



FRESH- CUT SALES SHOOT UP LIKE WEEDS

Convenience and safety power sector growth • By Mark Cardwell

Ten years ago, Carl Svangtun had to explain the fresh-cut food concept whenever he tried to rustle up business from Canada's big national restaurant chains. "Nobody knew much about the fresh-cut business then," recalls Svangtun, executive vice-president and CEO of Sun Rich Fresh Foods, a Vancouver firm that processes high-quality, value-added fruit products for the retail and foodservice industries in both Canada and the U.S. "Now they're calling us." Sun Rich isn't alone.

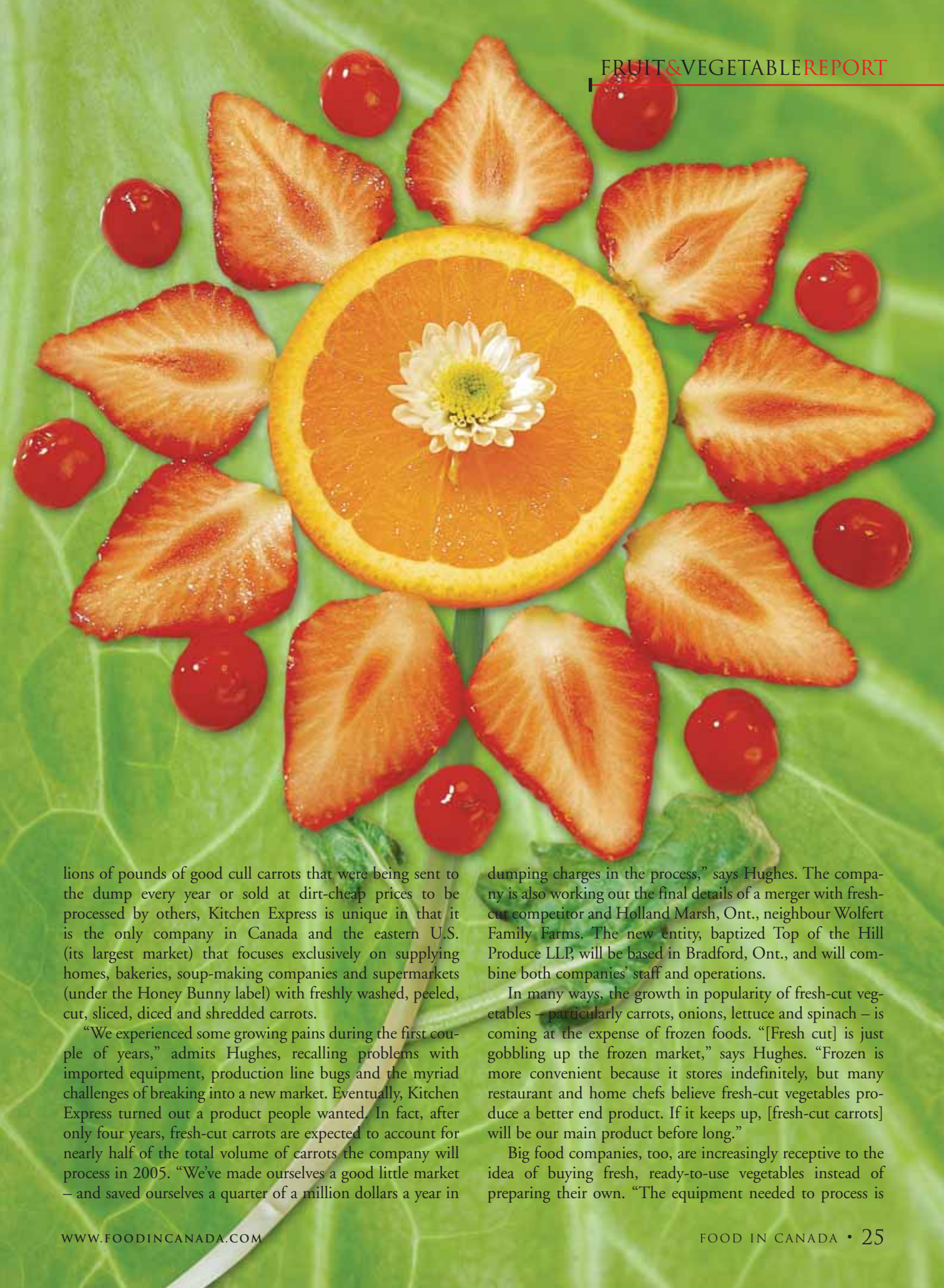
All across Canada, food producers and processors are struggling to keep up with the soaring demand for fresh-cut fruits and vegetables. According to the latest ACNielsen numbers, combined national grocery sales for prepackaged fresh-cut salad, vegetables and fruit products topped \$365 million in the 52-week period ending May 14, 2005.

That's just a fraction of the roughly \$7 billion worth of fresh, canned, preserved and frozen fruit, fruit juices and vegetables, roughly a third of which is exported, that the Canadian food and beverage industry produced during the same period, making it the second-largest manufacturing sector in Canada in terms of shipments of goods made in plants. But those numbers represent a 10 per cent increase over the previous year and a 17 per cent jump over 2003 sales. That makes fresh-cut one of the hottest sectors in the Canadian fruit and vegetable industry.

As always, prepackaged salads represented the lion's share of sales of grocery stores, general merchandisers and warehouse clubs, reaching \$308 million over the past year. That's an increase of nine per cent over last year's results and 23 per cent over 2003. Unit sales, too, climbed 11 per cent last year to nearly 118 million.

By comparison, demand for prepackaged fresh-cut vegetables – carrots, onions, parsnips, beets and lettuce – was far smaller, generating just \$51 million in sales over the past year. However, those results are a 20 per cent increase over 2004 and a 47 per cent jump over 2003. Similarly, unit sales rose, respectively, 28 and 48 per cent over the past two years. "The growth in this field is just incredible," says Tom Hughes, president of the MacKay & Hughes division of Toronto-based EarthFresh Foods Corp. and chief executive officer of Kitchen Express, the company's fresh-cut division.

Founded in 2001 as a way to make better use of the mil-



lions of pounds of good cull carrots that were being sent to the dump every year or sold at dirt-cheap prices to be processed by others, Kitchen Express is unique in that it is the only company in Canada and the eastern U.S. (its largest market) that focuses exclusively on supplying homes, bakeries, soup-making companies and supermarkets (under the Honey Bunny label) with freshly washed, peeled, cut, sliced, diced and shredded carrots.

“We experienced some growing pains during the first couple of years,” admits Hughes, recalling problems with imported equipment, production line bugs and the myriad challenges of breaking into a new market. Eventually, Kitchen Express turned out a product people wanted. In fact, after only four years, fresh-cut carrots are expected to account for nearly half of the total volume of carrots the company will process in 2005. “We’ve made ourselves a good little market – and saved ourselves a quarter of a million dollars a year in

dumping charges in the process,” says Hughes. The company is also working out the final details of a merger with fresh-cut competitor and Holland Marsh, Ont., neighbour Wolfert Family Farms. The new entity, baptized Top of the Hill Produce LLP, will be based in Bradford, Ont., and will combine both companies’ staff and operations.

In many ways, the growth in popularity of fresh-cut vegetables – particularly carrots, onions, lettuce and spinach – is coming at the expense of frozen foods. “[Fresh cut] is just gobbling up the frozen market,” says Hughes. “Frozen is more convenient because it stores indefinitely, but many restaurant and home chefs believe fresh-cut vegetables produce a better end product. If it keeps up, [fresh-cut carrots] will be our main product before long.”

Big food companies, too, are increasingly receptive to the idea of buying fresh, ready-to-use vegetables instead of preparing their own. “The equipment needed to process is

expensive and (companies) don't need to use it all the time," says Hughes. "It saves them a lot of time and money to get us to do it." As for bakeries and other foodservice companies, which use carrots to make muffins and cakes, among other things, Hughes says knowing the food they buy has been processed on an inspected line "gives

them a better comfort level in regards to food safety."

The upswing in the fresh-cut sector of the fruit and vegetable industry – and the flattening in sales of canned and frozen products – hasn't gone unnoticed by suppliers. "There's definite growth in fresh-cut, particularly in big markets like Toronto and Montreal," says Dac

Chisholm of Chisholm Machinery, an equipment supplier to food processing and packaging companies across Canada. That growth, adds Chisholm, is largely responsible for several consolidations and acquisitions that have marked the food processing industry in recent months.

The most notable was the purchase in February 2005 of Australia's Freshline Machines Pty Ltd., the world's leading designer and manufacturer of food-processing systems for the fresh-cut industry, by Washington-based Key Technologies, an international leader in automaton food processing. "We're excited about the opportunities in the fresh-cut market," Key president Kirk Morton said when the deal was announced. "The strengths of Freshline and Key are complementary. Together, we're offering a service proposition that is unmatched in the fresh-cut industry."

While vegetables are king in the fresh-cut sector, sales of fresh-cut fruit are enjoying the fastest growth. According to ACNielsen's MarketTrack numbers, grocery sales of prepackaged fresh-cut fruit in Canada increased a whopping 61 per cent from 2004 to almost \$7 million. Similarly, unit sales increased 37 per cent to 1.3 million. Both sales and unit numbers were, respectively, 45 and 40 per cent higher than in 2003.

Like with vegetables, the two main factors driving that growth are convenience and people's desire to eat the healthiest foods possible. "Grab-and-go products have gained tremendous ground over the past 10 years because double-income families have little time and want better food," says Sun Rich's Svangtun, who is also chairman of the foodservice committee of the Canadian Produce Marketing Association, which represents Canadian and international companies that are involved in the distribution of domestically grown and imported produce and are responsible for more than 90 per cent of fresh produce sold in Canada.

He also credits processing improvements and scientific breakthroughs (such as the ability to now retard the

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browning of cut apples, which has given them a 14-day shelf life and provided a huge boost to the fresh-cut apple market in the U.S.) for increasing consumer confidence and reducing spoilage or “shrink,” which has long been the bane of the fruit-processing industry. “Quality is very consistent now, consumers now trust the products they buy and retailers find it much easier to manage the shrink.”

Svangtun believes, too, that the

recent additions of fresh-cut fruit products to the menus of Canada’s biggest quick-service restaurant chains are driving sales and interest in the sector in both the retail and foodservice industries across Canada. “It’s really helping to set the trend and drive public awareness, which is fueling retail demand and growth,” says Svagtun.

At the same time, the needs of fruit-serving quick-service restaurants have also added an exciting new market that

fresh-cut producers and processors like Sun Rich are eager to exploit. Svagtun estimates, for example, that the addition of fruit and yogurt parfaits and apple and walnut salads on McDonald’s menu over the past year, together with the fruit bowls and cups that Wendy’s introduced in February, have increased the volume of the fresh-cut fruit market in Canada by 20 to 30 per cent. “Fruit is becoming increasingly seen as a flexible, dynamic and necessary part of the successful chain restaurant menu,” he says.

Then there’s the copycat effect. While the vast majority of casual and family-dining restaurants across Canada continue to prepare their own fresh fruits (a phenomenon that makes it next to impossible to gauge the actual size of the fresh-cut fruit industry), many are now rethinking their position because quick-service restaurants are now buying fresh-cut fruit from food processors. “It’s not so much the money that concerns [restaurant owners] as the hassle of preparation,” says Svagtun. “Labour in kitchens is hard to get and keep, so there’s a real labour-saving component in buying fresh-cut fruit.”

That trend, together with a steady rise in consumer demand for fresh-cut dry packs and juice packs, has fueled sales across Western Canada, particularly in Sun Rich’s core market of Vancouver. “There’s been absolutely strong growth here,” says Svagtun. Adding to the excitement of dizzying sales performances throughout the fresh-cut sector are also the results of recent industry research that suggests healthy eating is a long-term trend, not a passing fad.

According to Svagtun, quick-service restaurants are reporting a 35 per cent increase in side orders of fruit, while full-service operators and the casual dining segment are reporting, respectively, increases of 28 and 42 per cent. “That’s on top of a 50 per cent increase in consumption of entrée salads,” he adds. “That’s a sure sign that this is a very healthy business to be in.”

Mark Cardwell is a Quebec City-based freelance writer.

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