportunity categories, you should scrutinize that idea more heavily as opposed to just saying no to the idea.

In summary, this rapid opportunity assessment identifies the potential for business and product success across broad product and attribute categories, and thus the assessment provides a basis for sound planning. The assessment has been thoroughly researched based on relevant public and private information sources. This assessment can help you start the business or product development process, but it is not an end in itself.

## **Executive Summary**

### ***Consumption trend and market drivers***

In general, fruit consumption is on the rise. However, not all fruit categories show an increasing trend. For example, fresh fruit consumption has seen a significant growth in the past few years, while consumption of canned fruits and frozen fruits has declined during the same period. Fruit juice and juice drinks consumption has remained flat.

The domestic demand for fruit products is shaped by a myriad of market forces. A combination of factors such as wellness, indulgence, convenience, ethnicity, value, and demographic forces acting interdependently or independently, influence consumption patterns and demand for fruit products.

### ***Growing number of new products***

Overall, new product numbers (new products and new variety/range extensions) across all fruit categories have seen a steady growth during the last couple of years. More than 4,500 products have been introduced in major global markets in the first nine months of 2004. New products have been introduced in 11 product categories including products in the main fruit category (fresh and minimally processed fruit, fruit juice and juice drinks, canned fruits, dried fruits, frozen fruits), and fruit-containing products (spreads, confectionaries, dairy products, frozen desserts, non-alcoholic beverages excluding juices, and alcoholic beverages).

The new products have a broad array of diversity in their flavor combinations, product mixes, forms, appearances and size. They have positioned themselves as ready-to-eat healthy snacks, salads, side dishes, desserts, breakfast food etc. They are coming with different innovative package designs being more convenient, highly portable and storable. Some new products are targeting specific consumer groups (e.g., products designed for school children or women, products for different ethnic markets, etc.), while others enter the market in the upscale and gourmet product lines. There are also new products that are entering the market tied to special occasions (e.g., products introduced featuring a specific film or making a tie-in with the film's launching time), while others

are coming as a substitute to other products (e.g., juice drinks as alternative breakfast foods, fruit-containing dairy products as whole meal replacements).

***Diverse product development and market opportunities***

The wellness, indulgence, convenience, ethnicity, value and demographic market segments provide a broad array of product development and market opportunities for fruit growers, shippers, manufacturers, wholesalers and retailers. Depending upon the potential to raise gains from sales, opportunities in these market segments can be broad, selective or limited (Matrix 1 and 2).

**Matrix 1: Positioning product development opportunities by market drivers**

	<b>Wellness</b>	<b>Indulgence</b>	<b>Convenience</b>	<b>Ethnicity</b>	<b>Value</b>	<b>Demographic structure</b>
<b>Fresh and mini-processed fruit</b>	Broad	Broad	Broad	Broad	Broad	Broad
<b>Fruit Juice and juice drinks</b>	Broad	Broad	Broad	Broad	Selective	Selective
<b>Canned fruit</b>	Limited	Limited	Selective	Selective	Selective	Selective
<b>Dried fruit</b>	Broad	Selective	Broad	Selective	Limited	Selective
<b>Frozen fruit</b>	Limited	Limited	Limited	Limited	Selective	Limited
<b>Fruit spreads</b>	Selective	Broad	Selective	Limited	Selective	Limited
<b>Fruit confectionery</b>	Selective	Broad	Broad	Selective	Selective	Selective
<b>Fruit-containing dairy products</b>	Broad	Broad	Broad	Limited	Selective	Selective
<b>Other fruit-containing non-alcoholic beverages</b>	Broad	Broad	Broad	Selective	Limited	Selective
<b>Fruit-containing alcoholic beverages</b>	Selective	Broad	Selective	Limited	Limited	Selective
<b>Other fruit-containing products</b>	varies	varies	varies	varies	Varies	varies

**Matrix 2: Positioning opportunities by retail market channel**

	<b>Supermarkets</b>	<b>General retail/Wal-Mart</b>	<b>Specialty retail</b>	<b>Specialty food retail</b>	<b>Broad food service</b>
<b>Fresh &amp; minimally processed</b>	Broad	Broad	Selective	Broad	Broad
<b>Fruit juices and juice drinks</b>	Broad	Selective	Selective	Selective	Selective
<b>Canned fruit</b>	Selective	Broad	Limited	Limited	Selective
<b>Dried fruit</b>	Broad	Selective	Selective	Broad	Selective
<b>Frozen fruit</b>	Selective	Selective	Limited	Limited	Selective
<b>Fruit spreads</b>	Selective	Selective	Selective	Selective	Selective
<b>Fruit confectionery</b>	Broad	Broad	Selective	Selective	Selective
<b>Fruit-containing dairy products</b>	Broad	Selective	Selective	Selective	Limited
<b>Fruit-containing other non-alcoholic beverages</b>	Selective	Selective	Selective	Selective	Selective
<b>Fruit-containing alcoholic beverages</b>	Selective	Selective	Selective	Limited	Selective

**Broad product development and market opportunities for fresh-cut fruits**

In general, fruits are highly regarded for their variety, convenience and health benefits. Fresh-cut fruits are making the product more convenient and popular. With more consumers embracing new flavors and healthy snacks, fresh-cut fruits are well positioned to benefit from this trend. Product innovations and new packaging designs will be key in raising sales from these products. Currently, supermarkets and mass merchandise stores are primary market outlets for these products. But, as the share of new packaged fresh-cut fruits marketed through these channels grow, lack of shelf space may compel suppliers to increase sales through alternative market outlets such as restaurants and fast food chains.

**Selective to broad product development and market opportunities for dried fruits, fruit confectioneries and fruit-containing dairy products**

Dried fruits are well positioned to expand the fruit snack product line that is perceived as healthy snacking. They are also benefiting from being one of the most convenient foods that are highly portable and storable. The fruit containing dairy product segment (e.g., fruit containing yogurt drinks, smoothies, etc.) is one of the fastest growing product categories in the fruit sector. Especially, the category is well positioned to benefit from fruit and dairy products that are both perceived by consumers as healthy food items. With



the introduction of appropriate product innovations in product flavor, shape, size, etc. fruit confectioneries have also the potential to raise the market share expanding the fruit snack product line.

In general, wellness, indulgence and convenience seem to be the most significant market drivers that can broaden product development opportunities in these product categories. Variety, flavor, and packaging and storage innovations will play a significant role in raising gains from sales. In terms of retail market channel, these products are currently benefiting from multi-positioning in supermarkets. As the products continue to be convenient and position themselves as more than just a healthy snack, retail outlets including supermarkets, mass merchandisers, convenience stores, food service outlets, and other alternative outlets (e.g., vending machines) provide selective to broad market opportunities for the products. One challenge for fruit containing dairy products would be to get refrigerated shelf spaces in the mainstream retail stores. There are many other products (e.g. milk, beer, carbonated drinks, etc.) that are competing for these spaces. If manufacturers continue to develop innovative package designs, other retail outlets such as specialty food retail stores, drug stores, gas stations, coffee shops, etc. may be attractive channels for these products.

### **Selective to broad product development and market opportunities for fruit juice and other non-alcoholic fruit-containing beverages**

The health benefits of fruit juice and juice drinks, and an increasing consumer demand for different fruit juice varieties and flavors will provide broad product development opportunities in the wellness and indulgence market segment. Fruit juice drinks that are convenient and aimed at different ethnic groups will also have broad opportunities. However, this category is currently losing its market share to other healthy drinks such as bottled water and isotonic. One significant product innovation area manufacturers can aggressively pursue will thus be the development of new product lines that can better compete against healthier water drinks and fill the gap by encouraging all day consumption. Regarding retail market outlets, these drinks will, in general, have selective opportunities, with supermarkets remaining to be the main retail channels. A continuous

challenge for these products would be the fast growth in new product development that is currently saturating the existing retail channels.

Many other non-alcoholic beverages (e.g., sports and energy drinks, enhanced bottled water drinks, and tea drinks) have started repositioning themselves as healthy and convenient drinks by entering the market adding more fruits, varieties and flavors to expand their previous roles. Especially, some of these drinks are benefiting from an increasing number of consumers who these days carry bottled drinks with them or stop to purchase the beverages between meals. Variety, flavor and convenience will play a significant role in raising gains from sales in this category. Again here, limited shelf spaces in retail market outlets would remain a challenge requiring manufacturers to look for alternative channels such as restaurants, vending machines or stands at occasional events.

### **Selective product development and market opportunities for fruit spreads and fruit containing alcoholic beverages**

Because of the product's limited appeal to health and diet conscious consumers and the existence of high competition from other healthy, indulgent and convenient foods, fruit spread (e.g., jams, jellies, marmalades and preserves) manufacturers will have selective product development opportunities in most market segments. Manufacturers with product innovations that focus on combination of flavors, texture and packaging will have better opportunities to raise gains from sales. Fruit spreads that enter the market with multiple uses will also have a good chance of growth. The gourmet product line would also provide an opportunity to raise sales from these products. One of the biggest challenges for fruit spreads would be the competition from breakfast foods that are not eaten with sweet spreads. Brand products currently dominate the mainstream market and shelf space allocation is the key problem to enter these market channels. Manufacturers have to find alternative market outlets such as local food specialty shops or farmers' markets to raise gains from sales.

There are different fruit containing alcoholic beverage new products (e.g. beer and cider, spirits and liquors, and wine) that are currently entering the market. Manufacturers have mainly focused on variety and flavor innovations in introducing these products. Thus,

product innovation in variety and flavor will continue to be key priority areas. There are also some new lines of products that are coming targeting specific demographic groups (e.g., beer products aimed at women, spirits for young adults). Packaging innovation appeared to receive little attention in this category. In general, a continuous growth in alcoholic beverage introductions will allow manufacturers to have selective product development opportunities. Also, due to a broad array of federal, state and local regulations, and the existence of high competition that involves many domestic and international traders, manufacturers will have selective opportunities to raise sales through the mainstream retail channels.

### **Limited to selective product development and market opportunities for canned fruits and frozen fruits**

A steady growth in fresh and minimally processed fruit consumption has significantly affected the market for canned fruits and frozen fruits. Many consumers perceive the products as old fashioned and not as healthy and convenient as fresh and minimally products. So, manufacturers of these products will have limited to selective product development opportunities in most of the market segments. Mass merchandisers would remain the primary market outlets that provide better market opportunities. Even in this case, with the ongoing challenge for space and an increasing number of new products entering the market, sales through most retail channels will be limited.

### ***Branding and private label products***

Brand products dominate the market for some of the fruit products (e.g., fruit juice and juice drinks, fruit spreads). But, manufacturers and retailers can still develop private label products focusing on new product lines (e.g., functional juice drinks or brand extensions to fill the gap between different types of products). There may exist a broad opportunity to develop private label products for some of the products that are relatively new for the market (e.g., fresh-cut fruits, dried fruits, fruit confectioneries)

Co-branding and bundling products with other products can also provide a better opportunity for some of the products. For example, some emerging food trends such as the Home Meal Replacement (HMR) category may provide a unique product opportunity

especially for manufacturers who want to bundle their product with supermarkets through co-branding or introducing new package designs to their products. Fresh-cut fruits and canned fruits, in particular can benefit from this arrangement. Canned fruits and frozen fruits can also be co-branded or make tie-ins with other products such as baking good or sports and other activities that can raise consumption. Dried fruits can be bundled with other food products to create meal kits or meal replacements. Fruit confectioneries can benefit from tie-ins with occasional events, movies or popular characters or they can be co-branded with gift products.

In general fruit products continue to offer a variety of healthy and convenient snacking solutions for the consumer. Both the conventional and organic production segments will benefit from this trend.

## **Introduction**

U.S. food consumption is in a state of constant change. Consumers are increasingly expanding their food demand horizons and are embracing sophisticated new food products. As a result, agri-businesses are facing increasing competition and markets that demand more frequent innovation and higher quality products and services. People currently have a wide range of knowledge on domestic and global threats and challenges agri-businesses are facing. The solutions to these challenges have, however, a tendency to stick to traditional economic approaches that mainly focus on cost and productivity measures or simply to changing someone else (e.g., customers, government, competitors) rather than change what the industry/sector is doing. There are also blurred lines between threats and internal weaknesses that made it difficult in seeking solutions. These approaches ultimately do not appear to fix the problems, and many food and agricultural commodities are eventually suffering from low prices and profits.

Fundamental to future successes of agribusiness in this fast-paced food system is to fully grasp contemporary food consumption patterns, their driving forces and growth opportunities that exist within and out of the box. (1) Future agri-business and industry growth will primarily come from product innovations. Successful product innovation starts and ends with consumers purchasing something they want and need. So, agri-businesses can raise gains from sales by adapting their ideas, technologies and resources to the ever-changing consumer wants, needs and perceptions. Currently, these consumption patterns and their driving forces are not well understood and articulated. (2) Growth solutions and opportunities for most agri-businesses are viewed just with-in-the box, and thoughts are mostly caught up with threats and challenges. Firm and industry strengths are not well articulated and not connected with potential opportunities or there are no focused and well defined approaches for their realizations. There seems to be lack of recognition for the need to look for non-traditional opportunities and solutions, partly due to the predominance of traditional views and industry culture not well prepared for change.

The argument here is that product innovations that meet the rapidly changing customer demand should be the key in the constant search for success in agribusinesses. New product development opportunities are not limited just to “physical” outputs. Opportunities can also be sought or spotted within the supply-chain system in product processing, marketing or branding or they can exist out of the box in a form of bundling one product with another, co-branding, cross-marketing, tie-ins, etc.

The purpose of this paper is to broadly identify and assess new product development opportunities for the fruit sector of Michigan, Ohio, and Wisconsin. The paper is intended for fruit growers, packers, processors, wholesalers and retailers who want to take advantage of new product development opportunities based upon consumers’ wants and needs and turn away from a traditional commodity-oriented production and marketing approach. In broader terms, the paper provides a wide range of product development opportunities that can be used as a basis to formulate industry-wide innovation strategies for the fruit sector. Academic researchers and other partners that are active in the fruit sector can also benefit from the outcome in a form of identified issues, challenges, opportunities, etc. in many fruit product categories that require further investigation, interpretation or analysis.

The paper is developed based on consumers’ reports in different fruit product categories and details are presented and structured as follows. Section 1 will briefly describe U.S. fruit consumption trend and major market drivers. Then in section 2, consumer reports and databases specific to fruit are used to identify new product introductions in recent years for a broad array of fruit product categories. In section 3, product development opportunities in each category are summarized based upon market drivers. In addition, this section will look at retail market channel and branding opportunities, and implications on production practices. Finally a conclusion is made reflecting overall implications of these available opportunities for the fruit sector.

## **Consumption trends and market drivers in the fruit sector**

Food consumption in the U.S. has seen significant changes over the past four decades. One of the distinct features of these changes is that people these days are consuming more red meat, grain products, and fruits and vegetables. Consequently, fruits have been

one of the fastest growing food items over the years. From 1991 to 2000, per capita fruit consumption has increased from 254 pounds to 279 pounds. Fresh fruit consumption has seen a significant increase during this period. However, not all fruit categories have been as successful as that of fresh produce. Consumption of some processed fruits such as canned fruit and frozen fruit has declined. Fruit juice and juice drinks consumption has also remained flat. But, fruit juice still remains to be the number one form of fruit consumption followed by fresh fruit, and frozen fruit remained the least popular way to consume fruit in the U.S. This consumption trend represents only the main fruit categories. But there are many other fruit-containing products that will briefly be covered in section 2. Annual spending on fruits and vegetables has also seen an increase. Between 1998 and 2001, average household expenditure on fruit and vegetable rose by 11% (Mintel, *canned fruit and vegetables*, 2003; *non-alcoholic beverages volume I*, 2004).

One significant issue worth mentioning here would be the impact of imports on fruit consumption patterns in the U.S. First, import of fresh and processed fruits to the U.S. market has shown an increase over the years. For example, fresh fruit imports (excluding banana) as a share of domestic production grew about 8% a year between 1977 and 1999. Second, there are many new fruit products available in the U.S. market today that many consumers did not even know existed some 20 years ago. For example, availability of tropical fruit such as mangoes and papayas, have increased especially in the last two decades. Third, for many years, fruit availability has largely been affected by seasonality of production. But in recent decades, international trade has been successful in leveling out consumption fluctuations of some fruit products in the U.S. market. This situation has not only created a more stable supply for consumers but has also played a major role in changing consumer demand for fruit. As imports increase and the general population becomes familiar with new varieties and fruit products, demand continues to grow and new fruit products become regular items in the market (Charlet and Henneberry, 1992; Pollack, 2001; Cook, 2003).

### ***Market drivers in the fruit sector***

The domestic demand for fruit products is shaped by a myriad of market forces. A combination of factors such as wellness, indulgence, ethnicity, value, and demographic

changes, acting interdependently or independently, influence consumption patterns and demand for fruit products.

### **Wellness**

Wellness reflects foods and food categories that have perceived impacts on the consumers' health and wellbeing. There are many health and diet concerns consumers are facing today. One growing concern is the existence of many people that are overweight or obese. There are thus wide spread nutrition education programs to address the issue and endorse the idea that people need to avoid food with trans-fatty acids, high calories, etc. This situation has positively affected the consumption of several food products in the past couple of years. Products like fruits and vegetables that are high in fiber and low in fat are among products that have been benefiting from these efforts. Fruits have, in general, been seen to be an important part of any diet leading towards good health. The sector has primarily benefited from consumers' shift from a focus on diseases related to nutrient deficiencies to the linkage between different diet and major chronic diseases (Mintel, *healthy snacking*, 2003).

The other consumer concern is the presence of chemical residues on fresh produce, which has impacted consumption trends in some food items. The average consumer seems to be increasingly interested in food products that are natural and with low pesticides, including organic foods. As a result, there are a wide variety of organic fresh and processed fruit products that are currently available on the market.

### **Indulgence**

Indulgence considers a broad array of food product attributes designed to meet consumers' deeply felt desires, as opposed to their needs. Although some consumers are actively trying and succeeding in adding healthy foods in their diets, the mainstream consumer is still turning towards comfort and indulgence foods. Consumers demanding indulgence foods have multi-faceted food consumption habits and behaviors that go beyond considering food just as a functional item. These are luxury or impulse buyers who buy food products for different reasons; they might have connection to the food since childhood, they like cooking the specific food item, they buy it because it is natural, they like tasting new flavors and new products, etc. This consumption habit is the key to



a continued success in the consumption of most of the regular and gourmet food items. There are a wide variety of fruit products that are currently benefiting from this market trend.

## **Ethnicity**

This market driver focuses on products that arise from the food traits of specific ethnic groups. In the 50s and 60s, the middle class defined the U.S. food market. Consumer products were marketed to the predominant, largely homogenous middle class. But since mid 80s U.S. consumers have become more diverse, with distinctly different food consumption habits and the market is breaking up along regional, ethnic and demographic lines (Senauer, et al. 1991). Today, there is a significant growth and change in the ethnic mix of the U.S. population, with Hispanics and Asians being the fastest growing ethnics groups. The U.S. Hispanic population grew by 5.7 million in 1998-2003, and is expected to grow by 5.6 million in 2003-08, becoming an increasingly important demographic target (Mintel, *canned fruit and vegetables*, 2003; *non-alcoholic beverages, volume II*, 2004). In the 90s, Hispanics were not seen as an important consumer group, because their purchasing power was negligible. But in recent years, their income has shown a significant increase. They also spend the larger part of their income on food than the average U.S. consumer (Food system group, 2004). This growth in purchasing power has been acknowledged by food and beverage manufacturers and retailers, and it is spurring demand for various food items. Currently there are different kinds of new food products being offered on the market targeted at Hispanics. For example, in the past few years, Goya Foods introduced about 30 varieties of canned beans directed towards this market (Mintel, *canned fruit and vegetables*, 2003). The fruit sector can have many advantages from this trend.

One other important area in the ethnic food category is foods marketed to the wider population that have been influenced by ethnic tastes and ingredients. There are many ethnic food categories in the U.S. food market that are not widely consumed by the larger population. These foods, traditionally preferred by the ethnic groups, have the potential to crossover to the general market and attract the attention of a broad array of consumers. One unique advantage for the fruit sector, in this regard, would come from the use of fruit

as one of the components in the preparation of these foods. There are some emerging trends of the market for ethnic foods. One example is the food network TV channel that displays cooking a wide variety of exotic foods. Consumers interested in trying new foods are using this channel to get ideas how to prepare and cook foods, and there are many consumers who are currently trying things at home. There are also well established ethnic food restaurants like the Moosewood restaurant in Ithaca. Besides opening well known vegetarian ethnic food restaurants, this restaurant has published different cook books focusing on a wide range of ethnic foods extending from Mediterranean/middle eastern style to Asian or Far East foods. One other emerging trend is bundling of foods from ethnic food restaurants with fresh food supplies in specialty food retail stores. For example, Food for Living has started offering ethnic foods from local ethnic restaurants in its retail stores. These foods are coming in plastic containers and claim to be fresh and high quality. The good news for the fruit sector is that most of these foods are generally vegetarian and fruits are partly used in their preparation.

### **Convenience**

Convenience refers to anything that makes life easier for the customer. Convenience is becoming an increasingly important factor for consumers when buying food products. There are an increasing number of consumers who are busy and perceive that they have less time for cooking and eating food at home. This dramatic change in lifestyles has influenced what, when and where to eat breakfast, lunch or dinner. Many people have eventually changed their eating habits. Some are escaping meals while others are eating food on-the-go as snack.

Today's consumers are also less able to cook food at home or prepare meals from scratch ingredients. This situation has led to a significant growth in commercial food establishments, and prepared foods that are convenient. In addition, package innovations have helped in developing food products that are easily portable or storable. The fruit sector, in this regard, is well positioned to take advantage of these trends.

## **Value**

Prices have significant effects on food expenditures and eventually play an important role in explaining part of the trends in food marketing. People with low income tend to buy less expensive foods, and they are attracted to low-price shops. Private-label products are leading in this category, since they, in most cases, are sold at lower prices than branded products. One good example in this regard is the trend in canned fruit and vegetable category. Until recently, these products have been widely available in supermarkets and other retail shops. But currently they are becoming old fashioned food products that do not appeal to many consumers. So, sales are being concentrated through mass merchandise stores as manufacturers continue to introduce low-price canned products in bulk.

## **Demographic structures and changes**

This mainly refers to changes in the age, gender and household structure of the U.S. population. One distinct pattern in the past few decades has been the decrease in the teenage population and increase in the elderly population. These changes are partially responsible for shifts in food consumption patterns, and have implications for the fruit sector. Older people will be more concerned about health and nutrient implications of their food and would want food products that meet their special needs. Therefore, this expanding population of middle-aged and elderly people will remain to be a potential consumer of fruits and vegetables in the coming decades. In addition, the sector would benefit from an increasing number of health conscious younger consumers (Mintel, *healthy snacking*, 2003). The gender structure is also becoming very significant in terms of food consumption. There are, for example, many fruit products that are more preferred by women than by men or vice versa. Changes in household composition are the other demographic factors affecting consumer food demand. In general, the average household in the U.S. is declining. But there are still household size and purchasing habit variations among different demographic groups. So, identification of these various market segments would play an important role in raising sales from fruit products.

## New product developments

According to the Mintel Global New Product Database (GNPD) report, there are two major types of new fruit products that have been introduced in recent years. (1) New product lines. These are new product categories that allow manufacturers to enter into a new market. (2) Product line extensions. These are product categories that support existing product lines to expand their range and scope to a larger market segment. Most of the new products entering the market are in the second category, because it is a quick and efficient strategy for manufacturers to enter a market with less spending in introducing the product.

**Table 1: Fruit and fruit-containing new products introduced in major global markets (1999-2004)**

	1999	2000	2001	2002	2003	2004*
<b>1. Fruit category</b>						
Fresh & minimally processed fruit	42	46	80	125	249	216
Fruit Juices and Juice Drinks	309	353	428	632	906	961
Canned fruit	30	41	73	90	139	137
Dried fruit	20	24	61	46	109	171
Frozen fruits	8	10	19	20	35	38
<b>2. Fruit-containing products</b>						
Fruit-containing spreads	51	76	163	170	244	298
Fruit confectionery	232	245	459	574	701	881
Fruit-containing dairy products	259	255	383	551	654	720
Fruit-containing frozen desserts	177	199	254	337	457	396
Fruit-containing non-alcoholic beverages**	111	114	149	172	231	233
Fruit-containing alcoholic beverages	48	68	75	94	95	106
Other fruit-containing products***	301	363	566	612	834	796

\*through 10/21/04. \*\* excludes soft drinks. \*\*\* includes snack bars, breakfast cereals, bakery products, sauces and seasonings, baby food, and meal and meal replacements.

Source: Mintel GNPD database report

Between 1999 and 2004, the fruit sector has displayed consistent growth of new products. New products have been introduced in major global markets, which include more than 50

countries. With the introduction of more than 4,500 fruit and fruit-containing products (new and line extensions) in the first nine months of 2004 alone, the sector is expected to exhibit a significant growth of new products by end of the year (table 1). The following sections provide a brief description of recent trends in new product developments for eleven fruit and fruit-containing product categories.

### ***Fresh and minimally processed fruit***

Consumption of fresh and minimally processed fruits has been on the rise in recent years. Per capita consumption of fresh fruit increased from 113 pounds in 1991 to 127 in 2000. These products are experiencing a significant market growth from being popular as preferred snacks that are all natural and fresh. During 2002 retail sales of fresh fruit consumed as snacks were worth \$15.5 billion (Mintel, *healthy snacking*, 2003). Sales of minimally processed fruits are also growing fast.

In terms of new products, this sub-category is not only the fastest growing but it is also directly impacting the market for canned and frozen fruits. Between 1999 and 2004, more than 750 new products have been introduced in the major global markets.

New products introduced in this category show a broad array of diversity in their package, flavor, product form, and size. Designed to maintain freshness, the products are minimally processed. They are mainly peeled, fresh-cut or pitted fruits. Most of them have been introduced as ready-to-eat healthy snacks. There are also new products introduced for use as side dishes or as fresh produce that can easily be added to one-dish meals such as salads, casseroles or stir-fry dishes.

Because convenience is such an important factor to many consumers, most packages for these products are suitable for snacking. These include resealable plastic bags, plastic trays or individual wrappers. Some companies are also developing new package designs for their produce to meet demands by specific demographic groups, for example, fruits in a tub or bowl designed for children.

By making the product more convenient, minimally processed fruits are changing the fresh fruit category, which was once understood as seasonal, unbranded, bulk, and undifferentiated (Cook, 2003). Recently, USA Today (11/08/04) had an article entitled

“Fast food could soon mean fast fruit as chains test dishes”. The article introduces the ongoing tests of fresh-cut fruit entrees by the leading fast food restaurant chains (McDonald’s, Wendy’s and Burger King). If succeeded, that would mean a big advantage for fruit suppliers and packers.

In terms of distribution, the U.S. fresh produce market has seen significant changes over the last few decades. The major trends include the following. (1) The supply-side marketing structure is becoming less fragmented and the number of fruit growers, produce shippers and wholesalers is declining from year to year. (2) On the retail side, consolidations and merges have altered the traditional market relationships. Supermarkets have the highest share in marketing fresh fruit and vegetable. But currently they have high competitions from food services and mass merchandisers. The food service channel has strengthened its competitive position in food retailing by repositioning itself. It currently offers not only meals to eat but also ingredients to prepare food. Mass merchandisers such as Wal-Mart also continue to improve their dominance position in fresh produce retailing through different sales arrangements with suppliers (Dimtri, et al. 2003; Cook, 2003).

In terms of branding, since minimally processed fruits emerged very recently, there are no many well established brands that are currently dominating the market. Most of the current brands have been introduced by companies that sell national or international brands of fresh products.

### ***Fruit juice and juice drinks***

Growth in per capita consumption of fruit juice and juice drinks has remained flat or declined over the past decade. In 1993, per capita consumption of fruit juice was 9.3 gallons. This declined to 8.8 gallons in 2002. The consumption of fruit drinks has remained flat since 1995 at 6.2 gallons in 2002 (Mintel, *non-alcoholic beverages, volume I*, 2004).

This category has mainly lost ground to other beverages primarily water and isotonic (Mintel, *breakfast drinks*, 2002; *beverages, volume II*, 2002). The category also competes with other non-alcoholic beverages including milk, yogurt mixes and other hot and carbonated drinks. Sales of juice and juice drinks have experienced a slight decline

between 2002 and 2004, while sales for most of the other non-alcoholic beverages showed moderate growth.

In terms of new products, fruit juice and juice drinks are one of the fastest growing fruit categories in recent years. More than 900 fruit juice and juice drinks have been introduced in 2003.

Most of the new products have positioned themselves as healthy and functional drinks fortified with additional ingredients like vitamins and minerals or they claim to be calorie-free, no/low fat, natural, no added sugar, no preservatives, etc. There are also a range of sparkling juice drinks that are emerging to make the category more competitive with other non-alcoholic drinks like water and soft drinks. Product innovations in this line extension focused on flavor and variety.

Some drinks are aimed at specific demographic groups. Fruit drinks for school children, for example, are designed to be convenient and include juices fortified with vitamins and minerals. There are also multi-fruit drinks aimed at babies, drinks that are being introduced sweetened with exotic fruit flavors or drinks that claim to be produced from a fruit grown following specific production procedures.

One interesting innovation in the juice category is the introduction of fruit juice drinks as an alternative breakfast food. Smoothies have also transformed the fruit juice category into a new level (Mintel, *functional beverages*, 2004). Many companies are now offering a line of smoothies with a variety of fruits and fruit flavors and the category is growing fast. There are many extensions that are emerging from this product line.

Packaging innovation has also played a significant role in the introduction of new products. Many juice drinks have been launched to be easily portable and available as ready-to-drink products. Interestingly, some new packaging designs are also focusing on languages and package descriptions. For example, product descriptions are becoming multi/bilingual or the package highlights the uniqueness of the product.

In terms of retail distribution, supermarkets and mass merchandise retail stores are dominating the distribution of fruit juice and juice drinks. There are also signs that sales

of these drinks are increasing in convenience stores. There are currently many branded and private-label juice and juice products on the market.

### ***Canned fruit***

Canned fruit consumption in the U.S. has been slowing over the past two decades. Per capita consumption was 17 pounds in 2000, down from 20 pounds in 1991 (Intel, *canned fruit and vegetables*, 2003). Also, canned fruits have lost their market share to other products over the past few years. A steady growth in fresh and minimally processed fruit consumption seems to be steadily eroding the market for canned fruits. In addition, the trend away from home cooking has reduced the demand for canned fruits, which are traditionally purchased by consumers who are cooking food at home.

There were 137 new products introduced in 2004. Most of these products are product line extensions with new varieties, added-in exotic fruits and flavors or with new names and package types. Some canned fruits claim to be organic. There are also some new canned fruits designed to meet dietary preferences of specific ethnic groups especially Hispanics. Major canned fruit manufacturers are currently expanding their line of production focusing on minimally processed fruits that can be used as snacks. The canned fruit transformation process has also included the introduction of upscale canned fruit products. Cranberry Gourmet in Oregon, for example, introduced branded cranberries and cranberries in port wine, two lines of products featuring jarred cranberry products that are all natural and low-fat. But the number of new products in this line is very small.

Currently, supermarkets are dominating sales of canned fruits, but with continued strong competition from mass merchandisers. There was an increase in sales of private label canned produce over the past few years, while sales of branded canned produce declined. Most of the private label market is, however, dominated by the leading manufacturers. The growth in private label products has effectively reduced the market value due to the lower unit prices for private label as opposed to branded.

### ***Dried fruits***

The past few years have witnessed a significant growth of new dried fruit products. There were 171 products launched in the first nine months of 2004. Growth in new products can



partly be attributed to an increase in the variety of dried fruits introduced. However, since dried fruit are entering the market as mixes and ingredients with many other food products, this figure may not capture the whole range of dried fruits introduced in these years. For example, the healthy snacking and fruit confectionery sub-categories play a significant role in utilizing dried fruits as major product components. These sub-categories are not included here.

Many new dried fruit products are introduced to expand the fruit snack range. They are entering the market sweetened, flavored, enriched with vitamins and minerals or mixed with other products such as nuts and cereals or to be used in salads, desserts, entrées, and in baking and cooking. The category is benefiting from extending its snack product line to include healthy snacking for consumers with health and diet concerns. Some new products thus claim to be organic or natural choice and they are emerging with labels such as eco-fruit, organics, natural, fat free, etc.

The product is also enjoying from the benefits of being convenient, highly portable and storable. Manufacturers are creating not only innovative flavors but also innovative containers in an effort to increase market shares. New dried fruit products are becoming smaller and are packaged in easy-to-open, easy-to-eat, and stay-fresh plastic tubs, pouches or platters providing consumers with a convenient way to transport and consume the product. Plastic zip packages are growing trends as dried fruit manufacturers are creating reusable bags for the home, office and car. Convenience has also led to an increase in the development of kids oriented single-serving dried fruit product launches.

Dried fruits are currently supplied by many manufacturers. The dominance role of national brand manufacturers and retailers is limited. Traditionally, most of the dried fruits are sold in specialty sections of supermarkets as snacks or specialty cooking items. Although sales in supermarkets are increasing, this outlet is still losing some market share to convenience stores and mass merchandisers. Mass merchandisers like Wal-Mart are currently taking an increasing market share from other retail outlets, due in part to an increase in private label brands, which sell at a lower price. The convenience store and drug store outlets have also benefited from the expansion of such kinds of products which are shelf stable. Therefore, they are expanding their shelf spaces for similar products, as

they are becoming an important outlet for the sale of snack foods (Mintel, *nuts and dried fruit*, 2004).

### ***Frozen fruits***

Per capita consumption of frozen fruits has declined from 4.2 pounds in 1995 to 3.7 pounds in 2000 (Mintel, *canned fruit and vegetables*, 2003). This decline can partly be attributed to the overall increase in the consumption of fresh fruits. In addition, an increase in away-from-home consumption has negatively affected the market for frozen fruits. Imports of frozen fruits are generally low.

In terms of new product introductions, the frozen fruit category appears to show a slight growth, but the numbers are very small. For example, there were just 38 new products introduced in major global markets in 2004 (this is the maximum number in recent years). Most of the new products are coming in a package that contains one type of fruit or mixes of a variety of fruits. Companies introduced frozen fruits to be used for side dishes, fruit salads, desserts, and breakfast or in baking and cooking. These products have also a healthy line of extension with low sugar, low calorie, without preservatives, etc.

Frozen fruits, as mentioned above, have high competition from other non-frozen fruits especially fresh fruits. In the future, one potential area to reinvigorate the market for the product will be the side dish category. The side dish food industry is suffering from aging product lines that have not changed for decades, while tastes and demanded meal types have long since changed. The product seems to be uninteresting in the current supermarkets containing a wide variety of new items. If conveyed properly, this trend may provide a unique opportunity for frozen fruits. Manufacturers have already started filling this gap. For example, Nestle introduced a side dish that contains baked apples with cinnamon. Request Foods introduced baked apples claiming that the product is great for breakfast, a delicious topping or a perfect dinner side dish. Schwan Food launched roasted and sliced Fuji apples seasoned with cinnamon and sugar. Ardo Shearway in the UK introduced frozen potted fruit products aimed at children's lunch boxes.

One other frozen fruit product that suffers from the ongoing food consumption trend is frozen fruit pie (see table 1 for new product introductions in fruit-containing frozen desserts). Supermarkets and mass merchandise retail stores are major outlets for frozen

products. But one of the challenges in retailing frozen products including frozen fruit and frozen fruit pie is the high level of competition for space in the freezer section of these stores. One other challenge for frozen fruit pie manufacturers, for example, is coming from in-store bakeries within the supermarkets. These departments are currently growing and are able to sell products that are claimed to be fresh and high quality.

### ***Fruit Spreads***

The market for fruit spreads (excluding fruit butter) is not growing well. But there were better performances in some years. For example, retail sales of fruit spreads that include jams, jellies, marmalades and preserves have shown a slight increase in 1999-2001. The increase was partly the result of a decline in the other segments, which include honey and fruit butter. Price increases have also kept sales in this segment from declining. Import of fruit spreads to the U.S. market has a declining trend. Current imports mostly include gourmet or specialty fruit spreads that are not primarily produced by U.S. manufacturers, and they retail at a considerably higher price than the average spread (Intel, *sweet spreads*, 2001).

In terms of new product introductions, the category shows a significant growth in the last few years. There were 298 new products in 2004, up from 51 in 1999. Many new products feature a wide variety of flavor combinations. Manufacturers are also working on a variety of product innovations to add flavor or uniqueness to their fruit spread. Some products are not just sweet but combinations of sweet and spicy. Products are also coming with uncommon combinations of flavor and texture, making the premium market strong. There are now upscale fruit spreads made for restaurants and hotels.

Some fruit spreads are entering the market as healthy and functional foods, such as low calorie, no added sugar, no additives and preservatives, made from 100% fruit, vitamin/mineral fortified, organic, etc. Convenience has also been one of the driving forces in the introduction of new products. Fruit spreads are currently entering the market with squeezable containers having an easy-spread cup that make it easier to spread the jelly on bread.

Traditionally, fruit spreads have been used by consumers who eat breakfast at home and use them with their breakfast food. Currently the product is mainly used by older adults

who tend to eat traditional breakfasts at home. This may be an indication of the fact that the fruit spread market appears to be saturated, because its customer base is aging.

There are many individual manufacturers that are producing fruit spreads. At the retail level, supermarkets sell a wide variety of fruit spreads. But most of the spaces in these retail stores are filled with products from major manufacturers. There are also many private label products available in these markets. Therefore, many of these products are currently sold outside mainstream channels. Manufacturers sell their products through local retailers and farmer's markets, while others are distributed covering some specific geographic regions.

### ***Fruit confectionery***

Traditionally, this category is dominated by sugar and chocolate confectioneries and gums. Concerns over health and rising obesity rates have, however, heightened awareness of sugar, fat and carbohydrates. As a result many companies are now creating products with less sugar, carbohydrates, calories, etc. to encourage healthier eating and fruit confectioneries are becoming one of the new product trends that are growing in this sector. Data on the consumption trends of fruit confectioneries are not available. But consumption trends in the sugar and chocolate confectionery category will indicate future new product opportunities for this category.

Sales from sugar confectioneries are not growing and the market seems to be saturated and unable to drive sales by reaching new consumers. This market stagnation could indicate consumers' switch from conventional sugar and chocolate confectioneries to other healthy products. For example, the market for diet candy is growing. Looking at these trends, fruit confectioneries seem to be well positioned to benefit from sales to both young and old adults who may continue to increase demand for healthy and functional foods (Mintel, *sugar confectionery*, 2004).

In terms of new products, in 1999-2003, the number of new fruit confectioneries introduced has jumped from 232 to 881. Companies entered this line of production by introducing product innovations that use fruit mixes as substitute to chocolate and candy confectioneries.

The new products have different forms and appearances. Some are candies and other sweets filled with fruit concentrates, fruit juices, etc. Many products are coming as fruits coated or sweetened with sugar or edible coloring. Others are candies, chocolates or gums flavored with different fruit flavors including fruit juices, concentrates, purees, etc. There are also sweet bars mixed with fruits.

There are also some upscale and gourmet product lines. Zentis in Austria, for example, launched chocolate-coated marzipan with a lime or cherry fruit filling. Urban Processing introduced chocolate-coated sweetened dried cranberries, which is a gourmet line of all-natural premium product. In contrast, there are also fruit confectioneries that are introduced for sale through low-price retail stores like Wal-Mart. For example, great value strawberry fruit rolls are available in Wal-Mart stores.

The fruit confectionery products are currently entering the market mainly as fruit snack extension. There are some products especially designed for school children. Some of these products even claim to be organic.

Packaging plays an important role in marketing fruit confectioneries. Most of the items are currently available in flexible packs and companies are becoming more and more innovative to introduce packages with new features and shapes. Pop out packs, bilingual and resealable packages are now common. Some companies have even gone further and create products that are tied to special occasions. For example, General Mills introduced fruit confectionery extensions featuring the Shrek 2, making a tie-in with the film's launching time. Following the launch of Disney cartoon film "Finding Nemo", Trawigo/Germany introduced a selection of fruit flavored candies dressed in sea inspired toys.

Some companies are introducing products shaped in different forms and designed to attract mainly children and young adults. For example, General Mills introduced Looney Tunes fruit snacks shaped like the children's cartoon characters. Haribo/Austria introduced a pack of sour fruit gums shaped as pretzels. Others products include hot dog shaped gummy candies, a hamburger-shaped gummed jelly sweet with a fruit flavor or cocoa biscuit pretzels coated with a soft chocolate with freeze-dried banana fruit, etc.

Confectionery products are widely distributed, and most of them are derived from various outlets other than traditional food retailers.

### ***Fruit-containing dairy products***

Fruit-containing yogurt foods and drinks are the two major products in this category. In recent years, the market for yogurt drinks has shown a significant growth, partly due to an increase in the market for meal replacements. This situation has created a broad opportunity for the introduction of a variety of new fruit-containing yogurt drinks.

Between 1999 and 2004, companies introduced more than 2,500 new fruit-containing dairy products and line extensions. There were 720 new products in the first nine months of 2004 alone. Most of the new products are in the yogurt category. Other fruit-containing dairy products include milk, cheese and recently even butter. New products have been introduced either with fruit flavor or added-in pieces of fruits and they are entering the market as refreshing snack foods/drinks, breakfast foods/drinks, and desserts.

Some new products claim to be whole meal replacements produced using different ingredients that include fruit, cereals and yogurt. There are also products aimed at consumers with health concerns. A range of low/no fat, no added sugar, vitamin and mineral fortified, etc. products with assorted fruit varieties are available. This category is expanding its line of production to be an alternative breakfast.

Convenience is also becoming an important market driver in introducing new products. Companies are relaunching products with new package designs making them easily consumable without using utensils by on-the-go consumers, at offices or in schools. Major consumers of fruit-containing yogurt drinks are women and children. Especially children would remain to be an attractive target for these products, as they continue to add them in their breakfast and lunch kits or use them as snack (Mintel, *yogurt drinks*, 2004).

In terms of retail marketing, fruit-containing yogurt drinks are primarily sold through supermarkets chains. Sales of fruit-containing yogurt products through mass merchandise retail channels are not strong.

### ***Other fruit-containing non-alcoholic beverages***

This category focuses on fruit-containing non-alcoholic beverages other than fruit juices and juice drinks. It mainly covers fruit-containing sports and energy drinks, enhanced bottled water drinks, and tea drinks. Instant beverage concentrates and mixes are not included here.

Due to health and diet concerns, consumers these days seem to be looking for drinks other than soft drinks. Younger consumers and women are especially interested in these alternative beverages that are perceived as healthy drinks (Mintel, *RTD non-carbonated beverages*, 2004). Manufacturers are thus scrambling to introduce drinks with different fruit flavors in an effort to maintain and expand market shares.

The sports and energy drinks have experienced high growth in recent years, partly as a result of product innovations that allowed the introduction of many new products in recent years. In the first 9 months of 2004 44 new products have been introduced. New line extensions in this category are entering the market with high content of fruit and fortified with vitamins and minerals. As a result, many drinks have repositioned themselves as healthy drinks, expanding their previous role as sports and energy drinks. Drink flavors are another important component manufacturers provided due attention in their product innovation. Packaging has also been a key market driver well received by manufacturers. There are now products with new convenient packages entering the market. Manufacturers have also begun to tailor the product to narrower demographic group (e.g. narrow age range). Hispanics are also becoming potential consumers for sports and energy drinks. There are currently new sports drinks displaying bilingual labels and supported by Spanish advertisements (Mintel, *RTD non-carbonated beverages*, 2004).

The enhanced water category has seen strong growth since the late 1990s and is gaining from being perceived as a healthy drink. It contains a wide variety of additives including fruit flavors, minerals and other nutrients, and it is considered to be a lighter alternative to sports and energy drinks (Mintel, *RTD non-carbonated beverages*, 2004). There are currently many new products and enhanced versions of sparkling bottled waters mainly with fruit mixes or added fruit concentrates. 64 products have been introduced in 2004.

Most of the drinks claim to be healthy (low calorie, free from preservatives, colorings, etc.). Again here, product flavor and mixes of ingredients have been most important in introducing these products. The focus on packaging innovations appears to be limited.

U.S. consumers are not high tea drinkers, but sales of tea (hot and iced) rose at an average of 7% per year between 1997 and 2002 (Mintel, *breakfast drinks*, 2002). Increasing consumers' desire for more flavors and a healthy tea has given rise to the introduction of a range of hot teas with different fruit mixes and fruit flavors. There are many new hot tea products introduced with multi-fruit flavors (81 in 2004 alone). In recent years, the iced tea category has also capitalized from consumers' desire for convenience beverages that can be consumed immediately. The product is also becoming attractive for consumers demanding for premium prepared teas with a wide range of flavor choices. New products in the iced category have been introduced with a range of fruit blend teas and flavorings. There were 45 new products in 2004. Currently different kinds of refreshing fruit teas and fruit drinks are available on the market with high percentage of fruits added in them. Overall, fruit-and nutrient-added tea products seem to have the attention of consumers, especially young consumers who are adventurous to taste new products.

The sports and energy drinks, enhanced water, and the iced tea category can, in general, benefit from an increasing number of consumers who these days carry bottled drinks with them or stop to purchase the beverages between meals. The number of consumers in this segment has been growing in the last two decades (Mintel, *RTD non-carbonated beverages*, 2004). As regards retail distribution of these products, supermarkets and mass merchandise retail stores are major distributors of these products.

### ***Fruit-containing alcoholic beverages***

Three major products covered under this category include beer and cider, spirits and liqueur, and wine. There are no specific data available that show consumption trends of fruit-containing alcoholic beverages. But consumption trends in the overall alcoholic beverage sector will provide an indication on future growth potentials for these products.

Overall sales of alcoholic beverages have increased in recent years. The biggest increase has been in wine sales. The U.S. wine market has experienced strong sales growth between 1997 and 2002, in large part because consumers are purchasing higher-quality,



higher-priced wines (Mintel, *wine*, 2003). Wine sales are expected to remain somewhat flat in the coming years. Sales of distilled spirit showed a significant jump in recent years. This increase was mainly a result of a significant rise in sales of mixed drinks/cocktails which became more prevalent since 2000 (Mintel, *beverages volume II*, 2002). This growth is expected to continue with the wide spread introduction of “happy hour cocktail’ sales in bars and restaurants.

In terms of new products, the alcoholic beverage category provides a broad array of new product development opportunities for the fruit sector. The beer and cider category is one example. There are fruit-containing beers that have been introduced in recent years. For example, Paulaner the largest brewery in Bavaria/Germany introduced Frueli, a Belgian white fruity beer, said to be aimed at women. It is available in strawberry and apple flavor. Belhaven brewery in Finland has introduced an apple flavored Fruit Beer classic choice as an extension of its existing line of production. Manufacturers have mainly focused on variety and flavor innovations in introducing new products. Packaging innovations were not priorities. Although they are few in number, there are also new alcoholic and non-alcoholic cider drinks introduced in recent years. There are, for example, cocktail of cider (mixed cider and spirit drink), fruit punches, spiced cider drinks, etc.

Fruit spirits and liqueurs appear to be widespread in Europe than in the U.S market. There are some spirits and liquor drinks introduced with fruits as ingredients and flavors (12 products in 2004). Again here, new lines of flavor and variety are dominating this category. New products are also being introduced targeting specific demographic groups, for example, drinks for young adults.

Wine is the strongest in terms of new product introductions. There were 71 new products introduced in 2004. New products in this sub-category distinguish themselves in many aspects: Some are produced from fruits grown under specific climatic conditions; some focus on fruit varieties, mixes and flavors; some claim to be produced from natural fruits, etc. In general, future alcohol consumption is expected to rise (Mintel, *beverages volume II*, 2002). Fruit-containing alcoholic beverages can thus take advantage of this market opportunity to raise their market share.

Packaging innovation appeared to receive little attention in new product development. But, with the increasing number of convenient-driven consumers, single-serve packages will help raise gains from sales. In terms of market channels, the market for these beverages is generally fragmented with many domestic and international traders competing to raise their market share (Mintel, *beverages volume II*, 2002). Retail distribution of alcoholic beverages includes supermarkets, mass merchandisers, convenience stores, drug stores, and liquor/package stores.

### ***Other fruit-containing products***

This category includes a wide range of fruit-containing food products such as snack bars, breakfast cereals, baby foods and drinks, and bakery food items. Fruits are included in sauce products, side dishes, and soups. They are also becoming important ingredients in prepared meals and meal replacements. There are also weight control products and even pet foods that are produced using fruits as ingredients. This paper will not cover details of these products.

## **Future product development and market opportunities**

This section will briefly examine and summarize future new product development and market opportunities that are potentially available for growers, shippers, manufacturers, wholesalers and retailers of different products within the fruit sector. The section will have four major parts. Part 1 will deal with future product development opportunities that are identified based on consumption trends and market drivers. Here, opportunities in product categories are ranked by major market drivers such as wellness, indulgence, convenience, ethnicity, value and demographic changes. Part 2 will briefly present future opportunities to raise sales through different retail market channels. The third part will focus on opportunities in branding and sales of private label products. Finally, a brief description will be presented on the effects of these new opportunities on different production practices.

Opportunities in part 1 and 2 are ranked as broad, selective and limited (matrix 1 and 2). A broad opportunity represents the existence of a high potential to raise gains from sales by introducing new products in this specific market segment or by using the specific

retail market channel. Opportunities are selective, if the potential to raise gains are dependent on just part of the broader market segment or if the retail channel does not provide broad opportunities to distribute the product. Limited opportunities reflect low probabilities of raising sales in the specific market segments or by selling the product through the specific market channel. This may be due to a dying market segment or the retail channel’s limited capacity or interest to carry the product. But “limited” does not mean that there are no opportunities at all. It only reflects the existence of a range of constraints to expand sales in this market segment or through this channel.

**Matrix 1: Positioning product development opportunities by market drivers**

	Wellness	Indulgence	Convenience	Ethnicity	Value	Demographic structure
<b>Fresh and mini-processed fruit</b>	Broad	Broad	Broad	Broad	Broad	Broad
<b>Fruit Juice and juice drinks</b>	Broad	Broad	Broad	Broad	Selective	Selective
<b>Canned fruit</b>	Limited	Limited	Selective	Selective	Selective	Selective
<b>Dried fruit</b>	Broad	Selective	Broad	Selective	Limited	Selective
<b>Frozen fruit</b>	Limited	Limited	Limited	Limited	Selective	Limited
<b>Fruit spreads</b>	Selective	Broad	Selective	Limited	Selective	Limited
<b>Fruit confectionery</b>	Selective	Broad	Broad	Selective	Selective	Selective
<b>Fruit-containing dairy products</b>	Broad	Broad	Broad	Limited	Selective	Selective
<b>Other fruit-containing non-alcoholic beverages</b>	Broad	Broad	Broad	Selective	Limited	Selective
<b>Fruit-containing alcoholic beverages</b>	Selective	Broad	Selective	Limited	Limited	Selective
<b>Other fruit-containing products</b>	varies	varies	varies	varies	Varies	varies

***Opportunities in new product development***

**Fresh and minimally processed fruits – Broad Opportunities:** Wellness, indulgence and convenience will be the most significant market drivers that continue to

provide a broad opportunity for fresh and minimally processed fruit packers and suppliers. With more consumers embracing new flavors, varieties, and healthy snacks, product innovation and wider availability can help fruit suppliers to raise sales from these products. New product line extensions in minimally processed fruits would be key for growth in this category. Suppliers and packers can thus raise sales through packaging innovations that make these products more convenient for the consumer, while maintaining their freshness.

Currently, with consumers appearing ready to pay a premium price for healthy foods and for convenience, price may not be an entrance barrier for fresh and minimally processed fruits. On the other hand, the largest portion of these products is still marketed in bulk. Suppliers and packers who can supply high volumes can thus benefit from this broad opportunity. There is also wide appeal for these products across all ethnic and demographic groups, though some demand variations may exist for specific fruit items and flavors.

In general, **the rising demand for healthy foods, fruits' convenience as a ready-to-eat and easily portable food, and their appeal to a wide variety of ethnic and demographic groups provide broad product development opportunities** for individual fresh-cut fruit suppliers and packers.

**Fruit juice and juice drinks – Broad opportunities with some selective opportunities:** This category is currently losing market to other healthy drinks including bottled water and isotonic. But the fruit juice and juice drinks are still considered a healthy beverage. So, wellness will continue to be the primary driving force to increase sales aimed at health-conscious consumers. New fruit juices and juice drinks positioned as healthy and functional drinks (no sugar, low calorie, fortified with vitamins and minerals, natural, etc.) present broad opportunities. In this regard, one significant product innovation area manufacturers can aggressively pursue will be the development of new products/line extensions that can better compete against healthier water drinks and fill the gap by encouraging all day consumption.

Fruit juice and juice drinks are also well accepted by many consumers as indulgence drinks. Due to the availability of a wide variety of non-alcoholic beverages, however,

consumers tend to frequently switch from one segment to the other within the category. Therefore, innovations in flavor and variety will be key drivers to introduce new drinks and line extensions that can make the category more competitive. Convenience will also remain to be the other driving force that provides broad product development opportunities. Packaging innovation should play an important role in the introduction of products that are convenient for different market segments (e.g., school children, different ethnic groups or for on-the-go lifestyles). This could include packaging that is easier to store, to carry, or to chill boxes, bottles and other containers.

These drinks are also becoming popular for different ethnic groups. Recent new product introduction have, for example, increased the popularity of the drink among Hispanics. There are thus broad opportunities to develop new products based on consumers' desire in different ethnic groups. Product innovations in this direction should focus on wider varieties of products and package designs targeted at the market segment.

New fruit juice and juice drink products can also target specific demographic groups, mainly families with children. In this market, innovations in packaging, flavor and color will be important in attracting children to buy juice products. Value may also have a selective role in raising market shares. Manufacturers who can supply high volume low-price juices and juice drinks through mass merchandise retail stores may have the ability to raise their sales. But the ongoing high competition among different non-alcoholic beverages may make it difficult to substantially raise gains from these low-price drinks. Consumers who consider fruit juices and juice drinks as their preferred functional beverages may not see price as the main factor affecting their purchase. These consumers, however, are not purchasing the product in bulk and they are not frequent customers of mass merchandise retail stores.

In sum, **the health benefits of juice and juice drinks, and growth in consumers' demand for more flavor, variety, and convenience provide broad product development opportunities** for individual juice and juice drink manufacturers.

**Canned fruits – Selective opportunities with some limited opportunities:** A steady growth in fresh and minimally processed fruit consumption has significantly affected the canned fruit market. Large brand manufacturers are thus repositioning and repackaging

their products switching to minimally processed fruits as product line extensions of canned fruits. These products are designed to maintain freshness while providing convenience to consumers. So, one area to raise sales would be through the introduction of canned fruits in bulk to be channeled through mass merchandisers and low-price food retail stores.

Many consumers perceive canned fruits as old fashioned and not as healthy as fresh and minimally processed fruits. Therefore, wellness and indulgence will not be the primary market drivers for this product. In the future, manufacturers seeking to raise sales from canned fruits as a healthy snack may need to consider products that have low-sugar and perceived by the consumer as safe. In addition, development of better consumer awareness and interest in canned fruit consumption would be a key factor to expand options in canned fruit consumption.

Packaging innovation (for example, packages that allow to prepare the food in the container they come in) may help manufacturers to attract some convenience-driven customers, but this change may have little impact on the consumer who wants to buy a product that is fresh and be used immediately for consumption without further preparation. Better opportunities, however, seem to exist for new products aimed at Hispanics, if the new products meet specific flavor and variety preferences of this market segment. Older adults may also continue consuming canned fruits providing limited product development opportunity. But this market outlet will not be sustainable.

In general, a **growing consumer demand and preference for product freshness and convenience, and canned fruits' limited attractiveness to a broad array of consumer groups provide selective product development opportunities** for individual canned fruit manufacturers.

**Dried fruits – Broad to selective opportunities:** Recent new product development trends indicate fast growth in dried fruits. Most of these new products have generally been introduced to expand the fruit snack range that is also perceived as healthy snacking. So, it is expected that wellness and indulgence will continue to be one of the most significant market drivers that can open broad opportunities for dried fruit manufacturers to raise sales.

The product is also well positioned to benefit from being one of the most convenient foods that are highly portable and storable. Not only that, if combined with other products, dried fruits have the potential of being main ingredients in portable meal kits suitable for the-on-go consumer who wants to have frequent snacking (currently referred to as the “fourth meal”) than having regular meals. The creation of innovative containers and innovative flavors would help manufacturers to raise their market share from this product.

Manufacturers have also selective opportunities to sell dried fruits to different ethnic and demographic groups. Bundling dried fruits with school children lunch or expanding sales to older adults who perceive dried fruits as healthy snack alternatives are some of the market segments that can be expanded through new product line extensions. There are currently limited opportunities to expand the dried fruit market among the different ethnic groups. The current barriers to expand sales in this market segment would probably be variety and flavor. In fact many ethnic groups use fruits for cooking, baking or snacking. If manufacturers focus on product innovations that meet these requirements, there is still a potential to raise sales in this market segment.

Dried fruit manufacturers who offer low-price products can raise their sales, if they are able to sell these products in bulk or in large family style packaging through mass merchandise or food retail stores. They gain from increased volume sales at the expense of reducing average unit prices. Otherwise, it is expected that young adults and higher income consumer groups will be willing to pay more for dried fruits that appear to be convenient and healthy.

In general, **manufacturers have broad product development opportunities as dried fruits continue to provide health benefits for the consumer and because of their being highly portable and ready-to-eat snacks.** Also, **selective opportunities exist in other market segments.**

**Frozen fruit – Limited opportunities:** Consumption of frozen fruit is declining and introduction of new products is very limited. Frozen fruits have high competition from fresh and minimally processed fruits. Value will remain the single most important market driver that can provide some opportunities for frozen fruit manufacturers. Even in that

case, because of competition for space in retail stores, the chances are not broad. For many reasons, wellness, indulgence and convenience may provide only limited opportunities to raise sales from these products. Manufacturers can consider introducing a product/packaging innovation that allows consumers to eat frozen fruit without wait and effort. Even with that innovation, the product will not be competitive in the current market, because consumers today have many fruit product choices that are fresh and convenient, and they generally seem skeptical about the quality of frozen products.

The aging population seems to be the main demographic group that appears to present a market potential for frozen fruit suppliers. But this market will not be sustainable, unless suppliers are able to penetrate into other market segments. The product also seems to have limited market potential in the ethnic market.

**In general, since consumers are looking for fresh, healthy and convenient food products, there are limited product development opportunities for individual frozen fruit manufacturers.**

**Fruit spreads – Selective opportunities with some limited opportunities:** Growth in this category is limited. Indulgence will remain to be one of the most important market drivers that provide broad opportunities for fruit spread manufacturers. Individual manufacturers can benefit from product innovations that focus on combination of flavors and texture. Fruit spreads that enter the market with multiple uses (e.g., using them as ingredient in some food preparation or with a snack) will also have a good chance of growth.

Also, one market segment manufacturers can jump in is the gourmet product line extension, which appears to be currently dominated by imports that serve upscale restaurants and hotels. Convenience provides selective opportunities. Fruit spreads that are currently entering the market with squeezable containers are making the products easier to use. Sales can also be increased from single-serve portions that can be taken with breakfast or lunch boxes.

Manufacturers will have selective opportunities from new products that address consumers' wellness issues. Although health and nutrition issues are less important to



sweet spreads, some consumers may still perceive the product to be healthy because of its high fruit content. This line extension can benefit from sales of fruit spreads that are functional, low-calorie, low-sugar, natural, etc. But the popularity of these products may still be limited since many consumers of these products normally may not want to sacrifice taste. Manufacturers targeting this group may thus benefit from increased market promotion and advertising.

Value as a market driver will also have a selective role. Fruit spreads are generally sold at high prices. But manufacturers can potentially raise gains from volume sales at low-price mass merchandise retail stores. Given the significant presence of brand products in these stores, however, entering this market channel for individual manufacturers will be less easy.

In terms of consumption by ethnic and demographic groups, growth opportunities seem to be limited. If manufacturers want to raise sales by expanding their customer base, there is a need of reinvigorating the fruit spread market by focusing more on young consumers. Manufacturers can increase sales in this market segment by introducing new fruit spreads that are appealing to the young consumer who is usually interested in trying new products. Adding some exotic fruit or new package designs aimed at this market segment may increase sales.

One of the biggest challenges for fruit spreads in the coming years would, however, be competition from breakfast foods that are not eaten with sweet spreads. These are primarily breakfast snacks or foods that are ready-to-eat or ready-to-drinks breakfasts (e.g., breakfast juice or yogurt drinks), and their consumption is growing fast.

In sum, **because of the product's limited appeal to health conscious consumers and the existence of high competition from other indulgent and convenient foods, fruit spread manufacturers will have selective product development opportunities.**

**Fruit confectionery – Selective opportunities with some broad opportunities:** Indulgence and convenience seem to be the most significant market drivers that can broaden product development opportunities for fruit confectionery manufacturers. With

the introduction of appropriate product innovations in product flavor, shape, size, etc., this category has the potential to expand its market share as a fruit snack line extension.

Packaging innovation will be the other key market driver that can open broad opportunities to raise sales from fruit confectioneries. Especially Packaging designs will play an important role in promoting sales aimed at children.

Although fruit confectionery appears to be one of the healthy confectioneries, due to its high sugar and calorie content, the product may not have wide spread acceptance by consumers concerned about their health. So, wellness as a market-driver will currently provide selective opportunities for manufacturers. Product line extensions that claim to be sugar free, low-carb, organic or natural will, however, continue to be appealing to consumers concerned about their health. In the future, this consumer group will eventually drive the market, as it becomes the core consumer group for the product.

Different ethnic and demographic groups will provide selective opportunities for new product development in this category. Since children and young adults are leading consumers of confectioneries, manufacturers can benefit from the introduction of new products especially designed for this consumer group. Other selective opportunities include product innovations in upscale and gourmet product lines that include all-natural premium products or bulk fruit confectionery products that are designed for sale through mass merchandise channels at low-prices.

In sum, since fruit confectioneries encourage healthier eating by being low-carb, low-calorie, low fat, etc. compared to sugar and chocolate confectioneries, **manufacturers that can offer variations in flavor, fillings, texture, shape and package will have indulgence and convenience driven broad product development opportunities.** A continuous demand for confectioneries by young consumers and product line extensions in the wellness market segment will also provide selective opportunities for manufacturers.

**Fruit-containing dairy products – Broad opportunities with some selective opportunities:** This is one of the fastest growing fruit-containing products in the fruit sector. Wellness, indulgence and convenience will continue to be the most significant

market drivers that can provide broad opportunities to raise sales from these products. In terms of wellness, the category is well positioned to benefit from yogurt and fruits that are both perceived by many consumers as healthy food items. Manufacturers can raise sales from line extensions that are low-carb, low-calorie, natural, functional, etc. Variety and flavor will also play a significant role in attracting consumers. Convenience may also continue to be important to expand sales aimed at the on-the-go consumer. Packaging and storage innovations that make these products easily available and direct consumable at offices and schools would help in expanding the market. The category, however, will have high competition with other functional drinks including the newly emerging healthy breakfast beverages.

Different demographic groups mainly children and women may be important market segments to raise benefits from selling these products. Manufacturers targeting children can benefit from introducing new and improved package designs aimed at this market segment. Gains from sales to different ethnic groups appear to be limited. Volume sales of multi-pack fruit-containing dairy products through low-price mass merchandise retail stores would also help manufacturers raise sales from this product. However, given that mass merchandisers do not carry a much wider selection of these products (partly due to space allocation problem), manufacturers will have no broad opportunities in selling their product.

**Overall, because of the product's high health benefits (both from dairy products and fruits), and high consumer demand for variety, flavor and convenience, fruit containing dairy product manufacturers have broad product development opportunities.**

**Other fruit-containing non-alcoholic beverages – Broad opportunities with some selective opportunities:** Wellness, indulgence and convenience will be the most significant market drivers that provide broad product development opportunities for manufacturers in this category. Sports and energy drinks manufacturers have broad potentials to expand sales by adding more fruit varieties and fruit flavors to their products that continue to build up the roles of these products as sports and energy drinks. At the same time, because of the higher fruit content, consumers perceive these products as

healthy drinks. Given the variety of additives included in enhanced bottled water drinks, manufacturers of these products have even broader opportunities to expand their market share in the wellness segment. The tea industry is also gaining from being one of the healthy drinks, especially with the addition of a variety of fruits and other healthy ingredients. In all these product categories, flavor and variety will play a significant role in increasing gains from sales.

Convenience will play an important role in expanding the market share of these products, although there are currently few new products that are entering the market with new or improved package designs. In the future, manufacturers need to provide due attention to packaging innovations, if they want to expand sales to different consumer segments including school children, specific ethnic groups or other consumers who want to purchase portable drinks to carry with them or stop to purchase the beverages between meals. Multi-pack drinks are currently the dominant packages. But single-serve packages will be needed for the convenient-driven consumer. Different package sizes and designs may also be useful not just to make the product more convenient, but also as an innovation strategy to reach out to different market segments.

With so many beverages currently available for sale, the role of value in increasing sales volume will be limited.

Some of these drinks such as the sports and energy drinks can also open selective opportunities for manufacturers who want to sell them as drinks for specific ethnic or demographic groups. In particular, the new drinks may benefit from increased sales to children at schools where soft drinks are getting banned. Overall success in this category will depend on attracting a loyal customer base. Cross-promotional efforts can also help in increasing sales.

**Overall, since fruit containing energy and sports drinks, enhanced water and tea drinks continue to be appealing both to health conscious and indulgent consumers, individual manufacturers will have selective to broad opportunities to raise sales from these products.**

**Fruit-containing alcoholic beverage – Selective opportunities to limited opportunities:** Indulgence will be the single most important market driver that can open broad product development opportunities for manufacturers who want to raise sales from fruit-containing alcoholic beverages. Product innovations in variety and flavor will continue to be key priority areas. Wellness will provide selective opportunities. For example, some consumers tend to purchase beverages that are produced from fruits that are claimed to be natural or grown under specific climatic conditions. Also, manufacturers may have selective opportunities from selling beverages that are aimed at specific demographic groups. For example, young consumers can be attracted to beverages with specific varieties and flavor. Convenience in alcoholic beverages will provide selective opportunities especially if aimed at products designed for the young consumer who usually buys these products at convenience stores.

Given the different rules and regulation that affect the product's distribution, value as a market driver will provide manufacturers limited opportunities. Again here, overall success will depend on attracting a loyal customer base.

In sum, **a continuous growth in new alcoholic beverage introductions, increasing health concerns of consumers and the existence of different rules and regulations in alcoholic beverage production and marketing will allow manufacturers to have selective to limited product development opportunities.**

## *Opportunities within the retail market channel*

Table 2 shows retail sales and growth rates for selected fruit products that have been discussed in the previous section. In general, significant growth rates are observed for products including fresh-cut fruits, and fruit-containing alcoholic beverages. Most of the other products have experienced some growth, but not higher than the annual inflation rate. This in effect indicates the decline in sales from these products through the mainstream retail channel. Especially, products such as fruit juice and juice drinks, canned fruits and dried fruits have limited sales growth through the mainstream retail channel. Coupled with the new product development and consumption trend, the sales data will indicate the level of potential market opportunities for the different product categories.

**Table 2: Size and growth rates for selected fruit products in selected markets – 2003 sales estimates**

<b>Product</b>	<b>Retail</b>		<b>Mass Merchandise</b>		<b>Food Service *</b>		<b>Industrial **</b>	
	<b>Sales</b>	<b>Growth Rate</b>	<b>Sales</b>	<b>Growth Rate</b>	<b>Sales</b>	<b>Growth Rate</b>	<b>Sales</b>	<b>Growth Rate</b>
	<b>\$ MM</b>	<b>%</b>	<b>\$ MM</b>	<b>%</b>	<b>\$ MM</b>	<b>%</b>	<b>\$ MM</b>	<b>%</b>
<b>Fresh-cut fruit</b>	252	13.0%	35	18.0%	80	10.0%	---	
<b>Fruit juice and juice drinks</b>	13,447	0.9%	1,662	2.1%	6,669	2.6%	75	2.0%
<b>Canned fruit</b>	1,672	1.5%	201	1.6%	1,244	1.6%	35	1.5%
<b>Frozen fruit</b>	257	1.3%	26	1.4%	794	2.0%	90	1.5%
<b>Dried fruit</b>	1,335	1.8%	165	2.1%	334	2.1%	30	2.0%
<b>Fruit spreads</b>	1,168	2.3%	144	2.6%	509	2.8%	50	2.5%
<b>Fruit confectionery</b>	45	1.7%	5	1.9%	10	2.1%	---	
<b>Fruit-containing frozen product</b>	624	2.6%	69	2.8%	346	3.1%	---	2.5%
<b>Fruit-containing alcoholic beverages</b>	12,000	4.6%	924	4.8%	6,250	4.5%	60	3.0%

\* Operator sales estimates. \*\* Manufacturer sales estimates. No data available for fruit-containing dairy products and for non-alcoholic beverages

Source: Hale Group

Matrix 2 presents a summary of opportunities for manufacturers of different fruit products to sell their products through a variety of retail market channels.

**Matrix 2: Positioning opportunities by retail market channel**

	<b>Supermarkets</b>	<b>General retail/Wal-Mart</b>	<b>Specialty retail</b>	<b>Specialty food retail</b>	<b>Broad food service</b>
<b>Fresh &amp; minimally processed</b>	Broad	Broad	Selective	Broad	Broad
<b>Fruit juices and juice drinks</b>	Broad	Selective	Selective	Selective	Selective
<b>Canned fruit</b>	Selective	Broad	Limited	Limited	Selective
<b>Dried fruit</b>	Broad	Selective	Selective	Broad	Selective?
<b>Frozen fruit</b>	Selective	Selective	Limited	Limited	Selective
<b>Fruit spreads</b>	Selective	Selective	Selective	Selective	Selective
<b>Fruit confectionery</b>	Broad	Broad	Selective	Selective	Selective
<b>Fruit-containing dairy products</b>	Broad	Selective	Selective	Selective	Limited
<b>Fruit-containing other non-alcoholic beverages</b>	Selective	Selective	Selective	Selective	Selective
<b>Fruit-containing alcoholic beverages</b>	Selective	Selective	Selective	Limited	Selective

**Fresh and minimally processed fruits - Broad market opportunities with some selective opportunities:** One unique advantage in the fresh and minimally processed fruit market is, in fact, the ability of the product to penetrate through almost all mainstream retail market outlets. Supermarkets and mass merchandisers will remain to be the primary retail outlets for these products. But, in the future, as the share of new packaged fresh-cut fruits marketed through supermarkets increase, lack of space may compel suppliers of bulk and low-price products to use alternative channels for their products. Food service outlets such as restaurants and fast food chains are the other key channels to raise market shares for these products.

In the future, specialty food retailers that primarily focus on the distribution of natural and organic fresh produce may not play a leading role in the distribution of fresh and minimally processed fruits. These stores are currently losing their market share in fresh produce to supermarkets as a result of increased supply of these products through supermarkets and the products' availability at relatively cheaper prices than in the specialty shops. Consequently, wide ranges of these products are currently available in supermarkets. So, suppliers and packers who want to use these retail channels will just

have selective opportunities. They can use these channels for niche products that currently do not have wide spread sales in supermarkets.

**Overall, since most of the retail market outlets carry fresh and minimally processed fruits, there are broad market opportunities for these products.**

**Fruit juices and juice drinks – Selective market opportunities:** Supermarkets will continue to provide broader opportunities. These markets will remain to be the most frequented retail channel for the purchase of non-alcoholic beverages including fruit juices and juice drinks. But a continuous challenge for these drinks would be the fast growth in new product development that is currently saturating the existing retail channels. In the future, manufacturers of fruit juice and juice drinks may be required to search for non-traditional distribution outlets within the food service establishments such as restaurants or fast food chains. Also, wider distribution capabilities and market advantages could be achieved, if smaller brands use channels of larger companies that have an established and extensive marketing and distribution network.

The ongoing increase of market share of mass merchandises and convenience retail stores also opens selective opportunities for juice drink manufacturers to increase sales. Mass merchandise retail stores can in particular be the preferred outlets for low-price drinks that are coming in multi-packs. Convenience stores are generally frequented by snackers and young consumers. So, single-serve drinks aimed at young consumers can gain from using this channel.

**In sum, due to the existence of high competition from a wide variety of non-alcoholic beverages that are being sold through different retail market outlets, manufacturers of fruit juices and juice drinks will have selective opportunities in selling their products.**

**Canned fruits – Selective to limited market opportunities:** Low-price food retail stores and mass merchandise retail stores would remain to be the primary channels for products that are coming in bulk. Currently, supermarkets are also significant market outlets for the product. But, with the ongoing challenge for space and the increasing number of new products and varieties coming to supermarkets, canned fruit



manufacturers will have limited opportunity to raise sales through this channel. Individual manufacturers can, in fact, develop new market outlets for their new products. For example, they can bundle it with other product manufacturers that provide the same benefit to the consumer (e.g., home meal replacement at supermarkets is one possibility) or they can use different events and activities to sell their products. Manufacturers can also benefit from placing canned fruits in vending machines, particularly in schools that are starting to ban sales of candy and carbonated beverages. These products, however, need to be in convenient packages and designed to be used directly as snacks. Internet grocery is the other potential market outlet for canned fruits. But the chances of success in canned fruit Internet marketing require packaging innovations that make product transport easier and affordable. One best alternative in this regard would be, not to market the product alone, but to use it as an ingredient for meal kits that are marketed through the Internet channel. With increasing number of restaurants and food service providers turning to online food marketing, sales of foods and beverages through this channel are expected to grow from the current \$5 billion to \$19 billion in 2010 (Lansing state journal, 11/14/2004).

**In sum, due to the continuous challenge for space in retail market stores and the increasing number of new products that are fresh and convenient, canned fruit manufacturers will have selective opportunities to sell their products through the mainstream retail channels.**

**Dried fruits – Broad to selective market opportunities:** Dried fruit manufacturers have broad opportunities to raise sales through different retail market channels. Unlike many other food products, for example, dried fruits are currently benefiting from the dual-positioning (as snacks and baking items) in supermarkets. There are also efforts by manufacturers to add these products in the fresh produce section. This indicates many positive things for dried fruit manufacturers. First, brand products are not dominating the market for the product. Individual manufacturers can thus enter the market without facing difficulties from large manufacturers. Second, multi-positioning of the product in supermarkets helps expand sales from the product. So, with the increasing number of

consumers purchasing healthy snacks, manufacturers still have very broad opportunities to raise sales through the supermarket channel.

Mass merchandisers will provide selective opportunities for those manufacturers who want to expand sales from low-price bulk products. Convenience stores and drug stores also provide selective opportunities for manufacturers who want to focus on dried fruit snacks aimed at the young consumer. Wide spread distribution of these products through alternative channels such as specialty food stores or gas stations can also facilitate growth in sales. The food service outlets can also play an important role, if product innovations continue to raise the importance of dried fruits as one of the components in restaurant food preparations or as salad toppings and dessert ingredients. Vending machines would be other market outlets especially suitable for dried fruits that are designed for sale to young adults and children at school as snack.

**Overall, as the product continues to be convenient and position itself as more than just a healthy snack (suitable for salad topping, baking, or use as an ingredient in prepared meals), manufacturers will have broad opportunities to sell this product through supermarket and specialty food retail channels.**

**Frozen fruits – Selective market opportunities to limited opportunities:** One of the current challenges in retailing frozen products is the high level of competition for space in the freezer section of supermarkets and mass merchandisers. With most of the shelf spaces filled with brand products, frozen fruit manufacturers will have limited opportunity in raising sales through these channels. So, individual manufacturers who want to continue with the introduction of new frozen fruit products may need to look for alternative channels such as restaurants and other food service establishments. Mass merchandisers such as Wal-Mart do not seem to have a significant role in the frozen product market. But their market share is increasing and will remain to be potential retail outlets for those manufacturers who can offer low-price products. Lack of space for frozen products will also make it difficult to raise sales through convenience stores and specialty food retail stores.

**In sum, because of high competition for spaces in the freezer section of retail stores and the dominance of brand products occupying these spaces, individual frozen**

**fruit manufacturers will have selective opportunities to sell their products through these channels.**

**Fruit spreads – Selective market opportunities:** The mainstream retail market channel is currently dominated by brand products from large manufacturers and in-store private label products. There are a wide variety of branded and private label products for sale through supermarkets. So, in the future, individual manufacturers may not have a wide spread opportunity to raise sales through this channel. Shelf space allocation is the key problem to enter this market channel. Mass merchandise retailer stores would also give priority for branded and selected private label products. Therefore, individual manufacturers have to find alternative market outlets for their products. They can sell their products through local food specialty shops, small local retailers or farmer's markets. Convenience stores and specialty food retail stores can provide opportunities to sell fruit spreads that are designed to be convenient (e.g., single-serve spreads that can be used by snackers).

**Overall, due to the existence many brand and private label products and with retail stores providing priorities for selected brand products, individual manufacturers of fruit spreads will have selective retail market outlets to sell their products.**

**Fruit confectionery – Broad to selective market opportunities:** Manufacturers of fruit confectioneries can use a wide range of retail distribution outlets for their products. Supermarkets will remain potential outlets for these products. Recent sales of confectioneries through this retail channel are declining. But, fruit confectioneries, as a healthy alternative, may continue to attract customers in these stores. Mass merchandisers will also provide an opportunity especially for large size packages or multi-packs or for confectioneries that have high occasional demand (e.g., demand is particularly high for this category during the holyday season – fourth quarter of the year). Specialty food markets and convenience stores are also suitable retail channels for fruit confectioneries. Given the increasing number of new confectionery products entering the market through these channels, the stores may face space allocation problems. But fruit confectioneries are expected to be competitive in these stores. Fruit confectionery products can also

benefit from wide distributions using various outlets other than traditional food retailers. Examples of these outlets include dollar stores, card shops, vending, foodservice, bookstores, video stores, etc.

In general, **because of the product's ability to meet consumer's health and indulgence demands, and its ability to compete with other traditional confectionery products, individual fruit confectionery manufacturers have broad retail market opportunities to raise sales from their product.**

### **Fruit-containing dairy products – Selective market opportunities:**

Supermarkets will continue to be the dominant retail outlets for fruit-containing products. With the introduction of a wide variety of new products through these channels, one challenge manufacturers will be facing from using this channel is the availability of refrigerated shelf space. There are many products other than yogurt (e.g., milk, beer, carbonated drinks, fruit juices, etc.) that are competing for refrigerated space. This may limit sales growth through this channel. Mass merchandise retail stores will provide selective opportunities by increasing sales of multi-pack products that are sold at low price. But, again, their limited space may not allow them to carry a wide variety of fruit-containing yogurt drinks. Instead they will be focusing on leading brands and selected private label products.

Convenience stores are the other retail outlets that can provide selective opportunities to expand sales from fruit-containing yogurts. These stores carry usually food items that are convenient for the consumer. Manufacturers of fruit-containing yogurt foods/drinks can expand sales of single-serve products aimed at young customers. Currently, the market share of these products in convenience stores is very small. In the future, sales growth through this market channel will depend on the availability of refrigerated shelf space. Other retail outlets such as specialty food retail stores, drug stores, gas stations, coffee shops, may also be attractive channels for these products. There may also be a potential to use vending machines to expand sales, mainly at schools.

Overall, **with a wide variety of fruit containing dairy products entering the market, and with the ongoing competition for shelf and refrigerated spaces in retail stores,**

**fruit containing dairy product manufacturers will have selective opportunities to sell their products through the mainstream retail channels.**

**Other fruit-containing non-alcoholic beverages – Selective market opportunities:** Concerning retail distribution of these products, there appears to be selective opportunities to expand sales through the mainstream retail channels. Supermarket channels are currently filled with a variety of these products and it appears that these stores continue facing the challenge of creating shelf spaces for the beverages. Mass merchandisers including Wal-Mart may help increase sales of multi-pack products, but shelf spaces in these outlets are also becoming limited. The convenience store channel could contribute to increase sales of single serve packages. Products like water and sports and energy drinks can also benefit from wider distribution through alternative channels such as restaurants, vending machines or stands at occasional events.

In general, **due to the existence many new products that are coming on the market and the growing space allocation problem in retail stores, individual manufacturers will have selective opportunities to raise sales through the mainstream retail channels.**

**Fruit-containing alcoholic beverages – Selective market opportunities:** In terms of market channels, due to federal, state and local regulations, retail distribution of alcoholic beverages is not as wide as non-alcoholic beverages. The market for this beverage is generally fragmented with many domestic and international traders competing to raise their market share. Although there are many brand products, it appears that no one manufacturer dominates the market. Given the ongoing situation, manufacturers of fruit-containing alcoholic beverages will have selective opportunities to sell their product through the mainstream retail market channel. That includes supermarkets, mass merchandisers, convenience stores, drug stores, and liquor/package stores. However, supermarkets will still remain the largest distribution channels.

Overall, **due to the existence of different regulations in selling alcoholic beverages and the growing number of beverages that are entering the market, individual**

**manufacturers will have selective opportunities to sell their beverages through the mainstream retail channel.**

***Opportunities in branding and private label products: - Broad private label opportunities***

The fresh produce market is dominated by major national and international players. Most new minimally processed fruit products that are entering the market are from these companies. Given the newness of this sub-category, however, the market for these products is not saturated. So, there are still broad opportunities for individual manufacturers to partner with retailers that can develop and sell fresh-cut private label fruit products.

One other emerging trend that will help fruit suppliers and packers is the home meal replacement segment. This category may present a unique product development opportunity especially for those who want to bundle their products with supermarkets through co-branding or introducing new package designs to their products.

The juice and juice drink market is dominated by brand products. There are also many private label products that are less expensive than branded products. Despite this trend, however, manufacturers and retailers still have broad opportunities in developing private label products. Private label juices and juice products that can take a form of healthy drinks or line or brand extensions to fill the gap between different types of beverages will allow manufacturers to better compete against other non-alcoholic beverages.

Regarding canned fruits, most of the present private label products are from large manufacturers. These manufacturers are, however, showing less interest in the product and, they are in the process of repositioning their products. This would provide an opportunity to individual manufacturers who want to develop private label canned products for sale at low-prices through merchandise retail stores. But introduction of a variety of private label canned products will reduce the unit price for canned produce. The other alternative is co-branding or tie-ins with other products such as baking goods or sports and other activities that can raise consumption.

Dried fruits seem to be well positioned. Since the market for this product is still fragmented, manufacturers and retailers can develop private label products or regional brands that can help create new channels and expand existing markets. Co-branding and bundling opportunities with other products to create meal kits or meal replacements are other opportunities for manufacturers to raise sales.

Private label products will also provide opportunities for frozen fruit manufacturers who want to sell these products in bulk through low-price mass merchandise retail stores. Given the current trend for product freshness and convenience, market growth for frozen products, however, will not be easy. Manufacturers who succeed in building brand and product loyalty and who can co-brand their products with other food items may have a better chance to raise gains from sales.

In case of fruit spreads, brands are dominating the market. Given the wide range of flavors, types, and containers that are available on the market, competition will not be easy. One challenge for manufacturers is the increasing difficulty to sell private label products in mainstream retail channels. Still, manufacturers can develop private label products that can be sold through alternative market outlets.

There are many private-label confectionery products. But the market for fruit confectioneries is not saturated and manufacturers can increase sales from private label products. Another market trend that will be beneficial for manufacturers is the creation of seasonal or occasional products or to add gifts or other products through co-branding to increase the products' appeal to the customer. Tie-ins with occasional events or popular characters or movie tie-ins can be some of the features that provide opportunities for fruit confectionery manufacturers.

Regarding fruit-containing dairy products, there are many brands and private label products in the fruit-containing yogurt food sub-category. But fruit-containing yogurt drinks are relatively new in the U.S. market, and there are only small numbers of fruit-containing yogurt drink manufacturers that are taking advantage of the early stage in the product cycle by charging premium prices for this convenience drink. So, given the present consumption trend, individual manufacturers appear to have broad opportunities of developing private label products in this category.

The market for other non-alcoholic fruit-containing beverages is dominated by large brand manufacturers. Private label sales are also expanding. As the brand market approach a saturation point and consumers start looking for low-price products, however, manufacturers have an opportunity to introduce private label drinks.

In case of fruit-containing alcoholic beverages, although there are some leading brands, the market appears to be dominated by private label products. There are currently many products especially in the wine and beer category. The spirit and liquor sub-category seems to have a unique opportunity of growth by introducing private label products.

In general, **private label products continue to contribute to retail brand differentiation providing broad product development opportunities for fruit product manufacturers and retailers. Individual manufacturers can have different forms of participation in private label product development. Manufacturers can develop product specifications and labels for a product or they can develop retailer-designed products that can be sold through a selected retail market outlet.** Due to the existence of a wide variety of products, however, retailers may not have the capacity to invest in product innovation, research and development in different food products (*KPMG global consumer markets, 2004*). Therefore, **individual fruit product manufacturers will have broad opportunities for selling manufacturer-designed private label products. One area that requires great attention here is, however, the need for adequate promotional support both by individual manufacturers and retailers to strengthen their market position by improving customer loyalty for the specific product.**

### ***Implications on production practices***

Product innovation starts with the consumer. Wellness, indulgence, convenience, ethnicity, value and demographic shifts are the primary market drivers that can initiate new product developments in the fruit sector. In the future, fruit growers who are market-driven and customer-focused have broad opportunities to raise sales from their products.

Traditionally, many conventional fruit growers have done little to realize these opportunities. They are mostly focused on reducing costs to maximize profits from their



operations. The opportunities listed in the previous sections are, however, strong indications of the significance of market oriented product innovations for their successes. A differentiated product with high customer value reflected through the needs and wants of the ultimate consumer is the key to top success. With the increasing health and diet concerns of the U.S. food consumer, fruits are currently at the forefront of being a healthy food item. They are also becoming important products in fulfilling demands of the indulgent and convenient-oriented consumer. Snacking is becoming the “fourth American meal”. Fruits are the ideal snack foods and fruit growers are well positioned to gain from this growing consumption trend. One newly emerging and very promising opportunity for the conventional fruit growers is the fresh-cut category. Fruit growers have also a broad array of other opportunities to process and market fruit products. There are also many ethnic and demographic shifts and changes that are positively affecting the fruit sector.

The organic fruit production will also benefit from this trend. Organic fruits will continue to appeal to many consumers who desire pesticide free products. One new trend, in this regard, will be the shift in retail market outlets. Currently, in addition to natural/organic food markets, organic produces are increasingly offered through the mainstream supermarket channels. In addition, there are many products that lie between organic and non-organic and the line between the two is getting blurred.

Until recently, supermarkets have been offering organic products in their organic section. But nowadays many supermarkets are offering them side by side with other products allowing the consumer to compare prices and benefits. The wider distribution of these products has partly narrowed price differences between organics and non-organics and the consumer is increasingly having many choices of “healthy” fruits. But, still, there are core consumers of organics that are not highly price-sensitive, and growers can gain from offering these products. On the other hand, given the high growth in demand for processed fruit products (except canned and frozen), organic producers will continue to have selective opportunities to raise profits from sales of processed organic products.

There are also some new fruit products available on the market with ethical and welfare concerns. These products have positioned themselves to provide contributions and donations to different humanitarian, educational, health, political or other organizations.

There are also some products that claim to be produced without GMO. Fruit growers can also consider these markets to raise sales from their products.

## Conclusion

The present paper centered on the broader identification of product development opportunities for the fruit sector in Michigan, Ohio and Wisconsin. The results from the rapid opportunity assessment show that there are broad arrays of product development opportunities suitable for fruit growers, packers, manufacturers, wholesalers and retailers. These opportunities are driven by the changing consumer wants, needs and perceptions. Wellness, indulgence, convenience, ethnicity, value and demographic changes are the primary market drivers that shape the food consumption trend. Understanding of these market trends is fundamental for individual businesses who want to develop and introduce new products.

By listing potential product development and market opportunities for a wide variety of fruit and fruit-containing products, the paper paves the way for new thinking and the search for new ways to product innovations in the fruit sector of the three states. It shows that opportunities are not limited within the box. Product innovations in other food sectors are part of the solutions for successes in the fruit sector. The paper also presents a series of focus points that can be used to start thinking about the strategic benefits of these product innovations for sector. These opportunities can thus serve as a starting point for the fruit industry to formulate and manage broader product innovation strategies and resources that secure greater success.

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