

DISRUPTION IN FRUIT AND VEGETABLE DISTRIBUTION

FRUIT LOGISTICA TREND REPORT 2018

IN COOPERATION WITH

FRUITNET
MEDIA INTERNATIONAL

PRESENTED AT



IMPRESSUM

FRUIT LOGISTICA TREND REPORT 2018

DISRUPTION IN FRUIT AND VEGETABLE DISTRIBUTION

A special trend report for the international fresh produce business, commissioned by Fruit Logistica and produced by Oliver Wyman.

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PREFACE

Dear members of the fresh produce trade,

Here at FRUIT LOGISTICA, we place the greatest importance on providing you, exhibitors and visitors alike, with valuable information that can help you make decisions. New this year is the publication of this Trend Report. Entitled *Disruption in Fruit and Vegetable Distribution*, it scrutinises developments in the wider business world and how they will affect the fruit and vegetable sector. It focuses on three areas – cold chain logistics and technology, the rise of online retail, and foodservice.

Wherever you work in the fresh produce industry, *Disruption in Fruit and Vegetable Distribution* will enable you to anticipate key issues affecting the trade, and help stakeholders and decision-makers to understand them better. It will also help you to answer questions that relate directly to your business proactively.

The report's findings will be presented at FRUIT LOGISTICA 2018 and then provide a basis for continued discussion throughout the year in our media activities. The insights contained within these pages are a heartfelt thank you to all our customers and partners in the fresh produce sector. They have guided FRUIT LOGISTICA throughout the past decades, and have made it the leading global platform for the fresh fruit and vegetable sector.

We also intend to keep the conversation going, maintaining an intense dialogue with all of you – growers, traders, retailers, technicians, logistics specialists and other service providers – about the industry's future prospects. We look forward to hearing your views on this study.

With kind regards as always,
Your FRUIT LOGISTICA team



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1. INTRODUCTION

The marketplace for fresh fruit and vegetables is becoming increasingly globalized and interconnected. This, in turn, is changing the way fresh produce is carried from its origin to its destination.

The fruit and vegetables supply chain is in continual flux as it is shaped and reshaped by the emergence of new markets and changes in consumer demand. Actors right along the supply chain – from growers to retailers – are expanding and consolidating. Their advances coincide with a notable drive towards greater efficiency, a trend that is assisted by seemingly unstoppable technological advance.

This report scrutinizes developments in the business world and how they will affect the fruit and vegetables business. It focuses on three areas – cold chain logistics and technology, the rise of online retail, and foodservice – in order to answer a number of key questions about the future developments of the business:

- **What are the most important factors affecting the global fresh produce supply chain?**
- **Where will fresh fruit and vegetables be sold in 2025 and beyond?**
- **Which distribution channels will bring those products to consumers?**
- **How will new technologies change the supply chain?**



2. MEGATRENDS AFFECTING FRESH PRODUCE





2. Megatrends affecting fresh produce

We live in a time of great and far-reaching change. Many of the previous certainties of business are now under question: globalisation and new technologies continue to impact the fundamentals. These are only the most obvious megatrends; many other forces, ranging from the changing demographic make-up of our societies to the impact of climate change, as well as our increasing focus on health and well-being, are shaping not just what is consumed, but how and where it is consumed.

Just making sense of these disparate forces presents something of a challenge. However, it is essential that we attempt to make sense of them, if we are to understand the future of the fresh produce supply chain. To this end, we started our analysis with an assessment of the global megatrends affecting business today (see *Figure 1*).

FIGURE 1.

GLOBAL MEGATRENDS ACROSS SECTORS

Source: Oliver Wyman

Demographic asymmetries	Economic globalisation	Resource constraints	Innovation acceleration	New governance models	Evolving consumption
Growing world population	Selective deindustrialisation	Volatility of raw materials	Digital & data	Public debt crisis	Health and wellness
Urbanisation & densification	Changing balance of economic power	Green energies	Smart devices & infrastructure	Asymmetric conflicts	New social networks
Rise of Asian & African middle class	Global mobility	Ecosystem at risk	Life sciences booming	NGOs and citizenship	Low cost/premium polarisation
Ageing societies	Usage economy	Climate change	Industry 4.0	Global cooperation	Anxiety
Gender gap decrease	Rise of digital disruptors	War for talents	Autonomous transportation	Knowledge society	Homing

Several of these megatrends will affect how the fruit and vegetable business operates in the years to come. We have selected four trends that demand particular consideration:

Increasing world population

How will changing demographics influence fresh produce consumption? In which parts of the world will the biggest changes occur, and over what time periods?

Digital technologies and data

How much will these be enablers for online fresh produce supply? Are these technologies likely to drive increased transparency along the fresh produce supply chain? Will they, as in other sectors, create new business opportunities?

Autonomous transportation

How significant an impact will increased flexibility and speed have on the fruit and vegetable supply chain? And how soon before the industry experiences notable change?

Health and well-being

Will the recent trend for diets that favour fresh produce continue? Will consumers' increasing scrutiny of the quality of fresh fruit and vegetables favour certain products, such as organically farmed and low-carbon fresh produce?

Drilling down one level further enables us to see how innovation in each of these areas is likely to shape where and how fresh fruit and vegetables will be sold in the future.



3. FUTURE TRENDS IN FRESH FRUIT AND VEGETABLE MARKETS



Mango

Mixed Berry



Mango

Mixed Berry

Berry & Kiwi

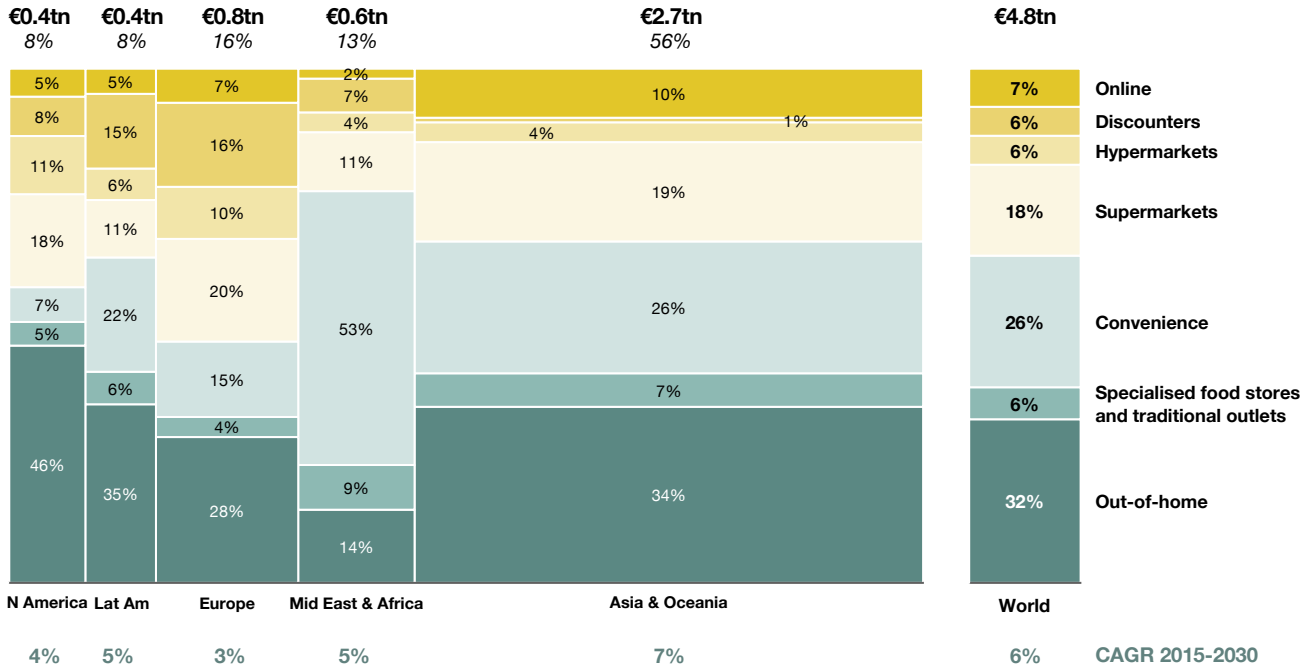


3. Future trends in fresh fruit and vegetable markets

FIGURE 2.

CONSUMER SPENDING ON FRUIT AND VEGETABLES GEOGRAPHY AND CHANNEL, 2030 (TRILLION EUROS)

Source: Passport Euromonitor, Oliver Wyman research and analysis



In order to understand where fruit and vegetables are likely to be sold in the future, we modelled fresh produce expenditure along three dimensions: by geography, by consumption occasion (at home versus out-of-home) and by channel (traditional outlets versus online).

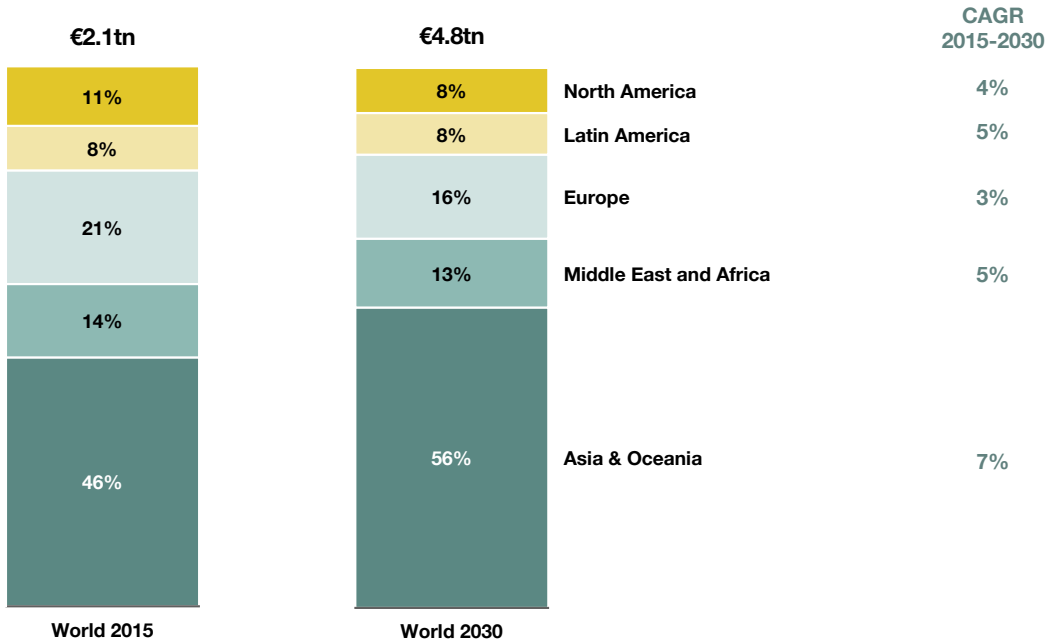
First, the good news for producers: we expect to see significant growth in fresh fruit and vegetable consumption in all parts of the world. The increase in demand will be driven largely by population expansion in combination with growing expenditure on food – in general, as well as, increasingly, thanks to enhanced nutritional choices that favour fruit and vegetables in particular.

This growth does present the business with challenges. There is likely to be wide variation between regions and income groups in terms of how these demand and consumption patterns evolve over time. While some will develop quickly, others will evolve much more slowly. Understanding these patterns will be key to developing a winning strategy and aligning operations to serve them.

FIGURE 3.

CONSUMER SPENDING ON FRUIT AND VEGETABLES GEOGRAPHY DYNAMIC, 2015-2030 (TRILLION EUROS)

Source: Passport Euromonitor, Oliver Wyman research and analysis



Geographical shifts

The headline news is that the markets of Asia and Oceania will grow substantially, gaining greater significance within the global picture of fresh produce consumption. Whereas the populations of industrialised nations in western Europe and America are growing slowly, if at all, those in Asia, as well as the Middle East and Africa, will continue to grow. In some parts of the world, this growth will be rapid. Combined with notable income increases, this will reposition respective markets in terms of their relative importance.

Collectively, the rapidly developing regions – Middle East, Africa, Asia and Oceania – are poised to grow their share of the fresh produce market from 60 per cent of in 2015 to almost 70 per cent in 2030. There are distinct differences between each one within this overall picture, however. Owing to its strong per-capita GDP growth, Asia will expect to see rapidly increasing demand for healthier food products among its emerging middle classes.

As a number of producers and exporters have seen already in recent years, this will lead to a rebalancing of demand as consumers eat less of the basics, such as rice, and more fresh foods.

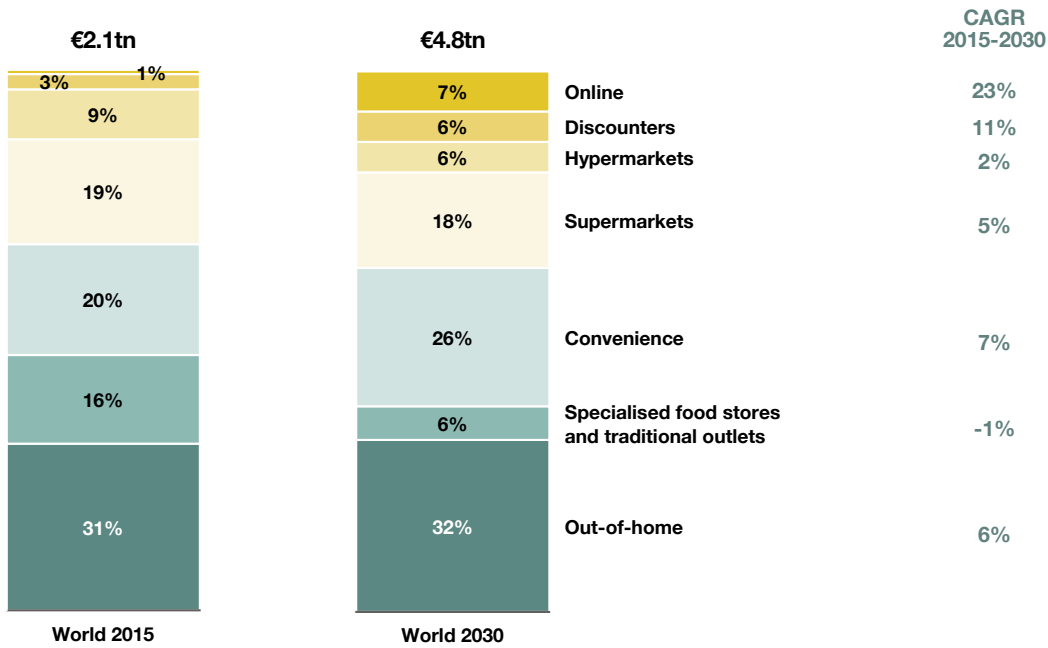
Some of these developments will be the result of higher demand in regions that are today somewhat remote from the supply chain. This presents challenges for the present setup. For suppliers to seize this opportunity, they will need to be able to serve such regions. Take, for example, Africa’s urbanised areas: we expect significant growth here, but currently more than two-thirds of the population still lack ready access to food supply.

Absolute levels of fresh fruit and vegetable consumption will continue to rise in North America and Europe, but by 2030 their relative importance as a percentage share of global consumption will be in decline. In the main, this will be the result of lower growth rates and less notable changes in nutritional demand.

FIGURE 4.

CONSUMER SPENDING ON FRUIT AND VEGETABLES CHANNEL DYNAMIC, 2015-2030 (TRILLION EUROS)

Source: Passport Euromonitor, Oliver Wyman research and analysis



Shifts between consumption occasions

Over the past couple of decades, there has been dramatic movement towards out-of-home consumption. This has been a big driver of overall demand and profitability. While we expect this trend to continue, the pace of change is likely to slow.

From the fresh produce industry’s point of view, there is some welcome news to be found within this overall picture. We expect to see fresh fruit and vegetables play a more

prominent role in the out-of-home market. North America is likely to remain an out-of-home stronghold: not only does it have the largest market share, but it is also already supported by well-established, highly consolidated restaurant chains, complemented by fully professionalised supply chains.

Channel shifts

Over the coming decade, there will be significant growth in the use of online channels, albeit starting from what is today a very small base.

Currently, online sales of food in general – and fresh fruit and vegetables in particular – start out with a low share of the overall food retail market. There are significant regional differences, variations driven mainly by consumer sentiment (local online adoption rates) and the profitability of retailers. At the same time, some growers have begun to appreciate the channel – as an example, one producer we interviewed reported growth of around 20 per cent in the online arena, compared with less than 5 per cent offline.

This emerging situation has the potential to develop significantly, even though online fruit and vegetable sales are unlikely to sky-rocket in the foreseeable future. Once companies such as AmazonFresh or Ocado enter more markets, established retailers will be forced to respond, since they cannot afford to lose even a small portion of their traditional revenue to those online competitors. To do so would significantly hurt their slim margins and harm their overall profitability. The challenges are that much greater because, while they

establish their channel, many of the new players are less concerned than usual about the profitability of individual deliveries.

We expect online's share of global fruit and vegetable sales to grow to 7 per cent by 2030, though distinct regional differences will remain. The bulk of this growth will occur in Europe and Asia, and only to a lesser extent from the Americas. The main drivers of growth will be a decline in delivery costs, rising competitive peer pressure to enter the market, and a lowering of barriers to adoption. Increasing automation and improvement in logistics will result in more efficient delivery, while customers themselves are likely to be more willing to purchase online thanks to last-mile innovations and more appealing online models.



4. THE FRUIT AND VEGETABLE SUPPLY CHAIN IN TRANSITION



ROBOMART INC

4. The fruit and vegetable supply chain in transition

Having looked at where fruit and vegetables will be sold in the future, we will now try to understand how this fresh produce will be sold.

As with other supply chains, the one for fresh fruit and vegetables has long been commoditised. As a result, in the past this supply chain has been characterised by an overwhelming focus on cost reduction; until recently, it has been considered to be of limited strategic value.

The situation is already changing and these characteristics are likely to become less dominant over time, as consumers' requirements evolve and the supply chain responds to these changing demands. This evolution will be led both by increased demand for higher-quality produce and by a broadening of the produce range.

This presents a strategic opportunity for everyone in the fresh fruit and vegetable supply chain – growers, suppliers and retailers. Already, a number of actors have started to recognise the emerging value, and have taken the first steps to gain control over their fresh produce supply.

While cost and efficiency will continue to play a significant role in driving the fruit and vegetable supply chain in the coming years, the chain will also be characterised more and more by four key developments that meet emerging requirements:

- **More rapid supply**
- **More flexible supply**
- **More precise supply**
- **More transparent supply**

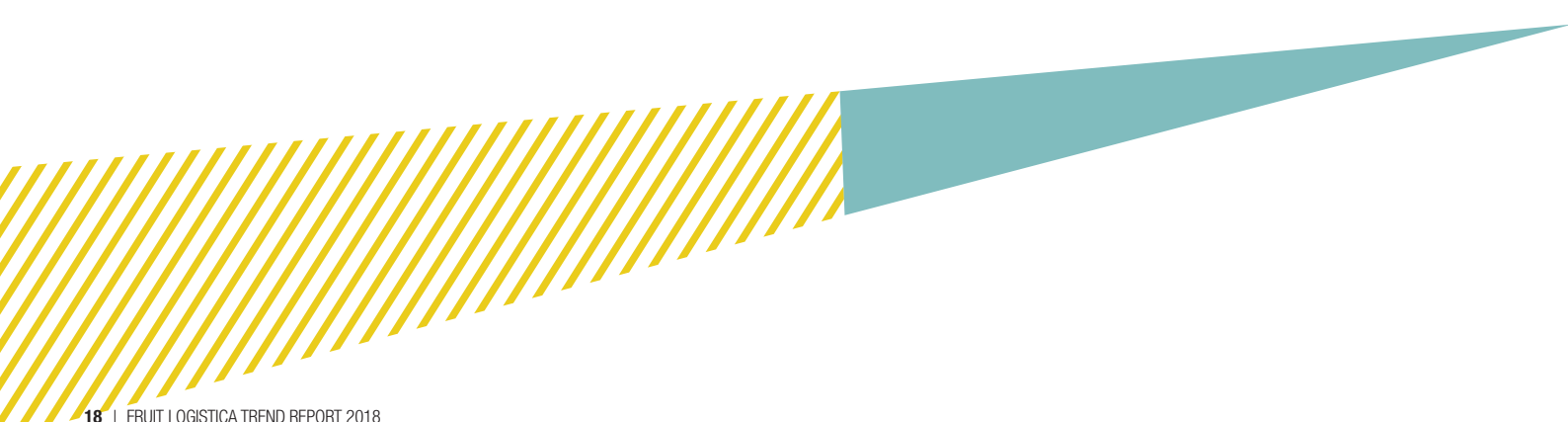
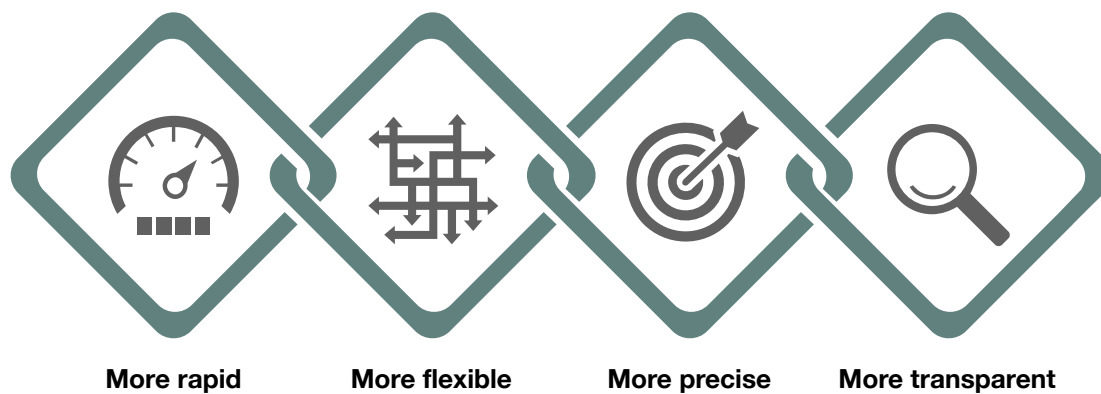


FIGURE 5.

SERVICE LEVEL DYNAMICS IN THE FRUIT AND VEGETABLE SUPPLY CHAIN

Source: Oliver Wyman



The following three sections – which we refer to as ‘deep dives’ – delve into what each of these changes will mean for the fresh fruit and vegetable supply chain.

The first deep dive examines the technological transition of the supply chain, focusing on how innovations will drive more rapid, flexible, precise and transparent fruit and vegetables supply chains.

The second looks at the rise of online supply and incorporates a thought experiment about the potential impact of AmazonFresh.

The third looks at the likely evolution of foodservice.