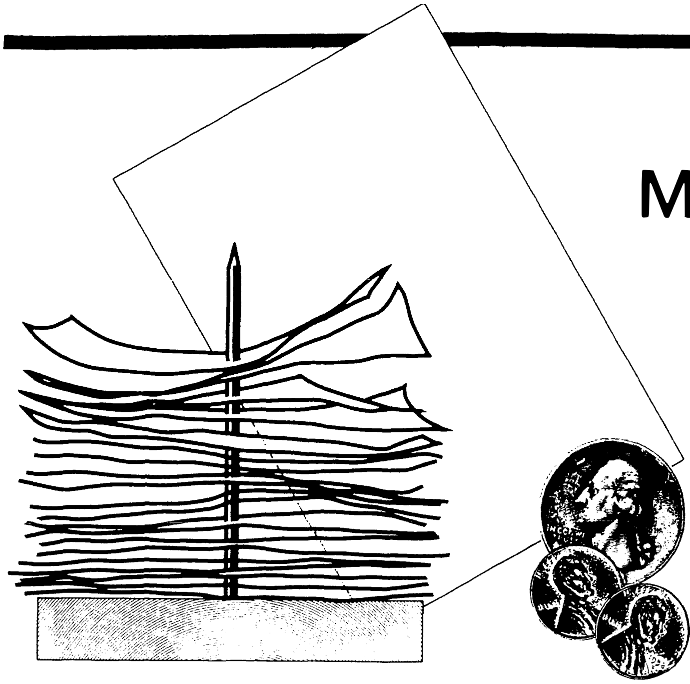
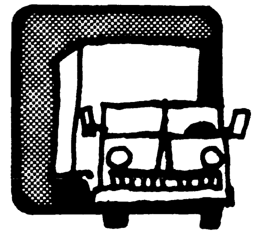


Marketing



THE "MINOR" COSTS IN FOOD MARKETING

By Andrew Weiser

Between 1967 and 1977, food prices measured by the all food Consumer Price Index almost doubled. Much of this rise, with the exception of 1973, has been due to higher marketing costs.[1]

Most discussions of higher food marketing costs have centered on the "major" cost components, i.e., labor, packaging, and transportation. Also receiving much attention have been food marketing profits and energy costs.

Often overlooked are those costs which comprise the "minor" components of the USDA marketing bill series, a measure of the cost of bringing U.S. farm foods to the American consumer. These minor costs include: business taxes; depreciation; rent; advertising; repairs; bad debts and contributions; and interest.

In 1977, these minor components accounted for an estimated 15 percent of the farm food marketing bill and 11 percent of all farm food expenditures, and amounted to $19 billion. While making up a relatively constant share of the marketing bill over the past decade, the minor cost components—their level and trends—can provide a framework for the analysis and projection of food marketing costs.

This article provides data on minor costs by marketing agency for the first time. It also examines the trends and the pressures behind them. The data are based on published Internal Revenue Service figures and Census Bureau data from the Department of Commerce adjusted to conform to the content and coverage of the USDA marketing bill series.

In the past 10 years, the USDA farm food marketing bill doubled from $61.4 billion to $123.5 billion. During the same period the major and minor cost components increased about 1¼ times (table 1).

Food marketing costs are inputs purchased and bid for in the general economy. As such, their prices generally respond to economic pressures outside the direct influence of the food marketing system. However, demographic and social changes also have significant impacts on changes in the minor cost components.

Business Taxes

Business taxes are the largest minor cost component and include property, State income and franchise taxes, employer contributions to social security and unemployment insurance, and licenses and other fees. Excluded are Federal income taxes. While remaining a stable 4.3 percent of the marketing bill, business taxes have experienced large intergroup changes in the past decade, with strong increases in taxes paid by food wholesalers and public eating places. Most of the hike was due to generally higher property taxes on mostly suburban locations.

In the past decade the trend toward suburbanization has continued, the result being higher land values and greater budgetary pressures on local governments. Private land values in the United States as a whole more than doubled between 1966 and 1975.[2] Property taxation by incorporated cities increased 100 percent between 1965 and 1975, while property taxation by all local governments increased 130 percent.[3] Moreover, food wholesalers have shifted towards larger corporate entities increasing their liability for State

[1] Weiser, Andrew, "Behind the Increase in Food Costs," National Food Review, NFR-1, USDA, Jan. 1978.

[2] Kendrick, Jack N., et al., *The National Wealth of the U.S.* ..., The Conference Board, NY, 1976.

[3] U.S. Bureau of the Census, *Government Finances.*

TABLE 1. MARKETING BILL AND COMPONENTS

Component	1967	1977[1]	Increase 1967-1977
	Million dollars		Percent
Marketing bill	61,410	123,500	101
Labor[2]	25,897	58,800	127
Packaging	7,200	16,000	122
Transportation[3]	4,300	10,400	142
Profits[4]	3,381	8,063	138
Minor components	8,504	19,036	124
Business taxes[5]	2,381	5,446	129
Depreciation	1,762	3,866	119
Rent	1,555	3,316	113
Advertising	1,530	3,028	98
Repairs, bad debts, contributions	866	2,114	144
Interest	410	1,266	208

[1] Projection. [2] Includes supplements to wages and salaries and imputed earnings of proprietors, partners, and unpaid family workers. [3] Includes charges for heating and refrigeration but excludes local handling charges. [4] Corporate before tax profits. [5] Includes property, social/security and State income taxes, license and franchise fees, but excludes Federal income taxes.

corporation income taxes. For public eating places, the increase in business taxes also reflects higher social security contributions: their work force has grown more than 50 percent since 1967 while the Federal minimum wage has increased from $1 per hour to $2.30.

Depreciation Costs

Depreciation costs in food marketing increased 120 percent between 1967 and 1977. As would be expected, the more capital intensive sectors—processing and wholesaling—have shown the greatest increase in depreciation expenses—123 and 182 percent, respectively.

Net rental expense for food marketing firms advanced 113 percent during the same period, though slower than the minor cost component average of 123 percent. The greatest increases occurred in food processing (135 percent) and wholesaling (160 percent). Rising land values in previously rural or surburban areas caused a similar rise in rental charges. This compared with relatively slower gains in land values and rents within or near cities, which resulted in rental expenses declining as a percentage of the retailing and public eating place marketing bills.

The difference in land values and rents is directly attributable to population pressures. Since 1970, nonmetropolitan population has been growing at twice the rate of Standard Metropolitan Statistical Areas.[4] Further, as equipment prices rose 65 percent as measured by the implicit price deflator for producer durable equipment, machinery rentals have become more economical and commonplace.

Advertising

Advertising expenses of food marketing firms almost doubled between 1967 and 1977. The largest increase occurred in away-from-home eating (173 percent) and is largely due to the growth of national fast food chains. McDonald's Corporation, for example, now ranks No. 3 among food advertisers and No. 20 among all advertisers.[5] Manufacturers, however, still claim the greatest share of advertising per marketing dollar. Underlying the increases in advertising cost is the switch from the printed media to a mixture of print and broadcast advertising.

[4]U.S. Bureau of Census, *Current Population Reports*, series P-20 and P-23.

[5]*Advertising Age*, Vol. 48, No. 35, Chicago, Aug. 29, 1977.

Repairs, Bad Debts, and Contributions

Repairs, bad debts, and contributions, while the smallest of the minor cost components, have increased faster (144 percent) than all other minor components, except interest. Repairs are defined as expenditures for maintenance and incremental repairs, and for labor, supplies and other items which do not add to the value or prolong the life of the property. Bad debts are an allowance for accounts receivable not collected. Contributions are donations to charitable, educational, and other organizations.

Repairs, bad debts, and contributions are a larger share of the food wholesaling bill than of any other sector in the food marketing system. These costs are growing faster for the food wholesalers than for any other subgroup. This is apparently due mainly to bad debts to which wholesalers are relatively more vulnerable because they serve small and marginal independent stores. This has been especially true since the early 1970's when profits in the food retailing industry dropped by 40 percent. Food retailing margins were reduced substantially between 1970 and 1972 because of rapidly rising farm prices and keener price competition among retailers. Reflecting this, between 1970 and 1976 the number of bankruptcy cases filed by merchants in the United States rose by more than 50 percent.[6]

Interest

Interest costs, while the smallest of all the minor costs, have climbed faster than any of the others between 1967 and 1977 (208 percent). Among food industry subgroups the largest increase came in processing and wholesaling (250 percent). Average interest rates on short-term bank loans to businesses rose from 6 percent in 1967 to 7.52 in 1977. However, for 5 of the past 10 years the rate was above 8.5 percent and peaked at

[6]Administrative Office of the United States Courts, *Tables of Bankruptcy Statistics*.

11.3 percent in 1974. Long-term rates, while not fluctuating as much, have risen steadily since 1967.

Even with this escalation in the cost of money, firms almost doubled their borrowing since 1967. This increase is due in part to the inability of firms to raise investment capital through traditional methods because of a depressed stock market and the higher inflation-induced costs of corporate bonds. In the past decade, the corporate bond rate has frequently been above the short-term bank loan interest rates as investors have been unwilling to pledge their capital for the long term in an inflationary period. Some of the capital requirements were met by an increase in renting.

MINOR COST COMPONENTS BY MARKETING SUB-GROUP

	1967	1972	1977*
		Million Dollars	
Business taxes			
Processors	1,077	1,433	2,349
Wholesalers	258	421	755
Retailers	425	584	897
Eating places	621	846	1,444
Depreciation			
Processors	649	882	1,445
Wholesalers	231	369	650
Retailers	379	462	723
Eating places	504	631	1,047
Rent			
Processors	149	215	352
Wholesaler	180	259	469
Retailers	497	560	901
Eating Places	728	932	1,595
Advertising			
Processors	848	998	1,635
Wholesalers	116	161	289
Retailers	392	397	626
Eating places	175	280	478
Repairs, bad debts, contributions			
Processors	335	477	782
Wholesalers	150	260	474
Retailers	157	221	351
Eating Places	224	302	506
Interest			
Processors	150	320	525
Wholesalers	77	151	270
Retailers	63	100	163
Eating places	121	192	309

*Projection.

Conclusion

This detailed exposition of the minor cost components should indicate two things. First, these cost components comprise a significant portion of the marketing bill for farm foods. They vary in relative importance from food industry subgroup to subgroup, depending mainly upon the number and size of firms in the subgroup.

Secondly, as is the case for all of the cost components, they are increasing not because of an increase in the volume of food marketed, but rather because of factors influenced mostly by forces outside the food marketing sector. Highly diverse forces—including demographic, social, and economic changes—have been having significant impacts on food marketing costs and food prices.

THE FARMER'S SHARE: A SUMMARY OF STATISTICAL MEASURES

By William T. Boehm and Michael Belongia

Identifying and monitoring the farmer's share of the food dollar is a responsibility of USDA. But developing a measure to adequately satisfy requests for such information is not as easy as it may appear. By one set of numbers, 26 cents of the U.S. consumer's food dollar went to American farmers last year. Doing the calculations another way, the farmer's share was 39 cents.

Total household expenditures for all food items were about $218 billion in 1977. This "total" includes purchases for consumption at home as well as the food and related services purchased by individuals for consumption away from home. The expenditures for food away from home were about $57 billion (26 percent).

U.S. farmers in 1977 reported gross receipts of about $57 billion, excluding nonfood items such as cotton and wool. Farmers received $46 billion for food products sold for use at home.

Judging by those numbers, it might be concluded that the farmer's share of the U.S. food dollar was 26 percent ($57 billion divided by $218 = 0.26). However, this method exaggerates the influence of the relatively high service component for the away-from-home food expenditures. In addition, the total food category includes the expenditures for foreign foods and fish products, which aren't produced by U.S. farmers.

To overcome these difficulties, analysts often isolate food expenditures for the "domestically produced farm foods" as an expenditure category. Expenditures for domestically pro-