Miscellaneous Staff Contribution of the Department of Agricultural Economics

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PRODUCER AND HANDLER - PROS AND CONS

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We hear much of joint farmer-middleman cooperation. Some would have farmers think that producers and handlers of food products are one big happy family. Are they? Should they work together more closely and if so, how?

Make no mistake about one thing. There is a basic conflict of interest between them. Producers are out to sell at the top dollar and handlers are out to buy as reasonably as possible, just as we would, if we were them. Producers will do well to remember this when they are wooed by highly paid professional public relations experts. These "friends" spend a lot of time and money and go to great lengths to point out to farmers that producers and handlers have mutual interests and that we are "all in this thing together."

Despite this conflict of interest, producers need to be careful because those in a food industry today are, in a greater sense than ever, in it together. Today working together is not only profitable, but almost a necessity for survival. For example, the turkey industry is competing against the broiler, beef and wine industries and against non-food industries such as car, television and air conditioner. There is also competition in the turkey industry with the Mid-West competing against the West and other production centers. Other industries are in a similar situation and in a rich, "affluent society" like ours, the competition is intense and likely to get worse as there are more and more items competing for our food dollar.

"Large" buyers have come with the growth of mass distribution of food products in national, and in some cases international markets. Like it or not, producers are tied to them as part of an industry team that is more integrated than before. These buyers want and need large amounts of uniform products that are easy to handle, advertise and price; products that will sell and give consumer satisfaction, because selling what the consumer wants is how they stay in business. They buy these products where the get the best "package" including quality, uniformity, volume, price and service. Since these buyers are buying great quantities of food products of specific kinds for specific markets, they have developed what is called "specification" buying. They buy products closely tailored to their individual requirements and often buy direct.

This is tying them more closely to those farmers who can supply their needs and is forcing farmers to develop "specification" production--production of a specific kind, amount and type of product for a certain buyer. Often the product has a "home" before it is produced.

What can a producer do? He can supply products needed by the "large" buyers. Supermarket buyers were recently asked what factors were important in determining their sources of supply of several midwestern agricultural food products. Quality was, they said, the most important one. Cost was also very important to these
buyers as was care in handling, promptness of delivery and adequate volume.

Guidelines for producers interested in doing a job for their handlers include:

1. Attempt to do an even better job of meeting the characteristics considered important by buyers in selecting suppliers.

2. Explore possibilities of getting more or all of a buyer's business.

3. Watch costs. Improving characteristics desired by buyers may increase costs, so careful consideration should be given to costs and expected returns. Only when increased returns exceed the increased costs of providing the quality product and desired services to the degree desired by buyers should the changes be undertaken. Some of the desired characteristics such as care in handling and promptness of delivery may be achieved with little or no additional cost.

Mass merchandising is here to stay with the need for large quantities of uniform items, industry coordination and "specification" production and buying.

The trend toward it is apparent in much of agriculture. It is expected to continue. As it does, there will be even more coordination within industries: more "specification" production and buying. Farmers and handlers will need to watch this development and despite their conflict of interest, work together where possible to improve their product, the industry and thus themselves. They will help combine the needed resources to provide the "tailored" products that will enable an industry to supply what the modern market wants. This will involve giving up some of the farmers traditional decision making freedom. And there are risks in getting tied closely in an integrated industry deal with a "large" buyer but there are also advantages that may outweigh the disadvantages.