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<u>Does The Grocery Business Beat Farming</u>

by

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With the income squeeze becoming tighter, many farmers are wondering if the grass isn't greener in some other kind of business. Since World War II, farm output has increased so rapidly that prices paid to farmers have been on a steady decline. Farm costs have gone up and incomes have gone down. Land prices have advanced to their highest level in history. Farm incomes are now so low that they'll not be able to continue their present standard of living, keep adding to their capital to become more efficient, and have enough left to keep paying the present prices for land. It is no wonder that 100,000 farmers a year have quit farming over the past decade!

It's the usual thing for returns to farmers to be somewhat lower than to operators of other types of business, but not so low as they are today.

It's pretty obvious that with these depressed conditions in farming, returns to both labor and capital will be higher in many other kinds of businesses today. But still many farmers ask, "How do my earnings compare with those of other small businesses" and "Would I be better off to quit farming and invest my capital and talents in some other business?"

To shed some light on these two questions, one might compare farming with the grocery business, for example. Farm folk have often been heard to say they'd like to move to town and run a grocery store. And strangely enough more than one grocer has reportedly dreamed of selling out and retiring to a farm.

Purdue University's Indiana Farm Account project and Business Summaries of Independent Food Stores provide a basis for a good comparison of these two types of business. To get such a comparison, we studied medium sized farms in central

Indiana and medium sized independent grocery stores, many of which are located in county seats, in this same area. Both of these summaries reflect earnings from better than average Indiana firms.

Each of these businesses had about the same capital investment - $88,000 for farms; $85,000 for grocery stores (Table 1).

Table 1. Earnings and Other Business Characteristics, Farms and County Seat Supermarkets, Central Indiana, 1957.

	Farm1/	County Seat Supermarket2/
Capital Invested by Operator	$88,000	$85,000
Returns to Labor, Management and Capital	$ 8,725	$21,142
Form of Business	Owns land, buildings, & equipment	Owns Merchandise and Equipment Rents building and parking area.
Size of Business	243 acres $30,000 annual gross sales.	5,500 sq. ft. building $750,000 annual gross sales.
Labor Force, Man Equivalent	1.5	8.2 (45 hour week)
Main Enterprises	202 acres crops 25 sows 30 - 50 feeder cattle 10 - 20 milk cows 150 hens	- Self service meats - Packaged fruits and vegetables - Canned foods; dry groceries - Frozen foods - Dairy - Drugs; non foods

1/ Farm Business Summaries, Indiana, 1957, Agricultural Economics Department, Purdue University.
2/ Independent Food Store Business Summary, 1957, Agriculture Economics Department, Purdue University.

Total returns to the owner-operator for his labor, management, and capital investment as of 1957 were $21,142 for the food store and $8,725 for the farm - a wide difference. Today, with lower corn and hog prices, this difference would be still greater.

One basic reason for this difference, as indicated previously, is the abnormally low relative incomes of farmers caused by surplus production and the over abundance of resources in farming. But, there are other reasons too. To see them, let's compare typical farm and grocery operations of the two kinds of business.

There's a lot of similarity between the job of a man who operates a successful farm and one who runs a successful supermarket. But there's a lot of difference, too. (Table 2) Both have to work hard and be able to make decisions, do a good job of getting facilities together, and set up their business on the sound basis principles. In addition, the job of the grocery operator is complicated in that he has a larger labor force, he must be creative in his promotions, and last but not least must serve the general public - face to face.

In addition to being faced with the cost-price squeeze mentioned above, Mr. Medium Sized Farmer in Central Indiana is faced with the "competitive" squeeze. That is, to keep up with his neighbors he has to increase his output per acre and per man each year. This struggle has brought dramatic changes during the past few years. Some of them which took place from 1950-57 were:

1. Increased about five tillable acres a year.
2. Corn production per farm increased about 75 percent.
3. Fertilizer use was stepped up.
4. More capital invested in cribs, dryers, elevators, etc.
5. Hog production increased about 80 percent. Old two-litter hog system changed over to multiple farrowing.
6. Pig nursing facilities added to regular farrowing and fattening set up.
7. Automatic watering and mechanical feeding and manure handling.
8. Non-real estate investment went up about one-third.

Table 2. Requirements for Successful Operation of Farms and Supermarkets.

Farm	Supermarket
1. Select enterprises which fit his land, capital strength, and skills.	1. Select lines of merchandise to meet customers' tastes. Continually revaluate shelf space to keep stock moving.
2. Keep adjusting his business to new technology.	2. Price products to be competitive yet return enough gross margin to cover expenses and yield returns on investment.
3. Keep adding to his capital.	3. Continually improve selling area by adding new refrigerated equipment and services to attract and retain customers. Convenient, paved parking lots a must, too!
4. Be highly efficient - over 75 bu. corn/A - over 7 pigs, one litter - over 8,000 milk/cow - 300 or more man work units/man	4. Be highly efficient - $3 sales per square foot of store area - $22 sales for every clerk hour input - 30 inventory turns per year - 12 capital turns per year (sales/assets)
5. Keep costs low. Power machinery costs $23,000 an acre.	5. Be cost conscious - 5 percent labor allowance - 12 percent total expense allowance
6. Keep volume of business high - value of farm production over $95.00 per tillable acre.	6. Maintain high sales volume by: - Adding new, fast turning line of merchandise - Exciting, unusual promotions and advertising - Courteous treatment of customers - Modern, clean, convenient, comfortable store
7. Be a combination laborer, manager, investor.	7. Become a specialized manager - make decisions in regard to personnel, financing, merchandising. Leave meat cutting and stocking shelves to hired help.
8. Become more and more specialized.	8. Become more specialized in mass merchandising.

With farming getting more complicated every day, big increases in managerial skill are required. For example, as livestock numbers in any enterprise on these farms increase arithmetically, management problems and risks multiply geometrically. If you get TGE in one end of your hog barn, it soon sweeps to the other end.

To keep competitive, Mr. Medium Sized Farmer has become more specialized, particularly in the livestock business. For example, many of these farms have cut down to one roughage-consuming and one grain-consuming livestock enterprise.

Mr. County Seat Grocer is also faced with the cost price squeeze. Cost of the new self-service meat and dairy cases which he added last year were more than double what he paid for refrigerated equipment seven years ago when he started in business. And since he added more sales area to his original store, he has had to add more help to stock shelves, man the new checkout, and to package meats and produce.

Mr. County Seat Grocer grossed 16 cents on each dollar of sales. Operating costs took 14 cents out of every dollar of sales. This meant a 2 percent net profit on sales. Since he had allowed himself a $7,800 salary, this profit was on the total capital invested in the business.

His labor bill last year accounted for almost half of his total expenses. It'll go up this year. Other customer services such as advertising, stamps, air conditioning come high too. And fixed expenses such as taxes, utilities, and insurance must also be reckoned with.

Like most average county seat grocers, he does not own his building and parking lot. By investing his capital in modern self-service equipment and a well chosen inventory of canned goods, perishables, and non foods, he can capture more dollars of sales than if he spread his capital over land and building in addition to the stock and fixtures. It is from rapid turnover of his basic, well chosen inventory, that Mr. County Seat Grocer derives his profits. It is not unusual for food merchants of this size to turn their complete stock, once every two weeks. Ownership of land and building would reduce the sales output per dollar of investment. Hence, progressive county seat grocers realize that the real estate and food business are birds of a different color.

True, the grocer sets his own prices to a degree! Yes, he does stamp the price on the can. But other middle sized independents in the county seat are after sales too. And they have pared margins in an attempt to boost sales. Consequently, food margins are not wide. And Mr. County Seat has added many non food items, which carry wider margins, in an effort to hold his gross margin constant.

Inventory control, pricing, financial management - these are just a few of the skills of the trade. In addition, the county seat grocer must have a knack for excitement which he personified in his advertising and in store promotion. Such excitement draws traffic to his store and holds his old customers, too.

And of increasing importance, is the task of selecting, training, and keeping his people who cut the meat, stock the shelves, and check out the orders. Personnel turnover is high. Competitors are continually "stealing" away skilled meat cutters and personable checkout girls. Also, Mr. County Seat Grocer has a profit sharing plan and many fringe benefits for his people. Ultimate goal of this program is increased sales and lowered costs. But in its early stages, these bonus-benefits cut into his profits.

Sure Mr. County Seat Grocer neted $21,000 last year. But he earned it. A sixty hour week is not unusual and his wife can seldom figure his appearing for a meal on time. And these high earnings have attracted new people into the industry. Established firms, likewise, have been stimulated to remodel and build larger, more modern stores. Ten years ago there were 9.5 supermarkets for every 100,000 people; today there are 16.5. Unless the medium sized independent can capture more sales per customer, he faces declining sales - and profits in the year ahead.

The food industry pace is a fast one and the key word is change or die. Mr. County Seat Grocer recognizes this. He must locate new suppliers, new equipment, and adapt his store layout - advertising - pricing policy - and his personnel to this type of selling. Many of his fellow independents who haven't kept progressive lost money last year. Others sold out to other independents or chains.

Of concern too, is the fact that the locker plant down the street has announced that they will offer a complete line of fresh and canned foods along with their frozen locker meats. After all, the grocery store has moved in on the druggist, the novelty store, and many others. Why shouldn't they likewise counter attack and round out their line with food items!

Dun and Bradstreet reported 88 percent of the business failures are due to poor management. It is only because Mr. County Seat Grocer has learned that the real role he plays is in making decisions rather than cutting meat that he is in business today and will be tomorrow.

Summary

Looking ahead, it certainly appears as though agriculture is in for stormy financial weather for the next few years. A lot of other businesses including independent grocery stores, will continue to return greater profits for a while. Even so, farm operators shouldn't get panicky and quit farming without some serious thought. Why?

In the first place, even though it seems slower than molasses in January, there is a lot of natural economic adjustment taking place in farming to get the labor-capital structure adjusted so earnings will be more in line with the long time normal situation. Farm programs are being designed to help do the job, too.

In the second place, other small businesses are facing adjustments too. Food economists predict that the supermarket of the "70's" will be as different from today's supermarket as the corner grocery of the "30's" store is from today's supermarket. Thus, in ten years, more progress in food retailing is expected than took place in the last thirty years! Competition will continue, too, and as the number of large supermarkets increases operators of small business must adjust so as to capture more sales per customer or die.

In short, both kinds of business have their highlights and headaches. So, Mr. Farm Operator, before you leap, look! Due to the oversupply situation in agriculture, worse than normal currently, your earnings are low in relation to those of your grocer. Even so, you might do worse by shifting over to his business. Also, before you become critical of him, try to understand that he's in a competitive race with a lot of other good, sharp, grocers just like you are in competition with a lot of other good sharp farmers.