



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

a. E. a. (pd)

Staff Contribution 10-31

GIANNINI FOUNDATION OF
AGRICULTURAL ECONOMICS
LIBRARY

JUL 25 1960

Miscellaneous Staff Contribution
of the
Department of Agricultural Economics

Purdue University, *Sch. of Agric.*
Lafayette, Indiana

**For information concerning additional available publica-
tions write: Librarian, Department of Agricultural Economics**

783!

THE COMPETITIVE ENVIRONMENT
OF THE DAIRY INDUSTRY IN THE 1960'S
Charles E. French, Marketing Clinic,
Purdue University, February 24, 1960

Many things could be said about the basic competitive environment of the dairy industry. My comments are selected to serve as a backdrop for the two gentlemen who are here to discuss the effects of competition on operating problems. My discussion is in three components of a broad perspective. Be tolerant of some points; look at the total - our basic interest here.

Economists have thought of competition generally as price competition. They like this type because of the automatic economic system it supposedly gives for equitable distribution of your produce and for rational allocation of the right resources at the right place and time. Businessmen don't look at it that way and economists are tending to look at it less in this classical sense. Businessmen tend to think of competition in terms of sales or what killed their competitor. This can take on many facets.

First, your competitive position relative to these folks in other industries meeting with you is important. This conference is organized to emphasize this. Economists tend to talk too much to economists and dairymen tend to talk too much to dairymen.

How are you going to fare in competition with these other food industries and in competition with the total economy? Food and beverage industries get about 31 cents out of the total consumers' dollar today - 20 to 25 cents out of the spendable dollar after taxes. This has dropped from about 25 cents a decade ago to around 22 cents now. The number of these consumers' dollars after taxes increased 38 percent in the last decade. Real income, what they would buy, went up about 18 percent. Outlay for food per person went up about 18 percent. We talk about the high cost of living, and that of food in

particular, and it has gone up about 18 percent. But, if consumers were willing to take the same amount of food taken ten years ago, they could buy it today for about 9 percent more than they were paying then. Along with it, they would get many added services and a much higher quality. Yet, the food industry will probably have an increasingly difficult time of getting as much ten years from now as they are getting currently.

How much of the consumers' dollar are dairymen going to get? Currently you are getting about 19 percent of what the food industry gets, or 19 cents of the food dollar - thus, you do well to get a nickel of the original consumers' dollar. This is your share currently. Of course, you split this among a myriad of operations and products in your industry. Our average Indiana fluid plant has about 30 products which compete among themselves, and we have about 200 dairies doing business in the State. More products are competing against themselves than many of us appreciate.

How are we going to fare in the next ten years in competition with other food industries for total expenditures which people make? A dominant factor influencing competition here is population increase. Population will move on up to ^{around} 210,000,000 people by 1970. People must eat regardless of the number of dollars. Also, a higher proportion of our population will be in the milk drinking age. Incomes will go up about 50 percent during the next 10 years, but these increases in incomes will not stretch the demand for food very much. For certain services which you sell along with food such increases will help. But even though you have more people with more money, this doesn't mean that you will get a bigger chunk of the consumers' dollar. We must look at preferences and substitutes. Changes in preferences for dairy products may go against dairy products. This can happen despite increased effort by the ADA and others. In the face of recent programs to promote

dairy products, 597 pounds total per capita commercial consumption for dairy products last year is a new low.

A situation between fats and non-fats here is of some importance. Non-fat per capita consumption of 48.3 pounds this year equalled the previous high. We must be cautious here though because with government support and other things fostering production of non-fat, we can get false security in the position of non-fat. We are facing a generally depressed fats market. Experts point out that among the fats family, butterfat is today about the only price responsive fat. Almost all others are joint or by-products. As a result, a depressed market in those areas is not too hard on any particular raw material supplier. Butterfat is the one exception. It is the one that a depressed market hurts the most. Some bright spots for fats exist in the export business. The world is very short on fats in total, and we have an opportunity to move some fat in world markets. The United States tends to be the only reasonable source for certain of these. But fats, and especially butterfat, face a depressed market.

We should be cautious in looking for the government to foster demand very much more. It has been a sizable factor; last year 29 pounds per person went through the government program - the school lunch program, the veterans' program and the military uses of milk and milk products. Milk has moved through the legislative halls but not much relatively. This will not expand much more. The government side domestically is not going to be as big a factor in increasing demand as recently. The rate will be about 25/^{to 35} pounds per person. Foreign demand will not pick up much either. Last year we moved about 130½ million pounds of butter overseas, but 81½ million pounds of that were donations. The story for cheese and powder is similar. We give it away for the most part; this is obvious when you look at world prices. Some national concerns are emphasizing overseas operations and apparently there are some places to do it. But as far as the total

dairy industry, I would not count too much on overseas demand; it has never been a big factor.

In some ways, the competitive position of milk as the food is still good. To look back at 1929, a worker used about 15 minutes of his time to buy milk; in 1947 about $9\frac{1}{2}$. Last year, about 5.8. You can make the same case, maybe more forcefully for dairy products than for other foods, that food products are relatively good buys.

Another important component in the total competitive picture of dairying is efficiency. Most studies show no real improvement in feed efficiency in milk production in the last 10 years on an input-output basis. Feed rations have improved but we really have not had anything comparable to what they had in beef. Labor efficiency in production of milk over the long run has increased about 89 percent as compared to 106 percent in poultry, 137 in forage crops, and 340 in feed grains. Management and genetics have brought production per cow up and we are doing better here. Our work on efficiency of processing shows the dairy industry's output per unit of input for manufacturing and fluid milk to stack up very well against other industries such as the meat packing industry, total industry, and total agriculture. But the picture is not all bright on the efficiency increase as compared to other segments of food or total economy. The percentage of farm income from dairy has never gone back to pre-World War II levels. This is now about $13\frac{1}{2}$ percent relative to 16 or 17 percent then. On a gross measure in the last decade, production of dairy products has gone up about 10 percent. During that same period, canned and frozen foods have gone up one-third, meat products one-third, vegetable oil one-third and all food manufacturing up 13 percent despite some very sharp drops in certain cereals.

This is not necessarily a pessimistic competitive environment. People will buy about 150 to 160 billion pounds of milk in 1970, as compared to about 125 now.

Yet, this doesn't leave too much elbow room for damaging family fights.

My second major point on competition deals with what I call the competitive structure within the industry. Who is going to get this dairy business? My colleagues are going to talk about this and I will constrain my comments.

Mortality of small operations has been high; it will continue and many small operations still exist. Recently, ^{the} Census of Manufacturers showed that only 3 percent of the total dairy companies were made up of operations with more than one firm. Yet, these businesses had about 50 to 60 percent of the payroll. Some heavy concentration exists in certain areas. Concentration ratios, often misleading, show the four biggest companies doing 16 percent of the business in butter, 25 percent in cheese, and 55 percent in concentrated milk.

In Indiana, these tentative figures for the bottling business for 1958 showed the national chains doing about one-fifth of the business, single firm plants doing about 56 percent, others with more than one plant but not national chains doing about 15 percent, and cooperatives about 7 percent. Compared with the rest of the country, we probably have a rather diversified ownership in our industry.

The greatest acquisition of firms has been among the medium size businesses. There has been a slight increase in recent years in proportion of business done by the 8 biggest companies, but the two largest have lost slightly in their percentage of the total. The cooperatives have been acquiring plants at a higher rate than anybody else in recent years. Over one-half of the Indiana plants which have changed ownership recently processed less than 2700 pounds of milk daily; only one-third said they went out of business for what they considered to be unfair competition. Other reasons given were poor management and this type of thing, not competition.

Basically this is a fight within the family. Only four percent of the dairy business was recently reported to have been done by industries not basically dairy. However, one-half of the dairy companies with more than one firm were doing some business other than in dairying. Some were doing business in as many as 10 different basic food industries. There is some fanning out, but basically we don't have many people coming into the dairy industry from outside and don't have the dairy industry going outside into other types of businesses. Yet, it was recently reported that 125 dairy companies were owned by meat packers, 6 by bakeries, 25 by other food companies, 3 by vegetable oil companies, 4 by beverage companies, 6 by chemical companies, 54 by grocery stores, 14 by eating and drinking establishments. On the other side, dairy companies reportedly owned 2 meat companies, 20 canned and frozen food businesses, 19 grain mills, 8 bakeries, and 47 grocery stores.

My third major point will be discussed briefly. This point involves the influence of government on competition in dairying. The price support program will be with us for some time. Thus, government will carry some of the stocks for the industry. Sanitary barriers will be assailed but lessening their effects will be a slow process. In disorderly marketing problems such as price wars, attempts will be made by government to correct this. The dairy family will undergo much internal struggle as society tries to mold the competition which firms face. There is a real question as to whether the industry will get more relief here through government activities than it could get through the same amount of effort expanded within the industry. Such devices as sponsorship by the Federal Trade Commission of operating practices and rules within the industry will be investigated. There is not much attempt by the industry itself to approach this problem other than through state laws. We will have more state unfair trade practice legislation; the tendency will be to move to the national type of legislation for this type of thing. There are several things in the mill. One possibility, but not a probability, here involves the use of the Agricultural Marketing Agreements Act of 1937,

to effect this thing on an individual market basis.

Thus, it is out of this myriad of environmental factors that the dairy industry must find its competitive relationships.