



Salesperson Dave Carroll (left) and Director of Marketing Emily Kohlhas (right) looking at the day's sales display in the John Vena Market Store in the Philadelphia Wholesale Produce Market.

PHOTO COURTESY JOHN VENA INC.

THE INFLATION SITUATION

For everyone, there's a tipping point where the price of goods starts to truly impact the demand for those goods.

BY CAROL M. BAREUTHER, RD

Arising tide lifts all boats. Likewise, rising food prices affect all segments of the produce supply chain, including wholesale.

Wholesale food prices increased 13.2% in the preceding 12 months, based on the Producer Price Indexes – August 2022 report, by the Washington, D.C.-headquartered U.S. Bureau of Labor Statistics. This double-digit figure was down from the 17.7% seen in the year between April 2021 and 2022, but the 13.2% does mark the 13th consecutive month with double-digit gains on a 12-month basis.

More specifically, the fresh vegetable index rose 18.3% in the last year, while the index for fresh fruits and melons jumped 21.9%. In a nutshell, all the current economic pressures are causing the costs of fresh fruits and vegetables to rise.

"Inflation has touched all points on the supply chain," says Dan Vena, director of sales for John Vena Inc., in Philadelphia, PA, and located on the Philadelphia Wholesale



Director of Sales Dan Vena (left) and Sales Support Associate Chris Scotti (right) assessing quality on Kesar mangoes from India in the PWPM concourse outside the JVI Market Store.

PHOTO COURTESY JOHN VENA INC.

Produce Market. “We are paying more for packaging, product and freight and, in general, this has led to higher prices. As a wholesaler, we are only able to sell at market price and those markets are driven by supply and demand. When demand is lagging and prices are high, our efforts to keep product moving certainly cut into our margin.”

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Credit is always a challenge, and current inflation numbers are adding to those woes, Vena adds. “We understand that our customers often can’t pay us until they get paid and, with interest rates on the rise, that will be another hit to our margin.”

IMPACT OF INFLATION

While not immune to the impacts of inflation, the wholesale produce industry, in one respect, is somewhat insulated from economic up- and downturns.

“In a way, because of the very necessity of what we do, i.e., providing food, we get a bit of a break, unlike other segments of the industry, such as the grower community, which is seeing rising prices in all their inputs to grow the produce,” says Matthew D’Arrigo, owner of D’Arrigo Bros. Co. of New York Inc., Bronx, NY.

“We in the wholesale world are different. We get something in that costs \$10, for example, and we sell it. We get something

that costs \$20, we sell it. We are creatures of a very fast business cycle. If I think back 14 years to the recession of 2008, I believe, in general, the wholesale produce business marched right through. Now, I’m speaking as a wholesaler that’s a terminal market operator on Hunt’s Point. We have a supply-demand business model, put together with a cross-docking operation. It’s been like this for decades. Other wholesalers around the country with more going on, like repacking lines, contracts and other things, will be affected differently.”

Yet at some point, for everyone, there’s a

tipping point where the price of goods starts to truly impact the demand for those goods.

“It’s the combination of dramatic weather impact (heat, flooding, fire), uncertain supply chain (labor, fleet constraints), and international instability (tariffs, war) that have all contributed to a lopsided supply and demand curve, resulting in higher prices for fewer available products,” explains Jim Reynolds, vice president of sales, at Portland, OR-based Pacific Coast Fruit Co., one of the largest independent produce distributors in the Pacific Northwest.



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Inflation is hitting all points of the supply chain, such as packaging, product and freight.

“Fuel costs and a challenging labor market in the industry, with a decrease in drivers as well as a lack of skilled labor and an ever-increasing minimum wage, add to heavy inflationary pressures.”

Inflation is impacting every aspect of business, from fuel to labor, at Ben B. Schwartz & Sons, Inc., in Detroit, MI, too, according to Jordan Grainger, vice president of sales and business development. “Being a wholesaler in a normal economic environment has its challenges, but when you throw in inflationary pressures to the equation, it adds that many more challenges. As a wholesaler, we touch every aspect of the fresh supply chain. Every step in the supply chain has increased the costs of doing business.”

Attracting and retaining skilled labor is extremely difficult, Grainger adds, due to the conditions of the work. “We are competing against ambient temperature warehouses offering the same amount of pay. As a result, we have implemented a referral system for employees and a cross-training program for new hires. We want our employees to feel like we are all in this together and building a good positive culture.”

RIPPLE EFFECTS FROM RETAIL

Retail business has generally held steady for Community-Suffolk Inc., a wholesale produce distributor based in Everett, MA, which concentrates on large volumes of staple commodities. “Business boomed during COVID and now it's cooling off and very steady. People are continuing to cook more at home and eating more at home and this is the driver,” says David Piazza, vice president. “We



A challenging labor market is adding to the inflationary pressure.

PHOTO COURTESY S. KATZMAN PRODUCE

“Because we sell perishables and not widgets, time is never in our favor.”

— Stefanie Katzman, S. Katzman Produce

haven't lost any volume on the staple items like potatoes, onions, carrots, broccoli, celery and lettuce.”

Though truck rates have come down, Piazza buys items like onions from Idaho via rail, which he says offers a freight advantage.

“It gives me a little bit more margin to play with if I have to give somebody a break on the price,” he says.

Staples do sell well when economic times are tough. However, these items aren't the only sellers, says Dominic Russo, produce buying and sales manager at Rocky Produce Inc., based in Detroit, MI, at the Detroit Produce Terminal. “Staples are selling, but I don't see anyone really targeting them. It depends on the retailer's customer, their economic situation, and in what products they find value.”

More premium products like organics still have a market, tells Robert Strube, president of Strube Celery & Vegetable Co., headquartered in the Chicago International Produce Market, Chicago, IL. “Organics go up and down according to the business cycle. But we've picked up new customers and business keeps moving, so organics are doing well.”

Yet, sales of specialty produce can be tougher at retail due to higher prices, and this is echoed back to wholesale.

“Our focus is on specialty products,” says Brandon Tran, manager of JVI Imports, the import division of John Vena Inc. “When all market prices go up at the same time, this can be challenging for specialty. If a customer runs out of money before they finish buying staple items, it doesn't leave anything left over for the fun stuff. Coping with inflationary pricing is especially challenging for independents with cash flow limitations. And, if economic conditions continue to deteriorate, we will have to find ways to keep our volume in balance with customer demand. That makes our forecasting much more difficult.”



PHOTO COURTESY S. KATZMAN PRODUCE

The importance of good quality is the biggest impact of inflation related to consumer shopping habits, says Stefanie Katzman, S. Katzman Produce.

Whether staple or specialty, retail consumers are looking for more affordably priced produce buys.

"Our independents are feeling the pressure from consumers to offer low-cost options without compromising the shopping experience and quality, while maintaining a diversified product line," says Maggi Brooks, retail sales director for Pacific Coast Fruit Co.

"Customer costs are up 7 to 10% over last year," she adds. "One of the primary contributors is the labor challenges around competitive wages and retention, which also aligns with what our independent retailers are experiencing. In the meantime, we continue to be committed to buying based on quality, especially on tonnage items like berries, grapes, avocados and citrus."

The importance of good quality is the biggest impact of inflation that Stefanie Katzman, executive vice president of S. Katzman Produce, Bronx, NY, has seen concerning consumer shopping habits for fresh produce. "It costs consumers more to shop, so therefore anything they must throw away due to bad quality costs them more, too. We always stress the importance of a good eating experience selling that next purchase, and with inflation added to the mix, it really ups the ante."



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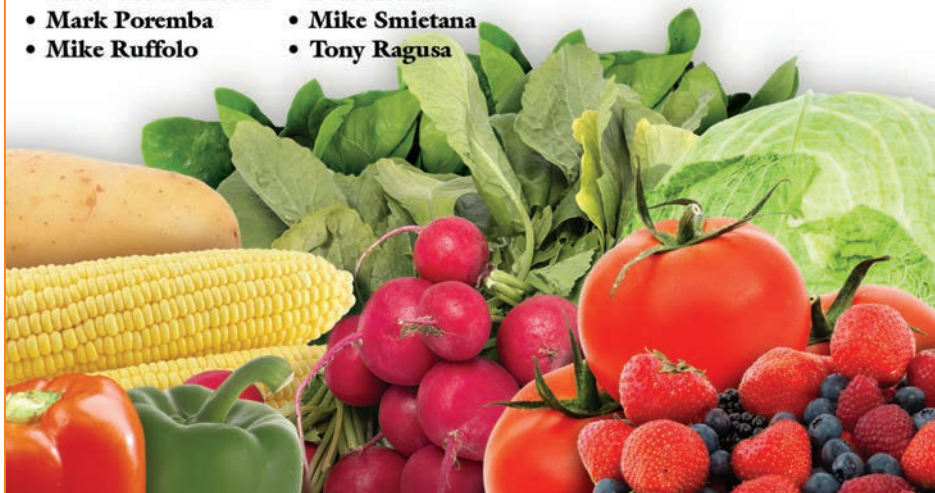
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PHOTO COURTESY PACIFIC COAST FRUIT CO.

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For retail customers, Katzman adds, “delivering smaller orders more often helps with shelf life and shrink for the retailer, and at the same time makes sure to protect the integrity of the brand for the grower/shipper. Communicating about quality so retailers know what items are running well and warrant big displays, and what items are not running well and they should stay small. Working on smaller profit margins so items can be priced to sell fast when needed is also an important tool when everything you sell is perishable.

Sometimes avoiding an even bigger loss is the best option that exists, and because we sell perishables and not widgets, time is never in our favor.”

A trend Strube Celery & Vegetable Co.’s Strube has seen recently with retail customers is pre-orders. “We’ll get an order emailed to us on a Wednesday and they’ll come out Friday and pick it up, so they’re giving us a couple of days to get it ready, be prepared for them and it’s a faster turnover. So much is the day-to-day, walk-in trade here in Chicago.

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— Matthew D’Arrigo, D’Arrigo Bros. Co.



PHOTO COURTESY PACIFIC COAST FRUIT CO.

Attracting and retaining skilled labor can be extremely difficult, due to the conditions of the work.

Real-time delivery isn’t always the easier thing to figure out. That’s how I grew up, but my thought process is changing on some of this, and I think pre-orders are good. It could be the wave of where we’re going to more and more.”

FOODSERVICE FLUCTUATIONS

On one hand, the foodservice business for wholesalers is up, if for no other reason than many establishments are open again after being closed due to the pandemic.

“For school foodservice, everything was box lunches during the pandemic. That meant instead of full salad bars, it was maybe celery and carrot sticks, things that could travel easily. Now, the high schools where I live are back to serving salad. I’ve talked to a couple of big wholesalers that supply colleges and they’ve said they are back on track, as normal as it can be today,” says Community-Suffolk’s Piazza.

Restaurant dining has become an American way of life, adds Rocky Produce’s Russo. “I don’t think they are going to stop. They may change where they go and what they choose on the menu, but people are tired of staying at home. They missed dining out. I think that foodservice being back definitely helps the fresh produce industry.”

That said, the impact of inflation and higher food costs when subjected to the three-times markup (30% food cost) multiplies the impact on the final meal cost to the consumer, according to Pacific Coast Fruit Co.'s Reynolds.

“Knowing that fresh food continues to be a desire for consumers during food inflation is positive for the industry.”

—Tom Brugato, Pacific Coast Fruit Co.

“Foodservice diners are increasingly experiencing sticker shock when they see the bill at the end of their meal. This is not limited to full-service restaurants, as fast food and quick service prices have also sharply risen with inflation,” adds Mark Brooks, new business development at Pacific Coast Fruit Co. As a result, “we are seeing restaurants reduce their menu offerings and be nimbler with changing menu offerings based on what is available each week.”

As an example, says Community-Suffolk's Piazza, “If a pallet of broccoli is cheaper than green beans, the chef is going to put broccoli on the menu that week. We have many customers that check for the deals, and we do offer deals daily.”

Many foodservice customers who cut ingredients to weather the pandemic storm, have realized that these prices are here to stay or at least stay for a while, says John Vena's Vena. “They've started to think about longer-term solutions that balance variety and quality of ingredients with other factors like menu size, spot buying, pricing and hours of operation. For us, we're doing our best to identify and offer our foodservice customers value as

it becomes available. If we have a particularly delicious item available at a reasonable price, we make sure they know about it, so that they can get it on the menu and provide that extra value to their customers while it makes financial sense.”

LOOKING AHEAD

Wholesalers agree there is no single magic button to fix the current economic issues and the effects on the industry. However, all are confident that the economy will indeed turn around.


“But what will markets look like when it does?” says Vena. “Will farmers be forced to cut back on production due to high costs and supply chain issues now, creating product shortages in the future? Will folks in our industry be able to hang on if those shortages extend the downturn into another season? That's certainly a concern.”

However, says Tom Brugato, president of Pacific Coast Fruit, “Knowing that fresh food continues to be a desire for consumers during food inflation is positive for the industry.” **pb**



The foodservice business for wholesalers is up, if for no other reason than many establishments are open again after being closed due to the pandemic. Photo left to right: a foodservice buyer from Reinhardt Foods places an order from David Piazza of Community Suffolk.

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