Food Marketing—From Farm to Table

Anthony E. Gallo
(202) 786-1866

Food marketing—two words that encompass a wide range of activities that transform Indiana corn into breakfast cereal or Iowa beef into a fast food meal. Over 1 million establishments make up the food marketing system, including over 250,000 retailers, about 700,000 foodservice establishments, 40,000 wholesalers, and more than 16,000 processors.

The food marketing system is rapidly changing, affected by shifts in the population, consumer lifestyles, and health concerns, as well as by the industry's attempts to stimulate demand for agricultural products.

For Firms, It's Fewer but Larger

Food processing, wholesaling, and retailing firms, like most other major industries, have experienced a sharp decrease in numbers in recent years. The number of food manufacturing firms, for example, declined from more than 40,000 in 1947 to 20,616 in 1977, to 16,813 in 1982. Meanwhile, wholesalers dropped by nearly half *(table 1)*.

Although the firms are fewer, they're larger. And this has had implications for large firms' shares of sales. The 50 largest food processing companies, for example, accounted for over 43 percent of U.S. shipments from all food processing establishments in 1982, compared with 35 percent in 1967.

In an expanding market for wholesaler services, the 50 largest general-line firms (handling a variety of groceries, household products, and health and beauty aids) increased their national share of wholesale food sales from 48 to 64 percent between 1972 and 1982. The 50 largest specialty wholesalers (handling perishable lines such as frozen foods, fish, and fresh fruit) also increased their share from 26.5 to 34 percent. Only limited-line wholesalers—who carry dry groceries such as canned foods, coffee, tea, spices, bread, and soft drinks—lost shares.

Although no food retailers are national, a handful of very large firms account for a significant share of total industry sales. The 20 largest food retailers accounted for 27 percent of grocery store sales in 1948 and 34 percent in 1958. Since 1958, however, their share has increased negligibly, reaching just 35 percent in 1982.

The Nation's largest foodservice firms—those that dispense prepared meals and

Table 1. Fewer But Larger Firms Dominate Food Marketing Sector

	1967	1972	1977	1982
Manufacturers	*Number*			
Firms	26,549	22,171	20,616	16,600
Outlets[1]	32,517	28,193	26,656	21,316
Share of value added, firms:	*Percent*			
1-50 largest	35	38	40	43
51-100 largest	13	13	12	13
101-200 largest	9	10	11	11
201-500 largest	10	11	11	10
All others	33	28	26	23

	1972			1977			1982		
Wholesalers	*Number of top firms*								
	4	8	50	4	8	50	4	8	50
	Percent of sales								
General line	9.9	16.2	47.5	15.0	22.4	56.6	17.4	26.5	63.6
Limited line	10.4	21.7	42.3	13.3	19.5	46.6	9.0	13.8	37.2
Specialty	7.2	10.9	26.5	10.3	15.1	33.5	14.9	20.9	34.0

	1948	1954	1958	1963	1967	1972	1977	1982
Grocery chains	*Percent of sales*							
Four largest	NA	20.9	21.7	20.0	19.0	17.5	17.4	16.1
Eight largest	NA	25.4	27.5	26.6	25.7	24.4	24.4	23.6
Twenty largest	27.0	29.9	34.1	34.0	34.4	34.8	34.5	34.9

[1]Firm may own more than one outlet.

This article was based on a larger study written by Anthony E. Gallo, James M. MacDonald, Walter B. Epps, Phillip R. Kaufman, Judith J. Putnam, Harold R. Linstrom, Michael G. Van Dress, Charles R. Handy, and Lester Myers of the Food Marketing and Consumption Economics Branch of the National Economics Division.

snacks for on-site or immediate consumption—have increased their share of sales gradually over time. However, there is still not a significant concentration of sales among the largest firms. The four biggest foodservice firms, for example, accounted for only 5 percent of 1982 total foodservice sales, compared with 4 percent in 1972. The 50 largest firms comprise just 20 percent of foodservice sales, up from 13 percent in 1972.

Food Marketing: Contributing to the Economy

Food marketing is an important contributor to the Nation's economy. In 1984, it accounted for $386 billion of the gross national product (GNP)—about 10.5 percent of the total.

The food marketing system as a whole, however, has shown relatively slow growth compared with other sectors of the economy. On the production side, its contribution to the GNP rose at a yearly compound growth rate of 1 percent between 1976 and 1984, while the nonfood marketing sector's rose 1.6 percent. Rising incomes in recent years meant consumers have allocated a smaller share of income to food and more to nonfood purchases. Consequently, the food system's share of GNP fell from about 11.5 percent to roughly 10.5 percent. Employment by the food sector fell from 11.6 to 10.6 percent.

The food marketing system is one of the largest employers in the Nation, generating approximately 12 million full-time jobs and employing more than 1 of every 10 U.S. workers.

The food marketing system is one of the largest employers in the Nation, generating the equivalent of approximately 12 million full-time jobs and employing more than 1 of every 10 U.S. workers *(table 2)*. These include over 3.5 million workers in retailing, wholesaling, and transportation; over 1.5 million in food processing; and 3.5 million in eating and drinking places. The food marketing system generates another 3.5 million jobs through other supporting sectors, such as packaging, advertising, and energy.

The food-away-from-home sector, having experienced phenomenal growth in the last several decades, is an increasing source of employment. About 2.1 million or 8 percent of the 25.6 million new jobs that the U.S. economy is expected to generate during 1982-95 should occur in foodservice, according to projections by the Bureau of Labor Statistics (BLS). Foodservice employment was conservatively estimated at 6.2 million, and BLS projections call for about a 33-percent increase by 1995.

Table 2. Food Marketing System One of Nation's Largest Employers

	1976	1978	1980	1982	1984	1976	1978	1980	1982	1984
Full-time equivalent employment			*Millions*					*Percent*		
Food Sector	11.2	11.5	12.2	12.0	12.0	11.6	11.2	11.4	10.9	10.6
Processing	1.5	1.5	1.6	1.6	1.4	1.6	1.5	1.5	1.4	1.2
Retailing and wholesaling	2.9	3.0	3.2	3.2	3.2	2.9	2.9	3.0	2.9	2.8
Transportation	.4	.4	.4	.4	.4	.4	.4	.4	.4	.4
Eating and drinking places	3.0	3.1	3.3	3.2	3.4	3.1	3.0	3.1	2.9	3.0
Other supporting sectors	3.4	3.5	3.7	3.6	3.6	3.5	3.4	3.5	3.3	3.2
Nonfood sector	85.0	90.8	94.7	98.2	101.5	88.4	88.8	88.6	89.1	89.4
Civilian labor force	96.2	102.3	106.9	110.2	113.5	100.0	100.0	100.0	100.0	100.0

Source: Lee, Chinkook, Gerald Schluter, William Edmondson, and Darryl Wills.

Measuring the Size of the U.S. Food and Fiber System. Forthcoming staff report. U.S. Department of Agriculture, Economic Research Service.

Growth in Eating Out Likely To Continue

Demographic projections from the U.S. Census Bureau also suggest continued growth in the away-from-home sector through the end of the decade. The percentage of the total population between 25 and 44 years old—those most frequently eating out—may increase 4 to 5 percentage points during 1980-90. Another category of frequent diners, one-person households, may rise from 23 percent of the total population in 1980 to about 25 percent by 1990. On a per-capita basis, one-person households spend 89 percent more than the average household for food away from home, while two-person households spend 29 percent more than average. One- and two-person households should constitute around 57 percent of all households by 1990, up from 54 percent in 1980.

Further increases in the number of women in the labor force should also enhance the prospects of the food-away-from-home industry and influence the marketing of many food products and services. In 1984, 53 percent of women 16 years or older were in the labor force, up from 43 percent in 1970 and 34 percent in 1960. Nearly 7 in 10 women age 20 to 44 years are now in the labor force. If most of these women remain in the labor force, and if succeeding generations of women participate at equal or higher rates, the number of working women will increase into the first decade of the next century.

The portion of the total U.S. population in the Northeast and Midwest should fall from 47.7 percent in 1980 to 39.6 percent by 2000. This means almost 6 of every 10 Americans could be living in the South and West by the end of this century. These projected regional shifts could mean greater opportunities for foodservice growth in the South and West and could influence national food purchase and consumption patterns. Cajun-type fried chicken, southern biscuits, oriental stir-fry dishes, and Mexican specialties, for example, are already popular in every major region and could continue to grow with the population shifts. Meanwhile, opportunities for expansion should continue in the Northeast and Midwest, since population density will remain relatively high despite slower growth (and even moderate declines).

Increases in consumer income, after adjusting for inflation, should spawn additional foodservice growth. Studies have found that a 10-percent increase in consumer income results in a 5.5- to 11.6-percent rise in meals and snacks away from home, assuming other factors remain constant. Using the midpoint of this range, ERS economists forecasted the impact of changes in income on foodservice growth from 1984-94. They found that a 10-percent rise in income could mean an 8.5-percent rise in spending for meals and snacks. If inflation-adjusted (real) per capita disposable income rises 18 percent and population almost 10 percent, real sales of commercial eating places could rise 25 percent from 1984-94. However, the average compound annual increase of 2.3 percent during the period will be below the 3 percent rate of 1977-84. Changes in the age and geographic distribution of the population, household size, consumer preferences, and improved marketing and merchandising efforts could further enhance growth.

Continuing efforts to contain the Federal budget will restrain foodservice sales in the noncommercial sector. This might create lucrative markets for commercial firms capable of providing efficient, cost-saving foodservice to such institutions as hospitals and schools, which traditionally run in-house feeding operations.

Want More Information On Food Marketing?

Food Marketing Review, 1985, the first annual report on this important economic sector, details the firms comprising the processing, wholesaling, retailing, and foodservice industries. The future of the firms, workers, and the system as a whole are examined.

Food Marketing Review, 1986 will be published in early 1987. These reports may be purchased from the Superintendent of Documents, U.S. Government Printing Office (GPO), Washington, D.C. 20402. Order *Food Marketing Review, 1985* by title and stock number 001-019-00455-0. The price is $3.00 domestic, $3.75 foreign. Stock number and price information for 1986 version of the report will be available early next year. Make check or money order payable to the Superintendent of Documents, or call GPO at (202) 783-3238 to charge your purchase to your VISA, Choice, MasterCard, or GPO Deposit Account.

The Battle for the Food Dollar

For all sectors of the marketing system, competition for the food dollar should increase in the decade ahead. Food marketers are experimenting with new formats, merchandising strategies, and improved food products and services to satisfy an older, better educated, more diverse, and demanding population.

Nowhere will the competition be more keen than in the food-away-from-home sector, as an array of outlets try to capture more of this rapidly growing market. The fast food industry, for example, has moved in several new directions to build its market share. It is operating outlets in new locations, such as schools and college campuses, hospitals, military bases, toll roads, bus terminals, retail stores, shopping malls, central city office buildings, recreational sites, and international markets. Menus now include such items as salad bars, salad entrees, pasta dishes, baked potatoes, gourmet burgers, more fish and chicken items, soups, fruit juices, and whole grain buns.

Many foods have been added in response to demand from health- and diet-conscious individuals. The diet-conscious segment of restaurant menus has expanded as the scientific base linking diet and health mounts and as women, who are joining the labor force in large numbers, eat out more often.

Many fast food outlets have upgraded their decor and added driveup windows to attract more business. These outlets have also introduced breakfast and dinner specialties, extended operating hours, and established a niche in the catering business to get full use of equipment and increase unit sales.

Many full-service restaurants are experimenting with lighter dishes and emphasizing freshness, quality, regional cooking, and seasonality to increase customer traffic. Compared with fast food places, these restaurants enjoy greater flexibility to adapt menus and preparation methods quickly to meet changing consumer preferences. Some full-service establishments are launching gourmet takeout foods to boost sales and expand the customer base.

Eating places, however, face competition from other areas of food retailing, with the microwave oven figuring prominently in the competition. Grocers, stepping up the battle for market share, are stocking more upscale frozen foods ready for heating in a microwave. Forty-two percent of U.S. households had microwave ovens in 1985, up from 13 percent in 1980. Campbell Soup Company estimates that microwave ovens will be in 70 to 80 percent of all homes by the year 2000. Convenience stores, with increasingly heavy investment in microwave ovens and other foodservice equipment, are also rapidly expanding foodservice sales. Fast food sales were up 50 percent from 1975, reaching 6.1 percent of their total sales in 1984 *(table 3)*.

Food retailers are also responding to the growing popularity of convenience and prepared foods by installing salad and soup bars, adding in-store bakeries and delicatessens, and providing cut and prepared produce. Some supermarkets now also offer in-store restaurants.

Table 3. On-the-Go Consumers Boost Convenience Store Sales

	Total	Non Gasoline[1]	Gasoline
		Billion dollars	
1971	3.6	NA	NA
1972	4.2	NA	NA
1973	5.1	NA	NA
1974	5.3	4.9	0.4
1975	6.2	5.5	.7
1976	7.4	6.3	1.1
1977	8.9	7.4	1.5
1978	10.6	8.7	1.9
1979	14.1	10.5	3.6
1980	18.9	12.4	6.5
1981	22.8	14.1	8.7
1982	25.4	15.1	10.3
1983	28.3	16.5	11.8
1984	34.0	19.7	14.3

NA = Not available. [1]Food and general merchandise.

Source: National Association of Convenience Stores. *State of the Industry Report.* 1984 and previous years.

A Look Ahead At Wholesaling and Retailing

While retailers attempt to expand into the away-from-home market, wholesalers are moving into the food store business, resulting in a profound change in food distribution. About 3 percent of the 10,000 retail food stores served by the leading wholesalers in 1984 were wholesalers' corporate stores. Wholesalers have long acquired supermarkets where chains have left the area; they also buy independents. Wholesalers usually resell acquired supermarkets to independent operators. However, they have also retained some facilities and remodeled them to test prototypes of retail food stores.

Increasingly, the leading wholesalers are building larger stores, many of which are superwarehouse stores. Combining the scale of warehouse stores and the decor and variety of supermarkets, these giants involve capital outlays on a scale accessible only to operations with substantial retained earnings or extensive credit lines. The great volume required to sustain profitability also means drawing on a customer base extending up to 25 or 30 miles, and sometimes drawing customers away from other retailers supplied by the wholesaler.

For large wholesale firms, superwarehouse stores provide the means to increase profitability of the parent firm. Whether owned or licensed, warehouse stores of 50,000 square feet or larger generate tremendous wholesale volume.

In the decade ahead, we are likely to see more wholesaler-owned large retail stores as general-line firms attempt to expand. Large wholesalers will likely increase their volume through owning retail stores in growing areas and licensing independent retailers where ownership may involve competing with the wholesalers' other retail customers. Wholesaler expansion will also occur as firms continue to enter new geographic areas by acquiring local or regional distributors.

In addition, independent retailers will continue to grow, reopening former chain stores in central cities. Independents have competed aggressively and successfully with chains by offering personalized service, supervising their operations closely, and receiving vital support from their wholesalers. The independents' success favors the continuing operation of those wholesalers who accept small orders, deliver frequently, and otherwise service low-volume retailers.

Despite the growth in independents, the trend toward fewer but larger supermarkets will probably continue. Grocery store capacity (sales, adjusted for inflation, as well as square footage of selling area) is still expanding, as many smaller supermarkets are replaced by superstores with 35,000 to 55,000 square feet of selling area and by superwarehouse stores and other large hybrid store formats, ranging from 45,000 to 200,000 square feet. In addition to potential size economies, these larger operations allow greater merchandising and ordering flexibility through delivery of many products direct from the manufacturer. The number of convenience stores has grown more than 40 percent since 1977, with a continuation of this trend expected.

The Outlook for Food Manufacturing

Clearly, where and what *(see article on page 6)* we eat in the decade ahead will shift dramatically. However, big changes also loom on the horizon for those who produce and market our food.

Foreign investment in U.S. food industries grew between 1976 and 1982, then stabilized. Thirty foreign firms entered the United States during that period (and 18 firms, smaller than the entrants, left, for a net gain of 12 firms). These 12 helped raise the share of U.S. food manufacturing employment held by foreign firms from 3 to 4.2 percent in just 6 years. Although foreign firms still constitute a small share of the U.S. food industry, they have the capacity to grow further.

The Nation's economy is becoming more international as real (adjusted for inflation) shipping and communications costs fall, and as incomes and tastes in foreign industrialized countries more closely approximate those here. Over the next 20 to 30 years, those trends should lead to steady increases in foreign investment in the United States and in U.S. investment overseas. Nevertheless, the pace of foreign investment in U.S. food industries has slackened in the last 4 years, after rapid growth during 1979-81, when a relatively low-valued dollar reduced stock prices of U.S. firms relative to foreign companies. The strong dollar of 1982-85 then reduced foreign acquisitions, even during a rising U.S. merger wave. With the dollar declining on foreign exchange markets in 1985 and 1986, the pace of foreign investment in the United States may begin to pick up.

Typically, foreign firms enter U.S. industries that are important in their home countries, where the firms have gained expertise. The largest entrants, accounting for 60 percent of employment in foreign-owned firms, are from the United Kingdom and are diversified producers of consumer food products. That is, they tend to be marketing-oriented firms. Cultural similarities, especially in language, and similar production and marketing techniques probably explain the large British presence. Firms from several other countries rapidly expanded their U.S. holdings in a few industries. For example, French firms expanded their small share, chiefly in dairy products (yogurt and cheese) and wines, both large domestic industries in France.

Japanese firms expanded rapidly during 1976-82, largely in fishing industries where they process some of the catch from U.S. coastal waters for the Japanese market. Firms such as Mitsui, Sugiyo, and others have also introduced a variety of new surimi products to U.S. markets. Surimi are seafood analogs that allow low-value, widely available fish, such as pollock, to be marketed in forms that simulate the color, texture, and flavor of higher priced items, such as king crab. A drastic decline in the king crab catch since 1980 has led to widespread use of surimi-based crab analogs.

Many U.S. firms have opted to expand their operations by diversifying into other industries. Data show that some firms among the 50 largest in food manufacturing acquired even more food operations between 1976 and 1982. In total, the 50 largest food manufacturers participated in 435 food manufacturing industries in 1982, a 7.4-percent gain from 1976.

Major food manufacturers also expanded their interests in agriculture and in service-producing industries outside of manufacturing. The 50 largest food manufacturers increased their holdings of nonmanufacturing industries 15 percent between 1976 and 1982.

The key issue is whether firms that diversify can reduce costs. That is, will a single firm that produces in five industries have lower costs than five separate firms, one in each industry? The evidence is far from clear. However, if diversification reduces costs, it can have far-reaching effects on the industry. It will increase productivity growth, but it will do so in part by driving many small specialized firms from the industry. New entry and new products will come almost exclusively from existing diversified firms rather than new ones. What's more, the share of the food industry held by the largest firms may rise sharply. □