

MARKETING

Commercial Pepper Production, Marketing and Management

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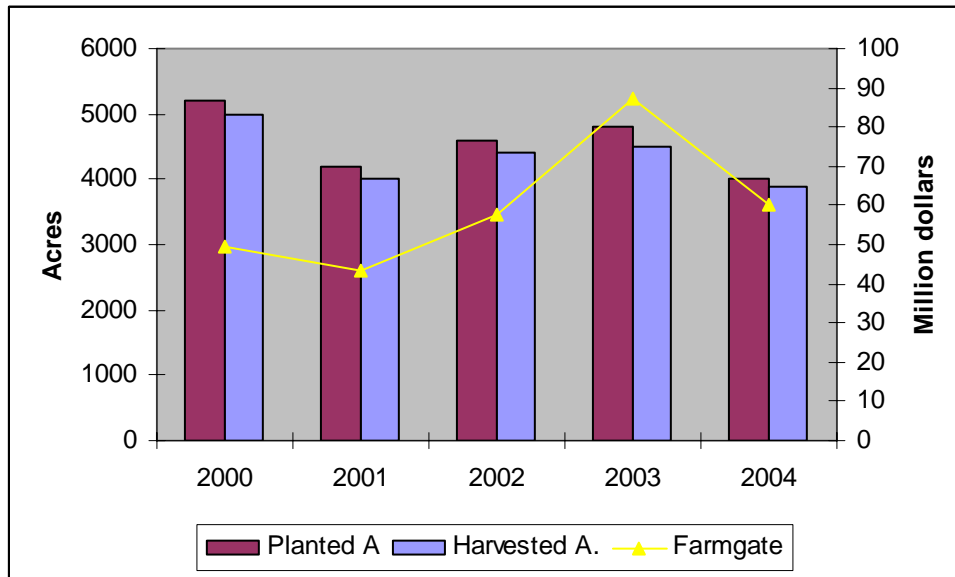
Introduction

Marketing pepper or any horticultural product is more than just selling. Marketing includes planning, production, harvesting, packaging, transportation, distribution warehousing and pricing. To be successful, marketing must be responsive to consumers' demands. Simplistically, it must be customer oriented. To add to the multifaceted problems, marketing skills are required and prior determination or knowledge of one's targeted market is a necessary condition. Is it direct marketing, marketing to retail outlets, specialty food stores or wholesalers? Do you need any promotion? Is any specific harvest time required? All these and more questions need to be addressed. Do consumers demand quality, freshness, "reasonable" prices or all of the above?

Georgia Production and Farm Gate Value

Georgia Agricultural Statistic Service (GASS) started collecting pepper data in 2000. Prior to that, most vegetable data was compiled by the University of Georgia, Center for Agribusiness and Economic Development. The information in Fig 1 is a combination of both sources. Bell pepper is an important vegetable crop in the state of Georgia. The farm gate value data was gathered from various issues of the Georgia Farm Gate Value Report while the planted and harvested data was gathered from GASS. According to the Georgia Farm Gate Report, bell pepper ranked 24th in 2004 amongst all Georgia Commodity Ranking as it generated slightly over \$60 million.

Fig 1: Georgia Bell Pepper Production and Farm Gate Value, 2000-2004



Source: Boatright, S.R. and C. McKissick . *2004 Georgia Farm Gate Value Report*, AR 05-01.

The peak bell pepper farm gate value was recorded in 2003 when it generated over \$87 million and was ranked 18th in the state. Planted acreage peaked in 2000 when about 5200 acres were planted but only 5000 were harvested. The trend in planted versus harvested has been fluctuating (Fig 1).

Wholesalers and Distributors Purchase Decision for Fresh Produce

A 2002 University of Georgia marketing survey asked wholesalers and distributors to rank their purchase decision for fresh produce. The result is summarized in Table 1. It is not surprising that quality is the most important factor in the wholesalers' and distributors' purchasing decision. However, it was interesting that quality and price were ranked higher than reliability. Unfortunately, the origin of fresh produce was ranked last.

Table 1: Average Ranking of Wholesalers and Distributors Purchase Decision for Fresh Produce

Importance of Specific Factors in Wholesalers/Distributors Purchase Decision for Fresh Produce -Ranked Most to Least Important (n=8)	
Factor	Average Ranking
Quality	1.13
Price	2.00
Reliability	3.63
Quantity	4.13
Convenience	5.00
Transportation	5.25
Origin	6.88

Source: Wolfe, K and E.G Fonsah (2002) "Wholesales and Distributors Outlook For Fruit and Vegetables Produced in Georgia" *GFVGA News Vol. 7, No. 4, Fall*.

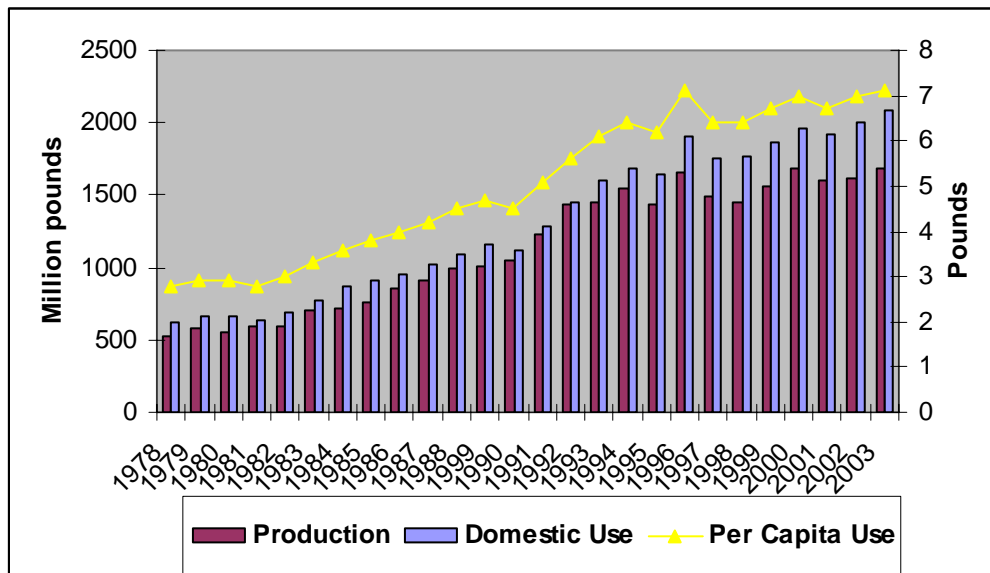
Wholesalers/distributors consider quality, price and reliability to be the most important factors in making a purchase. Being grown in Georgia will not help Georgia growers if their produce cannot compete on quality, price and reliability. These three factors are the minimal requirements needed to enter this market and can be thought of as a baseline from which grown in Georgia products must be differentiated.

A Georgia survey asked buyers to rank the factors that influenced their decisions to buy. Georgia pepper growers have benefited from a growing market for peppers. Georgia's reputation for providing quality peppers in the quantity demanded has improved. Competition from other areas in the Southeast requires that this reputation be maintained and improved. As production continues to expand some growers will not be able to compete. Production skills alone will not insure survival. Marketing will increase in its importance.

Production, Domestic Consumption and Per Capita Use

The United States production of fresh bell pepper is continually on the rise since 1978 where only 520.1 million pounds were produced. By year 2003, production had increased over 3 times to 1680 million pound (Fig. 2). According to Lucier and Plummer (2003) production increased at an increasing rate until 1996 when it reached its peak at 1664 million pounds. Thereafter, it has been fluctuating. However, years 2000 and 2003 were as good as the peak year, 1996 as 1686 and 1680 million pounds were produced respectively (Fig 2).

Fig 2: U.S. Fresh Bell Pepper Production, Domestic Consumption and Per Capita Use, 1978 - 2003



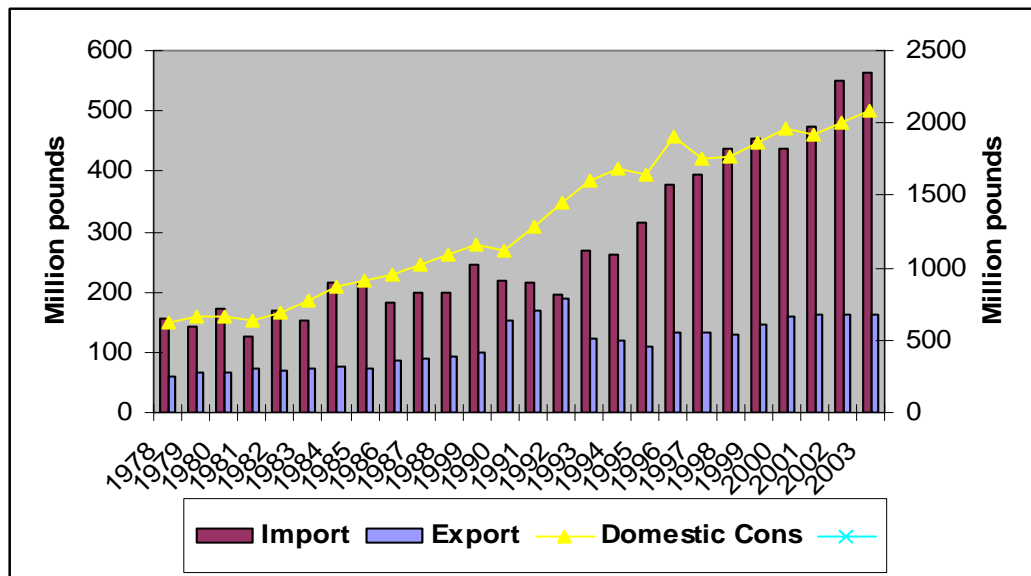
Source: ERS/USDA Vegetables & Melon/VGS-2003/July 2003, pg. 45.

Domestic consumption equally increased almost 3.5 folds while per capita use increased over 2.5 folds concomitantly. In 1978, domestic consumption stood at 616 million pounds compared to 2083 million pounds in 2003. On the other hand, per capita use of pepper increased from 2.8 pounds in 1978 to 7.1 pounds in 2003. Per capita use is “a measure of commodity disappearance on a per-person basis. Equal to total supply (production plus imports plus beginning stocks) less uses (exports, shrink and loss, seed use, ending stocks) divided by total U.S. population (including military)” (Lucier and Plummer, 2003).

Import, Export and Domestic Consumption

Despite the over three fold increase in production, the United States still import a substantial amount of its pepper to supplement the ever increasing domestic consumption. Production (Fig 2) plus import minus export = Domestic consumption (Fig. 3). Although the United States also export pepper, total quantity imported surpasses export and this gap started widening since 1994 until present. Pepper export was at its peak in 1992 when 189 million pounds were sold out of the United States. Thereafter, the export trend has been downward slopping. In 2003, only 162 million pounds of pepper were shipped out of the U.S. (Fig 3).

Fig. 3: U.S. Pepper Import, Export and Domestic Consumption, 1978-2003



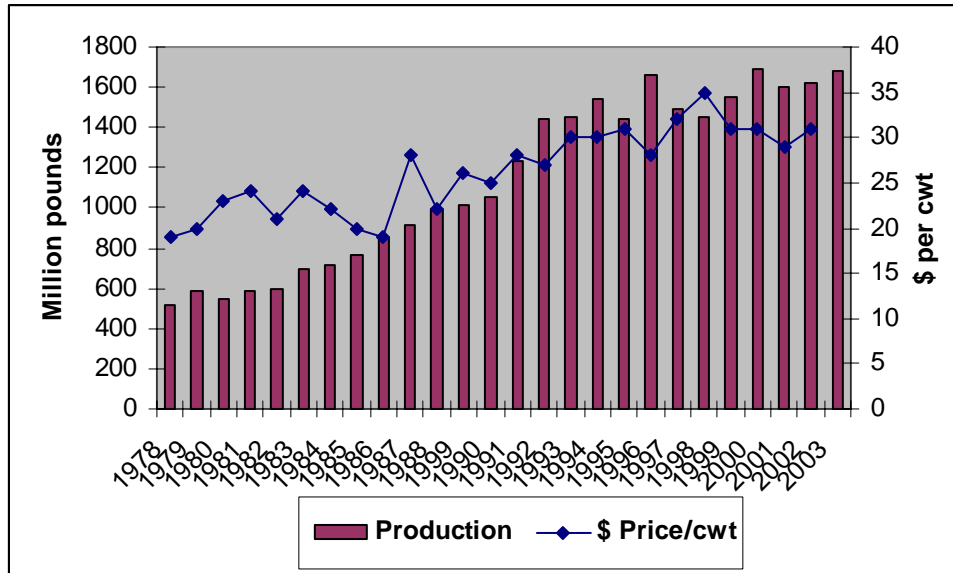
Source: ERS/USDA Vegetables & Melon/VGS-2003/July 2003, pg. 45.

Domestic consumption has increased from 616 million pounds in 1978 to 2083 million pounds in 2003 (Fig 3). To meet up with this tremendous rising pepper demand, import has become the talk of the day. In 1978, only 156 million pounds of pepper was imported to the United States compared to 565 million pounds in 2003, thus an increase of 262 percent. On the other hand, pepper export increased only 166 percent during the same time frame.

Production and Seasonal Pricing

Supply and demand determine the general price level of pepper. Seasonal average prices per cwt have been fluctuating. In 1978 the seasonal average price per cwt was \$19.4 whereas in 2002 the price had jumped to \$30.8 per cwt. The peak price was recorded in 1998 at \$34.8 per cwt (Fig 5).

Fig 5: U.S. Pepper Production and Seasonal Prices, 1978-2003
(Dollars per Cwt)



Source: ERS/USDA Vegetables & Melon/VGS-2003/July 2003, pg. 45.

Pepper prices vary greatly within a season and between years. Most of the price variation within season is caused by weather effects on production. Price variations among years are caused by changes in acreage and weather. Little of the price variation is caused by demand changes. Demand changes are slight from year-to-year. Fig. 5 further shows that despite the continuous increase in pepper production and supply overall price per cwt continues to rise concomitantly. This trend actually violates economic theory.

For recent prices, see University of Georgia Extension Agricultural Economics website: www.agecon.uga.edu.

Consumers determine the demand by deciding what and how much they will buy. Thus, marketing efforts must be consumer oriented. Consumers normally reflect their wants in the product and product characteristics they buy. Characteristics of pepper quality include: shape, thickness, firmness and uniform glossy color. Variety and age determine color. The most preferred color is dark green. Specialty markets may demand red, golden, or other colors. Large peppers normally bring premium prices, regardless of color. The competing states production levels determine the supply.

Conclusion

Bell pepper is an important vegetable crop in the state of Georgia. It ranked 24th in 2004 amongst all Georgia Commodity Ranking as it generated slightly over \$60 million. The peak bell pepper farm gate value was recorded in 2003 when it generated over \$87 million and ranked 18th in the state. A 2002 University of Georgia marketing survey revealed that quality is the most important factor in the wholesalers' and distributor's purchasing decision. Quality and price were ranked higher than reliability.

At the national level the United States production of fresh bell pepper has been continually on the rise since 1978 where only 520.1 million pounds were produced. By year 2003, production had increased over 3 times to 1680 million pound. Per capita use of pepper increased from 2.8 pounds in 1978 to 7.1 pounds in 2003. Despite the over three fold increase in production, the United States still import a substantial amount of its pepper to supplement the ever increasing domestic consumption. Domestic consumption has increased from 616 million pounds in 1978 to 2083 million pounds in 2003. The continuous growth in production and consumption of pepper in and out of the United States has indeed increased the dollar value from about \$400 million in 1978 to almost \$500 million in 2002. In 2002, pepper export value to Canada was worth \$69.4 million equivalent to 94.5 percent of total United States pepper export value whereas \$1.3 million was recorded for export to Mexico equivalent to 1.8 percent.

Although the United States imported pepper from Mexico worth \$122 million, \$134.8 million, \$188 million and \$132.7 million in years 1999, 2000, 2001 and 2002 respectively, bear in mind that Mexico also has comparative advantage in terms of weather, cheap labor and other conditions over the United States. However, most of the firms producing and supplying fresh bell and chili pepper are United States companies based in Mexico and taking advantage of the cheap labor and favorable weather conditions simultaneously. In 1978 the seasonal average price per cwt was \$19.4 whereas in 2002 the price had jumped to \$30.8 per cwt. The peak price was recorded in 1998 at \$34.8 per cwt. Pepper prices vary greatly within a season and between years. Most of the price variation within season is caused by weather effects on production. Price variations among years are caused by changes in acreage and weather.

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