Greenhouse Produce: Challenges & Opportunities

The popularity of greenhouse-grown produce continues to rise as it provides a variety of produce during the “off” season.

BY CAROL BAREUTHER, RD

Flashback ten to fifteen years ago buying premium, greenhouse produce meant calling growers in Holland or Canada and paying top dollar.

Today, expansion in the industry in terms of volume and close-to-home production has resulted in a near commodity state for some products. Still, the quality and consistency, year-round availability, better pricing on some items and niche appeal of others mean real sales opportunities for retailers.

Jose Manzano, produce director at the three-store Dorothy Lane Markets, based in Dayton, OH, says, “We tend to sell a lot more greenhouse produce now due to the availability. Tomatoes, peppers and cucumbers are the main items.”

VOLUME & VARIETIES

According to Craig Laker, director of sales for BC Hot House Foods Inc., based in Langley, BC, Canada, “The greenhouse produce industry started as a niche market. More growers got into the industry because of the higher rates of return for the product and that resulted in heavy expansion over the past decade. There’s been a tremendous push from North American growers, many of whom have adopted European technology and many who have opened facilities in the Southern U.S. and Mexico. Volume is up ten times from what it was.”

As for the products themselves, Fried De Schouwer, managing director of Vero Beach, FL-based Greenhouse Produce Co. LLC, says, “The large volume items dominate. This means tomatoes on-the-vine (TOVs) and beefsteaks, although there’s some experimentation with Romas, Grapes and Cocktail TOVs. In peppers, it’s the red, yellow and orange, and in cucumbers, it’s the long English cucumber, although some are growing mini-peppers and mini-cucumbers.”

There also has been an upswing in companies producing hydroponic lettuces.

Tomatoes — Quality is a big draw with retailers when it comes to greenhouse- or hot house-grown tomatoes. Manzano remarks, “We don’t carry field tomatoes anymore. Our best-selling and biggest volume tomato is the hot house TOV.”

“Ten years ago, hot house tomatoes represented less than 5 percent of tomatoes sold at retail,” reports Doug Kling, senior vice president of sales, marketing and fulfillment for Village Farms LP, headquartered in Eatontown, NJ. “Today, that number has jumped to nearly 50 percent.”

According to ACNielsen data for the 52-weeks ending September 30, 2009, as provided by Village Farms, hot house tomatoes represented 46 percent of dollar sales and 33 percent of volume in the tomato category.

Much of the hot house tomato category is represented by TOVs. However, many growers have sought to differentiate themselves and to recapture...
a higher margin for their products by developing new tomato varieties. Chris Veillon, marketing manager for Mastronardi Produce Ltd., located in Kingsville, ON, Canada, says, “The future of the industry lies in providing interesting, flavorful, unique alternatives to consumers. We have the largest test facility in North America and test more than 200 tomato varieties a year.” One of the company’s newest releases is the Kumato, a brown-skinned tomato known for its sweet flavor.

Mark Cassius, vice president of sales for Eurofresh Farms, based in Wilcox, AZ, believes, “Flavor is something you can actively measure in terms of the Brix/acid ratio and flavonoids. Many growers look at seed development in terms of yield and disease resistance, but flavor is something we actively seek out in order to create a more premium tomato product.”

Specific merchandising opportunities are another factor guiding varietal development, adds Cassius. “The convenience factor, along with the healthful snacking segment, is growing in the greenhouse category,” he asserts. “I think we’ll possibly see even smaller tomatoes in development, even though these would be more expensive to produce.”

Fuel Costs & The Greenhouse Industry

Fuel to maintain a greenhouse facility in a precise and narrow temperature range for optimal growing conditions is one of the major input expenses for the industry.

Pierre Dolbec, vice president of sales for Hydroserre Mirabel Inc., in Mirabel, QC, Canada, admits, “It’s not as bad as it was a year or so ago when oil prices skyrocketed. However, it’s important to be resourceful and innovative.”

Some growers are looking at alternative energy sources. Craig Laker, director of sales for BC Hot House Foods Inc., headquartered in Langley, BC, Canada, says, “This might take the form of natural gas. Some have gone to wood chips. They’ve experimented with geothermal energy in Holland and started to look at it in California, too. There’s also solar, but this requires a significant investment.”

In the future, growers may build greenhouses not because it’s where they live, but because it’s the optimal climate, explains Fried De Schouwer, managing director of Greenhouse Produce Co. LLC., headquartered in Vero Beach, FL. “The key is to find a location that offers an ideal combination of temperature and daylight hours. I think this would completely change the competitive landscape.”

Peppers — At New Seasons Market, a 9-store chain based in Portland, OR, director of produce, Jeff Fairchild, explains, “We are selling more greenhouse products now because of the quality. Quality equals appearance. For example, greenhouse-grown bell peppers have nice, thick walls.”

Greenhouse-grown peppers represent 27 percent of dollar sales and 18 percent of volume sold in the pepper category, according to ACNielsen data for the 52 weeks ending September 30, 2009, as supplied by Village Farms. In addition, Kling points out, “Packaged greenhouse peppers have shown a growth in volume of more than 52 percent in the last year. This represents items such as the 2-pound bag and stoplight pack.”

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Jeff Taylor, a sales associate with Prime Time International, headquartered in Coachella, CA, says, “We’ve definitely seen an increase in demand for greenhouse peppers, in bulk and packaged. Red are the most popular, but I believe that’s a price issue. Yellow and orange peppers are more expensive to grow.”

“Small or mini-peppers for snacking is something we’ll likely see more of in the future,” believes Jim DiMenna, president of J-D Marketing (Leamington) Inc., headquartered in Leamington, ON, Canada.

Cucumbers — Greenhouse-grown peppers represent 31 percent of dollar sales and 26 percent of volume in the pepper category, according to ACNielsen data for the 52 weeks ending September 30, 2009, as supplied by Village Farms.

Village Farms’ Kling says, “Greenhouse, baby or mini-peppers increased 8.9 percent in dollar sales and 9.6 percent in volume over the last year compared to a 2.5 percent increase in dollar sales and 2.3 percent increase in volume for hot house English cucumbers. True, the smaller cucumbers represent a smaller base, but the increase in volume and sales speaks to consumer interest in the product, especially as a snack item.”

Fruit of our Hands

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Lettuce — Hydroponic lettuce represents only 0.75 percent of dollar sales in the lettuce category, according to Perishables Group FreshFacts data for the 52-weeks ending September 26, 2009, as powered by AC Nielsen.

However ‘softer’ leaf lettuces are where the category is heading, contends Rick Antle, president and CEO at Salinas, CA-based Tanimura & Antle Inc. “We grow primarily Boston, but we will be introducing watercress and fully grown mature arugula this year.” The company’s Living Lettuce line is packaged in clamshell packaging with the root ball attached.

Hydroponically grown Boston lettuce is also the core item produced by Hydroserre Mirabel Inc., in Mirabel, QC, Canada. Pierre Dolbec, vice president of sales, remarks, “We expanded our greenhouse capacity two years ago and have added other lettuces such as green and red leaf. In the future, we will be speaking with retailers about other hydroponically grown lettuces they’d like to be able to offer their customers.”

Industry Dynamics

There has been a shift over the years from retailers searching out specifically
greenhouse-grown produce to simply seeking high quality product instead. Dorothy Lane Market’s Manzano explains, “We, as buyers, look for high-quality produce that is flavorful, has good color and is ripe — not necessarily that it grown in a greenhouse.”

Alberto Maldonado, general manager of Nogales, AZ-based Apache Produce Imports LLC, the exclusive distributor of Melones Internacional S.A. de C.V., agrees, “Most retailers are looking for good produce and produce that is safe.”

There’s a significant commitment to growing greenhouse produce, hence its traditional premium. For example, a state-of-the-art, fully enclosed, computer-controlled facility can cost upwards of $1 million per acre, says George Gilvesy, general manager of Ontario Greenhouse Vegetable Growers, a non-profit organization in Leamington, ON, Canada, which represents more than 230 greenhouse growers in Ontario. Other major costs include energy to maintain a steady temperature and more intensive labor.

“What this type of high-tech facility provides is consistency in flavor and shape, availability and unique varieties that can only be grown in this type of controlled environment,” says Mastronardi’s Veillon.

Facilities in states, such as Arizona, and countries such as Mexico — where greenhouse production can flourish in the winter, when Canadian production is low or nonexistent — has also provided a 52-week supply. Greenhouse Produce’s De Schouwer says, “We’ve seen a significant increase in production capacity over the last four to five years, especially south of the border. There is no longer just high-tech greenhouse facilities, but now mid-tech and low-tech, or what’s called ‘shade houses’ or protected agriculture, too.”

Growing under shade house conditions, instead of an open field, can enhance quality, quadruple production and enable growers to cultivate their crop over a longer window of time. For example, Jose Garcia, director of grower relations at Rene Produce LLC, based in Rio Rico, AZ, says, “Growing cucumbers in the open field yields about 30 percent of the crop as super-selects. With protected agriculture, we get 85 percent of the crop as super-select.” He adds, “We started six years ago with one hectare of protected agriculture. Now, we are farming 400 hectares this way and 1,000 open-field. The trend is shifting from field production, but I don’t feel we’ll see it shift 100 percent.”

This increase in production in the industry, “has caused problems,” admits BC Hot House’s Laker. “It used to be that consumer demand outpaced supply. Now it’s the other way around, and it’s turned us into a commodity market. This is particularly true at certain times of the year.”

The border, or buffer months, also known as the transition time from the bulk of greenhouse production in Canada versus Southern U.S. states and Mexico, “are the
aggressive promotional times in terms of pricing,” says De Schouwer. “The end of summer, or September and October, is the worst. Retailers are not interested in shifting to Mexico at the time and there’s still good quality field product around. There’s an easier transition in the spring — March and April. It’s the end of winter and retailers are excited to get into greenhouse product because the items are summery.”

**MERCHANDISING & PROMOTION**

“Merchandising and promoting greenhouse produce effectively today is a missed opportunity,” says Village Farms’ Kling. “The economy has caused retailers to be so price-driven that they are missing out on the chance to offer customers a great value. Consumers are eating more at home these days instead of dining out, and premium greenhouse produce should be promoted to the at-home cooks for its high quality.”

Hydroserre Mirabel’s Dolbec points out, “Some retailers like to merchandise all greenhouse produce together in its own category so customers can readily identify it.”

Other, such as Fairchild at New Season’s Market, “merchandise each product in its respective category.”

Veillon recommends, “Create a destination area in the produce department for greenhouse tomatoes. Offer an extensive variety of specialty items to complement mainstream tomatoes.”

Cross-merchandise greenhouse produce in high traffic areas, advises J-D’s DiMenna. “For example, group and promote tomatoes, cucumbers and lettuce around a salad theme, or cocktail tomatoes, mini-cucumbers and peppers around the idea of snacking.”

As for hydroponic lettuces, Tanimura & Antle’s Antle recommends, “Display them ideally with the romaine hearts and artisan lettuces. This will create less sticker shock than merchandising them next to the iceberg lettuce. These are cross-over products, not value-added and not a commodity.” In addition, he suggests displaying an open container to show the freshness, variety, texture and volume of the hydroponic lettuce.

Beyond quality and flavor, there are many other compelling reasons for consumers to choose greenhouse produce. The problem, according to Greenhouse Produce’s De Schouwer, “is that the words ‘hydroponic,’ ‘hot house’ and ‘greenhouse’ are confusing to customers. Many have heard about greenhouse gases and think growing produce this way is bad for the environment.”

In reality, retailers must educate customers on these points to increase sales, recommends Village Farms’ Kling. “For example, explain that greenhouse production benefits the environment in a variety of ways. This includes water, soil and land conservation, as well as the use of integrated pest management practices. This also makes greenhouse grown product safer to consume.”

Growers are helping in this consumer education effort, too. BC Hot House’s Laker says, “We’re using greener packaging, and on the label, we’re including a story and picture of the grower. This happens more with specialty niche items that are packaged, rather than items sold predominantly in bulk. Its all part of our branding strategy.”

Promotions are essential to maximizing sales of greenhouse produce. Fairchild reports, “We carry greenhouse produce from November to June when local product isn’t available, and we promote it aggressively and frequently during this time. It’s not necessarily cheap and a large discounter probably wouldn’t be pleased with the price, but we think peppers on ad for $2.99, as opposed to $4.99, is an attractive feature. Customers respond. They buy.”

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