Direct Marketing by Farmer Cooperatives

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The Future

Growth has been a relatively important motive for operators of food chains for many years. However, during the past decade, real sales of the industry have increased very little due to reduced population growth and increased eating out. This has prompted firms to broaden their product line, especially in nonfood items, and to operate different types of retail stores. Convenience stores, limited-assortment box and warehouse stores, traditional supermarkets, superstores, and combination food-nonfood stores are found in most metropolitan areas.

To take sales away from competing supermarket operators, firms have experimented with a variety of merchandising efforts including trading stamps, continuity programs, and games. They have added generic products to appeal to customers who prefer a lower quality-lower priced alternative to national and first-line house brands. In some markets, so-called price wars have been waged, often with firms offering to redeem manufacturers' coupons at more than their face value.

Facing restricted growth opportunities in their existing market areas, chains have expanded into those parts of the country experiencing faster growth, primarily the South and Southwest.

Relatively slow industry sales growth is expected through the 1980's. Competitive pressures are likely to remain relatively strong through the decade as firms continue to vie for a larger share of the consumer's dollar.

Firms unable to adjust to the new slow-growth environment, and subsequently encounter financial difficulties, will find merger or acquisition attractive. Profitable firms will seek acquisitions as a means to grow quickly and with minimum capital investment.

Large chains will probably continue to announce acquisition and merger plans unless they are restrained by enforcement of antitrust laws. As a result, the Federal Trade Commission and the courts may be under continuing pressure to determine which acquisitions may lessen competitive behavior and performance. ■

Retail food price inflation and rising farm input prices have led to an increased interest in farmer-to-consumer direct marketing as a means of reducing food costs to consumers and increasing financial returns to farmers. Direct marketing can take many forms—roadside stands; pick-your-own operations; open-air markets; farmers' markets, and street-selling from trucks.

Since documented evidence was lacking on the extent of such marketing activities and specific benefits to participants, Congress passed the Farmer-to-Consumer Direct Marketing Act of 1976 (PL 94-463).

Among its provisions, the Act requires the USDA to conduct annual surveys on the impact of direct marketing throughout the Nation. In addition to obtaining information on direct marketing by individual producers, the Act includes, "farmers' organization(s) directly representing the farmers who produce the commodities being sold." So, in addition to the 1978 and 1979 surveys of direct marketing by individual farmers, USDA's ESCS conducted a mail survey of agricultural cooperatives during 1979.

Farmer cooperatives can significantly affect direct marketing activity because five out of every six farmers use cooperatives to market their products, provide their supplies, or obtain needed services. The survey was conducted among 900 marketing cooperatives known to market at least some of their members' production.

About 20 percent of the 326 responding cooperatives were involved in direct marketing to some extent. Of these, about 40 percent sold dairy products directly to the consumer, mainly through house-to-house retail delivery routes. About one-third of the direct marketing cooperatives sold fruit, and 12 percent sold vegetables. Less than 10 percent of the direct marketing co-ops sold eggs, livestock, or poultry to consumers.

Dairy products accounted for the largest share—$115 million of the value of these direct sales. Fruit, poultry, and vegetables followed with a total value of about $150 million. However, cooperative managers indicated that their sales directly to consumers were less than 10 percent of total annual sales.

A small portion of direct sales through farmer cooperatives are incidental to the cooperative's main function. Several managers indicated they maintained no retail facility as such, but that neighbors and passers-by who were aware of the harvest season frequently purchased some produce for home canning or other use. The cooperative generally would accommodate such consumer needs.

Some cooperatives not in direct marketing looked on such sales as a nuisance. Others deliberately avoided any involvement in direct sales because some of their cooperative members sold products from a roadside stand or farm store. If such an outlet were near the cooperative packinghouse, competition might occur—a situation both prefer to avoid.

In addition to surveying cooperatives, ESCS conducted surveys of farmers in 1978 to determine the volume and value of direct marketing in six States (Indiana, Michigan, New Jersey, North Carolina, Ohio, and Pennsylvania). Results showed that 60,750 or about 15 percent, of the 421,600 farmers in the six States sold almost $260 million worth of farm products directly to consumers. The percentage of farmers engaged in direct marketing varied from 7 percent of the 98,000 farmers in Ohio to 68 percent of the 7,600 farmers in New Jersey.

Statewide surveys of farmers to determine the extent of direct marketing were completed in nine additional States during November and December 1979—Colorado, Connecticut, Delaware, Maryland, Massachusetts, New York, Rhode Island, Tennessee, and Wisconsin. States scheduled for surveys in 1980 include California, Illinois, Maine, Missouri, New Hampshire, Texas, and Vermont. ■

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