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By-Passing of Terminal Market Facilities in Agricultural Marketing

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(Paper given at December 1956 meeting of the American Marketing Association)

The idea of centralized marketing in agriculture has usually meant that products moved from the farms to the market facilities in a few large cities. Here in the so-called "terminal" market title and physical possession would pass from the farmer to wholesalers and processors. Aiding in this process was the host of middlemen, brokers, jobbers, receivers, commission men, wholesalers, etc. - and the many facilitating organizations such as auction companies, stockyards, boards of trade and other organizations operating the necessary display and warehousing space. Over the past several years increasing amounts of agricultural products have been moving from the farms to processors and wholesalers without utilizing the services of the terminal personnel and facilities. Or to phrase it more accurately, marketing has become more decentralized. This tendency to by-pass terminal facilities will be discussed under three major headings: (1) The extent of the decentralization, (2) why such a trend has developed, and (3) current and future problems due to decentralization.

The Extent of Decentralization

It is undisputable that over the past 25 to 30 years an increasing amount of agricultural commodities has not utilized the full facilities of terminal markets in its movement to the ultimate consumers. This development has occurred more rapidly for some commodities than others and no statistical measurement of overall extent of decentralization is possible. However, perhaps the following selected examples will illustrate the magnitude of this change:

1. In 1925 about 75 percent of the hogs; 85 percent of the sheep and lambs and 90 percent of the cattle were sold through central markets. However, by the early 1950's only about 40 percent of the hogs, 50 percent of the sheep and lambs and 75 percent of the cattle were sold through this channel. In 1930, about 8 million hogs were sold through the Chicago market compared with less than 3 million in 1955. In Indiana, only 26 percent of the livestock by-passed the large terminals and were sold at local production area markets in 1940. By 1955, 53 percent of Indiana's livestock was by-passing terminals and being sold at local markets.
2. In 1927, the New York City Live Poultry Terminal received 235 million pounds of poultry - in 1950, 120 million pounds. Poultry slaughterhouses located within the city declined from 600 in 1926 to 224 in 1950.
3. In 1933, there was one production-area cooperative marketing association in Ohio which handled about 21,000 cases of eggs; in 1949 there were 9 associations handling about 776,000 cases.
4. In 1920 there were 12 shipping-point markets handling about 1,000 carloads of fruits and vegetables. In 1948 there were 85 such markets handling 61,000 carloads of produce.
5. In the early 1920's, the most important market channels for butter included a terminal-market wholesaler and jobber. In 1951, it was estimated that such wholesalers received only about 20 percent of the butter sold from creameries. The other 80 percent was handled by large dairy corporations, meatpackers, marketing cooperatives and chain stores, outside of the terminal market facilities.

These examples are given to point out the nature and extent of the trend to by-pass the established terminal facilities. They also illustrate the growth of the local production-area facilities which are more and more being used to replace those of the terminal channel.

Why Decentralization Has Developed

In order to understand the current movement toward decentralization, let us attempt to answer the question, why did central terminals develop? If the reasons for their existence can be ascertained, then we will be in a better position to appraise the reasons for their decline.

Generally, products are assembled from producers into the hands of processors, wholesalers and retail distributors so that they can be dispersed into the hands of consumers. Why did it initially develop that processors and distributors were assembled in central places and the product brought to them? Several factors favoring this centralization process might be listed as follows:

1. Limited transportation alternatives. This results in the choice of a few advantageous points for product concentration.
2. Poor communication facilities. This results in the desirability of assembling buyers and sellers or their representatives so that the information necessary for the pricing and title transferring processes can be effectively exchanged.
3. A perishable product of uncertain and variable quality which is poorly standardized. Physical inspection by buyers is then necessary in order to ascertain what the product really is.
4. Production widely scattered geographically in the hands of many small, independent firms. The cost of buyers going to the product source and individually assembling their needs under these circumstances is great.
5. A great variation in consumer preferences from area to area. Mass, uniform servicing by large-scale distributors is not feasible.
6. Limited individual consumer mobility therefore requiring the service of multitudinous small retail units, to bring products to the consumer. This means that the dispensing units must be small and numerous.

The facts of the production and marketing of food up through the first two decades of this century met the above requirements very well. The railroad was the only practical means of large-volume movement. Even with the telegraph, communication was poor. Production was from small units, and standardization, especially for any length of time, was highly unreliable. Retail food distribution had to recognize all sorts of local preferences and the multitudes of food stores had to be very close to the consumer's home.

However, by the 1920's vast changes were occurring in the transportation area. The dependence upon the railroad was crumbling in face of the development of the motor-truck and the companion development of better roads. The farmer increasingly had the alternative of loading his own products into his own or hired truck for shipment as well as banding together with his neighbors to assemble a carload for rail movement. Since the farmers historically have had a deep seated mistrust of middlemen in far away cities, his choice was obvious. He let it be known that he preferred to use his truck and sell near home. And the marketing structure responded by providing a new group of local buyers and markets.

Currently about 90 percent of the total agricultural product tonnage is moved from farms to first selling points by trucks.

In addition to this development in transportation, communication facilities also greatly improved with the expansion of the telephone and teletype and especially the radio. Increasingly it was possible for a buyer or seller to assemble information about supplies, product movements, prices, etc., from many points rather than having to depend upon his personal contacts at the markets. The rapid growth of the federal estimating and market news services during the 1920's increasingly made it possible for buyers and sellers, whether they were large or small, to have access to an ever-growing supply of statistics and rep-

The developments in transportation and communications probably gave the most impetus to decentralization up through the middle 1930's. However, more recent continuations in the decentralization of agricultural marketing must be attributed to developments in other sectors.

The commercialization and specialization of agriculture has increased the amount of products available in a limited area. In addition, increased farmer cooperative activity in many commodity lines has made larger amounts available for purchase at one point within the production areas.

The technology of refrigeration gradually reduced the perishability of the products. Increasingly, products could arrive at their distant destination without serious deterioration. Also, largely as a result of the cooperative efforts of government, producer and processor groups, a more effective grading system evolved for many products. This development has increased the ability to transact business on at least a semi-description basis.

Developments on the consumer front have made the mass retail distribution of food possible. Under the pressure of mass communication and better transportation, local or regional islands of peculiar preferences are breaking down. The dietary restrictions posed by nationality, religion and income are probably less stringent. The wide-spread ownership of family transportation has broadened the potential market for the individual food stores. The multitudinous small-unit structure of independent retailers and wholesalers is giving away to large supermarkets and corporate and cooperative chain organizations with their own wholesale and warehouse facilities.

One of the most important current food marketing developments now underway is the growing amount of processing and manufacturing which takes place between the producer and the consumer. As consumers' incomes rise, more and more food preparation and processing is being pushed out of the kitchen back into the packing shed, wholesale house and factory. Generally this development has tended to reduce the perishability and increase the standardization of the finished product. Also, it has brought new potentialities of mass production and economies of scale to the individual food processing and marketing firms.

With this scale and processing development, processors and other marketing firms are more interested in controlling directly and acquisition of their raw products. Integration, both vertical and horizontal, is one of the major structural changes in food marketing of recent years. Giant producer groups, processors, and retailers are reaching either backward or forward in the marketing channel. Corporate chains are now acquiring their vegetable and poultry supplies directly from producing areas. Producer cooperatives are now operating processing and wholesaling facilities. Large processors now are acquiring more of their raw materials directly from the production areas either under contractual or direct control arrangements. Under such integration development there is less need for the agencies and facilities of terminal markets. Therefore, this size

and the integration development is probably one of the greatest current pressures for additional decentralization.

Current and Future Problems Due to Centralization

It would appear that the developments favoring decentralization have not yet run their course. And changes which challenge existing institutional arrangements cause serious problems of adjustment both for individual firms and for the functioning of the marketing machinery. Some of the important problem areas agitated by decentralization can be summarized as follows:

1. There has been and probably will continue to be a decrease in the number of firms operating as commission houses, brokers, and wholesalers in old terminal areas. There has been and probably will continue to be an excess of warehousing, sales facilities, and processing capacity serving terminals. On the other hand, there will be additional construction of these facilities out nearer production-area assembly points. Firms, in their integration efforts, will need additional personnel in their organizations to perform the marketing functions originally done by the middlemen of the terminal market.
2. Those remaining firms operating on terminal markets and having a vested interest in their survival must recognize the facts of business life. Business is no longer theirs simply because they exist; they must actively compete with the decentralized facilities for the patronage of both buyers and sellers. Sadly out-dated facilities must be re-organized to provide efficient low-cost and convenient service. Added personnel in public relations, advertising and field service will probably be necessary to obtain business and good will of potential customers. Many terminal agencies are finding it advantageous also to have branch operations at the decentralized markets.
3. The agencies of the local, decentralized markets also have their efficiency problems. In many commodity lines, the decentralization has resulted in too many and too small individual firms for low-cost operation. The proper combination of enough numbers for convenient location and yet enough volume for low-cost operation must be found.
4. The proliferation of points at which prices are made in the market area poses one of the greatest problems of decentralization. One of the real advantages of the terminal market organization was the efficiency of price discovery and collection and dissemination of market prices and news. In the decentralization process, local agencies have often continued their dependence upon these terminal quotations as a basis for their pricing. However, terminal prices are increasingly being determined upon a smaller part of the supply. In addition, local agencies often have developed elaborate systems of premiums and discounts to adjust the terminal quotation to their own conditions. This widespread practice of multiple pricing and semi-secret deals and arrangements has made it extremely difficult to assemble accurate pricing, supply, and product movement data. These problems of accurate information collection and dissemination substantially remain to be solved.

5. One of the problems of the future will be to modernize the regulatory machinery of agricultural marketing. The complete ownership or control of the production, processing and distribution facilities--"field to stomach" integration, or the bargaining among grant firms controlling substantial portions of the supply on one hand and of the demand on the other is a companion to the current trends in decentralization. Much of the machinery set up to help police unfair trading and competitive practices is now oriented to operations at the terminal facilities. This, like the market information mentioned above, will face adaptive problems in the future.