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Squeezed From Both Sides: How Fresh Produce Companies Can Break Out of the Margin Compression Trap

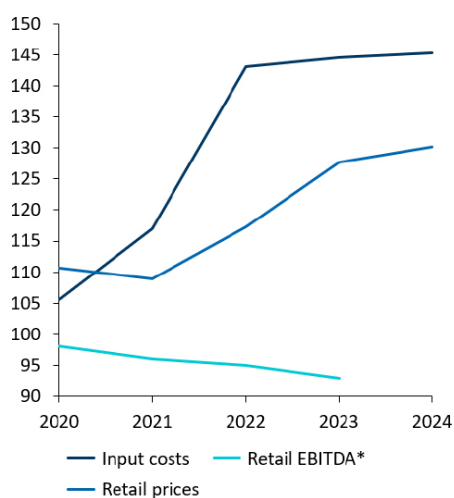


Caught in the Crossfire: Fresh Produce's Profit Crisis

Input costs rise faster than retail prices, putting increasing pressure on margins across the fresh produce supply chain. This creates a challenging environment — especially given that many companies currently operate with EBITDA margins well below 4%.¹ However, a select group of outperformers consistently achieve margins in the above 10% range, demonstrating that significantly higher profitability is possible. For others, this margin compression highlights a structural vulnerability to even modest cost increases.

Retailers protect their margins by consolidating purchasing power through buying groups, such as AMS, Eurelec and Everest.² This increasing buyer dominance further squeezes suppliers, who are already grappling with rising input costs.

Figure 1: Rising Cost Pressure Outpaces Retail Price Growth³



Input costs have surged, while retail prices have lagged behind. Between 2019 and 2023, retailer EBITDA margins fell by 0.7pp, as input costs outpaced retail price growth — shifting margin pressure downstream.⁴

In our experience, fresh produce companies can respond effectively to increasing margin compression. Four moves are essential to break the negative spiral.

- I. Go Big:** Secure scale and stability through a stable customer base.
- II. Own Your Category:** Become indispensable by leading the category — not just supplying it.
- III. Sustainable Growth:** Be fit for growth by building the capabilities for profitable and sustainable scale through cost transparency, complexity control and strong support functions.
- IV. Lock in Supply:** Integrate your supply chain or strategically manage supply chain relationships to manage volatility and secure long-term access.

These moves are not standalone solutions — they build on one another to form a robust, scalable and sustainable business model.



I. Go Big: Sustain Scale by Continuously Adding Value to Large Retail Partners

Achieving scale is essential for unlocking cost advantages, improving negotiation power and staying competitive in fresh produce. But scale in this industry doesn't come from simply "doing more" — it depends on access to large, stable volumes. And that access, in turn, depends on strong, strategic partnerships with major retailers. With few viable Direct-to-Consumer ("DTC") alternatives, fresh produce companies are uniquely dependent on retailers who largely own the relationship with the end customer.

Additionally, a large retail customer brings a clear benefit: It can absorb volume volatility that smaller buyers or DTC channels cannot handle. When harvests surge or demand fluctuates, these buyers can flex their programs and intake and protect suppliers from product waste or margin loss. That makes them indispensable partners in any scalable produce strategy.

Beyond Transactions: Building Strategic Retail Relationships

To make scale sustainable, fresh produce companies must treat their largest retail partnerships as strategic assets, not transactional buyers. That requires more than on-time delivery — it takes high service levels and operational and strategic alignment. Strong key account management becomes a growth engine, enabling long-term collaboration.

The most successful suppliers embed themselves into their partners' operations. They co-own category strategy, deliver tailored solutions and align supply programs with retail priorities.

Customer Tiering and Management: Serving With Discipline

These strategic relationships are defined by demanding service levels. Large retailers expect not just reliability, but flexibility — including broader assortments, tailored services, packaging and proactive category management. While these expectations add cost and complexity, they are often worth the investment, delivering scale, consistency and long-term partnership resilience.

However, high service levels must be applied with discipline. Not every customer justifies the same level of attention or customization. That's why leading companies implement clear customer tiering frameworks — to focus resources where they drive the greatest return.

With key accounts, high-touch service is well worth the cost. But, this model doesn't scale to every account. Smaller or less critical customers should receive a more standardized, lower-touch offering — with any added complexity explicitly priced in or trimmed. This kind of differentiated service model preserves margin while keeping complexity under control.

As customization grows, so does complexity, and without visibility into the true cost of serving each account, it's easy to over-deliver in the wrong places. That's why cost-to-serve transparency is essential.

Lessons from the Field: How Companies Win — or Lose — the Margin Battle

Many companies struggle to navigate their way out of the margin squeeze. Businesses can shift from a strong growth trajectory to mounting margin pressure and the risk of corporate failure.

Faced with rising costs and shrinking margins, many fresh produce companies pursue growth as the answer — adding customers, SKUs and volume in hopes of restoring profitability. But, more is not always better. Without strict control over margins and operational complexity, this kind of growth often backfires. We've seen companies "grow into disaster," expanding themselves into unsustainable operations.

The paradox is this: Scale is essential, but only when it is profitable and sustainable. What companies need is not just more, but better — a disciplined execution of all four strategic imperatives in conjunction.

Case Studies

Size (Revenue)	Example A: >€500 million	Example B: >€500 million
Background	— Leading importer and ripener of exotic fruits — Strong position in European retail and wholesale markets — Push from partnered growers driving volume-focused strategy — Margin erosion due to intensified competition in core categories	— Producer and marketer of fresh vegetables — Active in price-taker segments with high retail exposure and seasonal risk — Branding and convenience investments increased costs without price recovery — Lost key retail customers due to declining price competitiveness
Problems	— Loss of key retail accounts or increased risk of losing them — Erosion of branded product margins due to private label growth — Deterioration of a distinctive value proposition, leading to sustained price pressure — Sales strategy prioritizes volume over profitability — Operating costs consistently outpace revenue growth — High waste from low quality or overproduction drives significant margin loss — Limited execution power within the organization prevents effective change; management initiatives fail to reach the shop floor — Rising internal pressure, including talent attrition and strategic drift — Lack of visibility into product performance allows underlying issues to go unnoticed or ignored	



II. Own Your Category: Build True Category Leadership

Large retail accounts seek suppliers who can take revenue-driving control of a category. But the benefits of this leadership extend far beyond the retailer's side. As a supplier becomes the defining force within a category, it transitions from being one of many to being indispensable — transforming from a commodity provider into the brand that sets the standard. This distinction is critical: When your product is the category, you gain a position of strategic relevance.

The Power of Category Leadership

A category leader doesn't merely participate — they set the agenda. By shaping consumer preferences and influencing retailer decisions, they dictate the terms of engagement. When a brand becomes synonymous with a product, consumers actively seek it out. Retailers, in turn, recognize its ability to drive foot traffic, generate repeat purchases and build long-term loyalty through consistent product quality.

Retailers today want more than reliable supply. They want partners who push the category forward — suppliers who consistently deliver quality, introduce meaningful innovation and offer clear strategic guidance. Aligning with category leaders allows retailers to elevate their own brand, enhance the customer experience and strengthen their market position. In return, category leaders gain influence, pricing power and more favorable commercial terms.

Strategic Partnerships and Mutual Growth

Category leadership delivers more than increased share of shelf — it unlocks true strategic partnership. These relationships create mutual value: Suppliers drive category performance, while retailers benefit from higher revenues, deeper consumer engagement and a more differentiated offer.

Being a one-stop shop is no longer a strategy — it's a service of convenience for strategic customers, and it only works after establishing clear category leadership. Spreading across too many categories without depth weakens focus and negotiating power. True leaders dominate a single category with consistency, innovation and authority — setting the standard others follow.



The Value of Category Leadership: Driscoll's — A Case in Point

By focusing exclusively on berries — and building a moat around genetics, branding and supply chain excellence — Driscoll's has become the undisputed leader in its category. Retailers don't see them as just another supplier; they're a strategic partner. That focus allows Driscoll's to maintain leverage, command shelf space and push innovation, all while protecting margins in a notoriously commoditized sector.

The lesson: In a fragmented, margin-sensitive industry, trying to win everywhere is a recipe for mediocrity. Owning one category — deeply and profitably — beats participating in 10.

True category leadership means more than having a wide range or narrow depth; it's about becoming the standard by which the category is measured. It requires control over the supply chain, top-tier execution and continuous innovation. When done well, it gives suppliers a defensible position, long-term relevance and a seat at the table in shaping retail strategy.

III. Sustainable Growth: Cut Complexity, Not Corners

Two challenges frequently undermine companies in their pursuit of profitable and sustainable growth: a lack of cost-to-serve transparency and immature support functions. But behind these issues lies a deeper root cause — unchecked complexity.

Margin erosion rarely announces itself. It lurks in complexity — across product variants, custom packaging, order types, logistics choices and flexible service levels. Most fresh produce suppliers lean on high-level performance metrics and generic financials, blind to the real cost-to-serve. The result: Offerings that appear profitable on paper often bleed margin once hidden costs — such as labor-intensive handling, packaging changeovers or fragmented deliveries — are fully accounted for.

To strategically expand your product range, serve key accounts effectively or accurately price in complexity, companies must achieve full cost transparency at the most granular level. Clients who master this clarity know exactly where they are making or losing money. This empowers them to eliminate or re-price unnecessary complexity and deploy resources where they create the most value.

Where Margin Leaks

- **High handling costs** driven by excessive product variation or custom packaging
- **Distribution inefficiencies** resulting from small, frequent or low-volume deliveries
- **Retailer fees and deductions**, including promotional contributions, shelf-space charges and compliance fines
- **Opaque pricing structures** involving rebates, internal buffers and inconsistent deal-making across teams
- **Fragmented production and S&OP processes**, leading to overly thin and inefficient product flows and waste
- **Waste across the value chain**, leading to elevated costs

A key culprit is over-customization. Chasing every retailer request, such as sizes, shelf life or pack format, inflates SKUs, fragments operations and chips away at profitability. To reclaim margin, companies must impose discipline on customization and ensure offerings align with operational and commercial logic.

Professionalizing Support Functions

Beyond visibility into costs, fit-for-growth businesses invest in the maturity of their internal capabilities. As organizations grow, layers of management can distance leadership from frontline execution. Poorly managed support functions tend to add complexity rather than reduce it. They introduce overhead, dilute accountability and make cross-functional alignment harder to sustain.

In contrast, streamlined, professionalized support functions act as growth enablers. They reduce friction, enhance coordination and serve as the backbone of scalable excellence. When integrated with technology and embedded in business strategy, they become self-cleaning rather than self-perpetuating — driving continuous improvement across the chain.



IV. Lock in Supply: Take Control, Stay Competitive

To secure long-term profitability, fresh produce companies must assert control over their supply chain. Those operating only a limited part of the chain — or relying on loosely managed suppliers — are increasingly at risk of being disintermediated, especially as retailers invest to draw sourcing closer.

Vertical integration, or strategically managed partner suppliers, is the only way to mitigate this risk. It protects a company's position in the value chain and ensures greater control over quality, availability and cost.

The choice between vertical integration and strategic supplier partnerships has significant implications for how companies should manage their sales channels. Vertical integration offers greater control over supply (pull model), whereas partnered growers (push model) require market access for their produce. As a result, companies must be able to absorb additional volumes without significantly cannibalizing margins. This increases the importance of having a large, flexible retail partner and a strategically managed waste or secondary channel that can take on surplus volumes with minimal impact on primary sales channels.

Regardless of the model, the key is control and visibility. The supply chain is one of the largest cost drivers in fresh produce. Companies must understand the chain result — where value is created or lost across the chain. This means knowing precisely where margins are made and eroded, identifying cost reduction opportunities in collaboration with suppliers and negotiating effectively with suppliers. The most successful companies are those that combine supply chain ownership or influence with deep insight and disciplined management.



Case Study

How to Plug the Gaps

In a razor-thin, high-complexity environment, one fresh-produce supplier overhauled its cost-to-serve framework. By mapping every SKU's end-to-end cost, they identified unprofitable assortments, introduced tiered service levels and consolidated logistics. The result: a clear margin uplift and a repeatable model for profitable growth.

Case Study Example A	Alleviating the Squeeze
Turnaround levers	1. Used cost-to-serve dashboards to identify margin leakage at SKU, customer and channel levels 2. Applied cost insights to pricing — introduced tiered pricing and aligned commercial terms with fulfillment costs 3. Introduced customer tiering and service levels to enable focus on key accounts while reducing complexity cost for others 4. Based logistics and sourcing decisions on real cost data — forecasted better, consolidated shipments and cut inefficiencies 5. Focused growth on profitable SKUs/customers; improved, repriced or discontinued low-margin products 6. Reduced operational waste, improved S&OP processes and simplified packaging to eliminate hidden costs
Result	€20 million run-rate EBITDA improvement and €15 million added liquidity within one year 1. €2 million margin uplift through transparent price discussions with key retail clients 2. Identified €150 million in unprofitable revenue — discontinued 50 products (20% of portfolio) and corrected pricing 3. Launched working capital program — delivered €5 million cash improvement in two months 4. Strengthened procurement — renegotiated supplier terms and reduced input cost volatility

V. From Survival to Resilience: Why Now is the Time to Act

Surviving the squeeze demands more than incremental change. It calls for platform-level transformation — anchored in cost transparency, strategic focus and disciplined execution.

Now is the time to ask the hard questions:

- Are you investing in profitable scale or chasing unprofitable growth?
- Do you know your true cost-to-serve or is complexity masking erosion?
- Have you built category leadership or are you simply participating?
- Can your systems scale without chaos?
- Is your supply secure and integrated or exposed to volatility?
- Do you have a clear view on chain profitability?

Incremental fixes won't suffice. Sustainable profitability hinges on a growth platform defined by clear visibility, ruthless prioritization and a culture that embraces change. Leadership must set the vision, champion the transformation and measure progress against precise milestones and KPIs.

Winning organizations continuously challenge assumptions, course-correct early and surface issues before they escalate — rapidly redeploying resources for maximum impact. Are you well positioned to win the margin battle? If not, the time to act is now.



Endnotes

- 1 Out of a GainPro Benchmark consisting of 36 companies in the industry, 20 had an EBITDA margin below 4%, and 15 had a margin below 3%.
- 2 Ahold Delhaize is part of AMS Sourcing and will join Eurelec (with Rewe and E.Leclerc) in 2025. Jumbo and Picnic are members of Everest, alongside Edeka. Colruyt, Superunie and Coop Group established buying alliance Vasco International Trading, focused on A-brand suppliers.
- 3 Source: Retail price trends are based on the Consumer Price Index ("CPI") for fresh fruit and vegetables (CBS). Input cost trends are derived from a weighted composite index of fertilizer (YCharts), plastic packaging (TradingEconomics – EU), labor (CBS labor cost index), energy (EU CPI for energy) and transport (U.S. BLS PPI for Transportation and Warehousing), all indexed to 2015 = 100. Notably, only plastic packaging prices rose more slowly than retail prices.
- 4 Christel Delberghe et al, "State of Grocery Europe 2024: Signs of Hope," McKinsey & Company (April 10, 2025) <https://www.mckinsey.com/industries/retail/our-insights/state-of-grocery-europe-2024-signs-of-hope>

*Note: Decline reflects the average margin decrease from 2019 to 2023, assuming a linear trend and not accounting for interim fluctuations [Companies in the sample: 9 European grocery retailers (Ahold Delhaize, Carrefour, ICA, Axfood, ELO S.A., Kesko, DIA, Jeronimo Martins and Sonea Retail)].

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