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*Food Retail Trends with Implications for California Agriculture in 2012**

1. Market fragmentation is encouraging the growth of more clearly defined, innovative food retailers.
    a. Key Driver – Increasing diversity of shopper demand and a business climate that encourages innovative retail models.
    b. Implication – There are more opportunities to segment the market and build relationships directly with individual retailers.

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2. The shrinking market share held by traditional supermarkets is forcing them to either consolidate or diversify into new markets. Healthcare services is emerging as a significant growth opportunity.
    a. Key Driver – Increased and diverse "selling capacity" is growing faster than the market.
    b. Implication – The increased focus on health and wellness creates demand for more information about and products that support health and wellness.

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3. Retail food stores are getting smaller as retailers strive to increase sales per square foot.

   a. Key Driver – Store are dropping, making it more difficult to reach breakeven volumes at the current store size.

   b. Implication – Smaller stores require better sales forecasting, more market centered distribution, or both. Agricultural suppliers who respond effectively to one or both of these needs have a competitive advantage over other suppliers.

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4. Food retailers are looking for ways to increase the value they deliver to shoppers using the internet and related digital technology.

   c. Key Driver – Food retailers have pretty well used up all of the "degrees of freedom" in the traditional value equation; i.e. there are few places remaining to differentiate their stores.

   d. Implication – Since it's increasingly difficult to "stand out", retailers are looking for ways to provide more information to shoppers and/or to offer additional services.

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5. Retailers understand that social networking is giving their shoppers "more voice" and is opening up cost/effective communications channels, but are still unsure exactly how to use it.

    e. Key Driver - Facebook and Twitter have become part of the culture for a majority of younger shoppers.

    f. Implication – Social media provides a low cost way for smaller suppliers to talk with shoppers and promote the benefits and value of their product.

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6. Retailers have embraced sustainability as it relates to their own businesses, but have less appreciation for how it relates to food production and what that could mean to them.

    g. Key Driver – Retailers see waste reduction as a way to reduce costs while helping maintain the environment.

    h. Implication – Retailers are open, at least at the strategic level, to understanding how and why they and their customers can benefit from sustainable agricultural production.

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