



A PRELIMINARY FEASIBILITY STUDY CONCERNING THE ESTABLISHMENT OF A PROCESSING FACILITY IN HONDURAS FOR FRESH-CUT FRUITS AND VEGETABLES



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A. Executive Summary

Growth of the fresh-cut category within the North American produce industry has been remarkable. Little more than a low-volume specialty item only fifteen years ago, the fresh cut category today generates over \$10 billion in annual sales, and represents over \$0.10 of every dollar spent on fresh fruits and vegetables at the retail grocery level. Of equal importance, this category represents an avenue for growers to add value, and to improve returns, by elevating their production out of the commodity arena. Our principal interest in undertaking this preliminary study has been to determine whether Honduran growers can integrate forward into the processing and packaging of such value-added products, and capture a greater share of the value represented by the final retail selling price.

Based on our analysis of the underlying conditions in the North American markets for fresh-cut produce, of the production capacities and processing potential within Honduras, the logistical network which connects origin to destination, and the apparent transaction prices at which these value-added products are traded, we have encountered no insurmountable obstacles standing between Honduras producers and their active participation in this market segment. If this conclusion appears to be tentative, it is because we recognize the extremely small tolerance for error in the execution of each step along the fresh-cut value chain. Until the approach proposed in this study is field-tested and proven to be workable, our verdict on the project's feasibility must remain conditional.

Caution notwithstanding, it is difficult not to be impressed by the many advantages which Honduras would bring to its entry into this new venture:

1. A wide range of growing conditions and micro-climates which permit efficient cultivation of many of the most important fruits and vegetables used in the fresh-cut sector, including
 - Butter, iceberg, romaine, red leaf and green leaf lettuce;
 - Radicchio;
 - Red and Green cabbage;
 - Broccoli;
 - Cauliflower;
 - Carrots;
 - Cantaloupe;
 - Honeydew; and
 - Watermelon
2. Extensive experience in the production of these crops
3. Strong manpower resources – at the manual, supervisory and managerial levels --to meet the challenges of producing these crops to the standards

of quality and efficiency needed to be competitive with US and other offshore producers

4. Adequate infrastructure (roads, water, electricity, ports) to support the requirements of the processing operations
5. Well-qualified design and construction services – in the US and in Honduras –which would be available as resources for the establishment and implementation of the facility
6. Attractive investment incentives from the government, and active interest among entrepreneurs already active in the Honduran fruit and vegetable business
7. Proximity to major US markets in the US Southeast, with reliable and affordable ocean freight services
8. Apparent opportunities to participate in US retail channels through private label distribution (representing 40% of fresh-cut sales), with even broader opportunities in the foodservice sector (representing 60% of fresh-cut sales)
9. Costs of production, processing, distribution and marketing which, when set against reported revenues, lead to attractive margins and returns on the initial investment required for the construction of the plant.

Set against these advantages are a certain number of questions which need to be addressed before a final determination of feasibility can be made. These include:

1. Can Honduras extend its production season for the key commodities in question beyond the 6-8 month winter season, without sacrificing the favorable productivity and cost characteristics such production now enjoys?
2. Will the “Made in Honduras” label, well received on many horticultural products in retail displays, enjoy the same positive support when it appears on a bagged salad or a clamshell of melons?
3. How quickly will all elements of the process be able to adapt to the rigid timelines, precise temperature tolerances, and bulletproof hygiene required to handle fresh-cut product?
4. Will the distribution partners in the United States be able to deliver revenues which would permit the attractive returns on investment which apparently characterize this segment of the produce business?

The development of a detailed operational business plan -- based on confirmed financing, site-specific facility and equipment designs, pre-contractual agreements with distribution partners in the destination markets -- would do much to resolve these uncertainties. Field trials of the production, processing and logistics systems would provide even more certainty.

This report, based on design of a plant which can generate 80,000 lbs/day of finished product, envisions an initial investment of \$ 4,674,000, divided into the following principal categories:

- Shell, including coolers \$ 2,332,000
- Multi-Product Line, for pre-cut vegetables \$ 567,000
- Fruit Processing Line \$ 137,000
- High Volume Line, for packaged salads \$ 1,158,000
- Water Systems \$ 118,000
- Cull Removal & Waste Compaction \$ 317,000
- Makeup Air System \$ 45,000

Total Investment =====
\$ 4,674,000

At this stage of the review, the best estimates of financial results from distribution of fresh-cut product into different retail and foodservice channels yield internal rates of return ranging from 51% to 117% on this initial investment in plant and equipment. Such returns should provide sufficient motivation to pursue this project at least through the business plan development phase of this project.