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*Marketing of farm products*

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WITHDRAWN

**MAJOR ISSUES IN FOOD MARKETING  
IN THE YEARS AHEAD**

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# MAJOR ISSUES IN FOOD MARKETING IN THE YEARS AHEAD <sup>1</sup>

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It is significant in the general agricultural and food marketing picture that the United States Congress a year or so ago appointed a commission to investigate this area. The report of this commission this June, no doubt, will bring into focus many of the issues in food marketing. What I would like to discuss with you are my ideas, in no particular order of importance, about what constitutes the major issues facing us in food marketing at the mid-twentieth Century. These issues can be classified into four areas: 1) implications from the growing size and giantism of food marketing firms; 2) struggle over who shall control the marketing channel; 3) problems developing in the operation of the pricing system; and 4) debate over the status of the consumer.

In some instances, specific issues have already catapulted from the launching pad of recognized problems into the arena of public debate concerning the appropriate actions which are needed. Others are just now becoming pinpointed enough in our research efforts and are just beginning to be recognized as potential problems. As always in a democracy, it will take debate time to appropriately define the problem to be solved.

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<sup>1</sup> A professor who assigned a paper to a student was asked whether a seminar or journal paper was desired. The professor asked what was the difference. He was told that a seminar paper presented the subject in as straightforward a manner as possible, as the author understood it from his present state of knowledge; a journal paper, however, would be thoroughly documented with what all other writers had said which had more or less relevance to the subject so that the depth of the writer's scholarship could not be questioned. This is a "seminar" paper and leaves undocumented my debt to many individuals for their thought contribution and stimulation.

## The Issue of Size and Giantism

That the sizes of the many firms involved in the marketing of food products are not equal is not a new phenomenon. Early American anti-trust policy grew largely out of concern over the behavior of the so-called food trusts that developed in the post-Civil War period. Then and since, farmers and retailers have felt that they were the small and abused segments of the marketing system subject to the pressures and controls of giant processing industries and powerful wholesalers. This feeling of unequitable treatment fueled the agitation which led to legislative encouragement of the farmer cooperative movement in the 1920's.

The idea of the chain store, which is usually credited to Hartford of A & P fame, came into full bloom in the 1920's. This began to take hold in the early 1900's and brought fear and concern to small retailers. The result at this time was a rash of legislation which was discriminatory against chains and highly protective of small retailers.

Post World War II developments, however, have again brought giantism and potential business power into focus on all forns of the food industry. The new ingredient is that of a vastly increased potential market area for food-marketing firms. Improved transportation, communication, mass media for advertising -- all have meant that the major food manufacturer and food retailer today can consider at least regional and often national markets as their arena of activities. An additional companion development is the trend away from highly specialized processing and retailing firms to highly diversified enterprises encompassing a great many different food lines. American firms such as Standard Brands, National Dairy Products, General Mills, and Armour, are examples of this trend toward diversification of activity. The words, "dairy", "mills", or "meat" in the title of a firm today does not necessarily indicate major interests or lines of activities of that firm. It is true that particultural processing plants may still be highly specialized, but these are grouped into giant managerial units running a highly diversified business.

On the retail front, specialized stores have been losing out to the multilined super-markets and discount stores. In this area it is not only the development of the large regional

or national corporate firms operating these units that bring up the issues of managerial size. The dramatic success of the counter-development of large voluntary chain organizations (which contractually tie together semi-private units into coordinated managerial units) has virtually pre-empted the independent retailer.

Only slowly is it being recognized that while a firm may face an effectively competitive situation on one side of its activities, it can possibly exercise substantial market power on the other side. Almost all firms in food marketing are both buyers and sellers. Current research seems to show fairly clearly that the retail food structure probably is effectively competitive as it faces its consumers in most locations. The situation, however, is not so clear when the retailer acts as a buyer from processors or farmers, or as to how this power may be distributed geographically.

Giantism has thus become an issue of new concern. Americans have usually been schizophrenic in the issue of size. They greatly admire the operating efficiencies that often accrue from large operations. They seemingly often admire the wheeling and dealing of captains of industry. However, they also fear the potential power and the impact on others that may develop from these large organizations.

American public policy is fairly clear concerning firms that unfairly exercise market power. Our law encourages us to catch these culprits and spank them if we catch them in the act. The law is not so clear concerning the implications of latent-market power or activities which may lead to future market power. The current debate as to the desirable anti-merger policy is symptomatic of this uncertainty.

This developing structure of very large firms serving regional and national markets also has its impact on the degree and intensity of interregional competition of the producers of agricultural products. The buying organizations of these firms can be in every major production area of a particular product. With their excellent internal communications systems they continuously monitor one area against another. Pressures for adjustment that previously took many years to occur, now can develop with great rapidity as the producers of one area seek to outpressure and replace the production of another. This situa-

tion becomes a factor in the renewed concern of farmers concerning their lack of bargaining power and their struggle in securing a better position in the marketplace.

### The Control of the Market Channel

A related issue to the developing size and scope of the marketing firm is the question of who is to control the marketing channels for particular products. Not everyone recognizes the fierceness of the struggle which is in progress over who is to control the approaches to the consumer.

Many years ago the two polar positions of market strength were food processors and food wholesalers. This situation left small farmers on one end of the channel and small retailers on the other with the fear of being exploited and with the feeling of little power to do anything about it. Now the wholesaler, as an independent organizational force in the market channel, has disappeared since he has become integrated either into giant chain or affiliated retailer organizations or into the processing firms. This means that the real focus of channel control is now in contest between the large food processors and the large retail organizations. The major issue is that of who will have direct access to the consumer and her mind. Retailers are either moving backward in the marketing channel to do their own processing and buying or are insisting upon the processing and packaging of goods under their own label. Large processors, on the other hand, are engaged in expensive promotion efforts directly with consumers to enhance the position of their products under their own label. Meat packers who some forty years ago were put under an anti-trust consent decree not to enter retailing have been arguing for relief from this restriction so that they can at least have the potential threat of entering retailing as part of their weapon in the battle for channel control. Some feed manufacturers are making the decision that if they are going to remain in the feed business, they must become food processors and distributors as well as feed manufacturers.

Of more direct concern to farmers, however, is the backward movement of processors and retailers into agricultural production either through outright ownership or by contract. The desire to control and influence the output of agricultural firms is not new on the part of marketing firms. However,

there is an additional urgency in this desire that has developed from increased mechanization of processing and the mass self-service distribution processes of retailers. Both these developments put additional cost-oriented pressure upon the need for added uniformity of flow and quality of raw products which these agencies receive from farmers.

However, what is often not fully recognized is that the more recent development of the integration of farm production into the marketing channel is a direct outgrowth of the increasing scientific nature of the farm production processes themselves. Changes in agriculture which take it farther from the art of husbandry and into the realm of scientific and routinized management mean there is increased potential for centralizing the managerial control of farm operations into off-farm hands.

The big question of the future is not whether there will be increased centralization of coordination and control of farm production and marketing, but rather who will be the controller. Early farm-marketing integration was undertaken as a method to increase the sale of inputs -- usually feeds. Now there is a growing realization that the food marketing channel is really the prize while the food processing firms - and to a lesser extent retailers - are increasingly the controlling integrators. The controller has considerable discretion in the allocation of returns to the various levels of marketing. The process of contractual integration also tends to limit the alternatives that may be available to other parties as they seek a marketing channel to the consumer.

In American anti-monopoly law vertical growth has tended to have easier treatment than horizontal growth. Control by ownership has also tended to have easier treatment than control by contract or overt arrangement. Now with the advantages of centralized control of this flow of farm products into the food-marketing machinery and on through to the consumer becoming more and more apparent, the public interest as to how this control shall be regulated will increase.

### The Breakdown of Pricing Mechanisms

There is a slowly growing awareness that the traditional agricultural pricing mechanism is breaking down and the ques-



tion as what to substitute for it is arising. The traditional operation of products coming together at a centralized marketplace to be exchanged under rather formal procedures and rules among many buyers and sellers, of course, is increasingly unrealistic. The decentralization of the farm-first buyer market has occurred with great rapidity in almost all lines of agricultural production in the United States. This, of course, is a direct outgrowth of the developments of size and channel control previously discussed. More and more farm products are being transferred into the market channel through direct, and often not public, arrangements between the producer and a particular buyer.

These developments have several implications. For farmers, decentralization of marketing means a widespread proliferation of pricing points, geographically speaking. The increased use of individual buyer specifications also means less widespread and public standardization of products for which prices must be established. Such decentralization and product specification means a great deal of secrecy and variation develops in the actual buying process. In the case of extreme contract integration, it may mean the total disappearance of the public title exchanging and pricing operation between the producer and first-buyers and processors.

At the processor-retailer level there is increasing use of special adjustments to list prices. Instances of shaving, special discounts, tie-in deals etc. are widespread.

At the retail level, there is increased use of pricing as a total selling strategy. No longer are prices established largely in relation to the costs of procuring and merchandising a particular product. Rather, the retailer asks the broad question of how he can price his various lines to get the greatest total movement of products from his store. This pricing-the-mix approach can mean that various products or product lines may be priced either high or low relative to costs if the retailer judges this will be more attractive to more customers.

It has been proposed that the essential organizer of our traditional marketing system has been the exchange process in the marketplace. What to do as this well-tried mechanism disappears is a question for which few answers have yet been advanced. Several things seem obvious. Dependence upon more



and better market news and greater uniform standardization - which have been the tools traditionally used to improve the pricing process - will not solve the problems which exist in the present setting. The wide proliferation and semi-secrecy of the various exchange points means that complete coverage of information and effective dissemination on a realistic basis is not possible. The increased use of integrated systems to supply the increasingly differentiated products of the modern processor and retailer cannot be forced back into the mold of widespread standardization.

One of the proposals that is offered as a solution to this problem is that farmers make increased use of their cooperative organizations to bargain with other groups in the marketing place to establish terms of exchange. The details and the mechanics of just how this would be worked out have not yet been refined. Such a process, it should be realized does not improve the traditional exchange system, but rather replaces it with another.

Of course, separation of pricing from costs tears at a fundamental root in both our theory and practice. American law often has defined acceptable competitive practices in terms of relationship between costs and prices. If we move in a broad way to a pricing operation which does not respond to this principle, then even this simple legalistic approach is under strain. Almost every state legislature in the land over the past several years has been debating proposals which would outlaw loss-leading, low-cost selling, and other current practices. To some degree this approach has a similarity to the American experiment to legislative morality in the prohibition era.

#### What to Do about the Consumer

The final area of concern finds the consumer as its principal subject. Traditional competitive theory has held that the whole system operates to satisfy her. The idea that the consumer is sovereign, or as some say, the policeman of the marketplace, finds a soft spot in our philosophic heart.

The food industry today, taking its cue from other manufacturers, is pushing the rapid proliferation of new products along with the planned obsolescence of old ones. The use of packaging

as a merchandising device has developed along with the advent of the self-service selling techniques. And, of course, the fact that a whole nation sitting down before its collective television set can receive the same advertising message has pushed the persuasive arts into the foreground.

Many questions are raised as we view the role of the consumer in this situation. Are products better or are they simply different from the old ones? Is multiple-sized packaging a help to the consumer in her selection of the most appropriate item for purchase or is it a technique of confusion so that the consumer will not know what the item really costs? Are the many new scientific uses of pesticides, insecticides, preservatives, etc. really safe? Or are we dangerously playing with the future health of the nation by permitting the revolution of science to proceed with such rapidity? Is advertising merely the most economic way to inform, and, therefore, a major tool in the development of mass markets and economic progress? Or is it really a potent weapon in the hands of unethical operators?

It has been clear for many years that the full play of the idea of caveat emptor is not acceptable in a modern society. But having discarded this, we must recognize that the line between adequate protection of consumers and control over their behavior is an uncertain one. What is the line between the necessary freedom to keep an industry dynamic and to encourage the development of new and improved products and the regulations which may be necessary to control exploitation and to protect the public interest? The real issue is that, if the sovereign consumer lacks the ability and power to effectively guide the food industry, who will we put on her throne?

### In Conclusion

The years ahead will see us having to face up to many of the questions raised by the developments in these four major areas. Increasingly, it seems unlikely that we will be able to separate farm-income policy apart from the more inclusive farm and food-industry policy. Historically, both in the eyes of farmers and in the eyes of agricultural economists, the marketing system has often been viewed as a neutral element

performing helpful and valuable roles between the farmer and the consumer. Certainly there needs to be increasing recognition that marketing is not neutral, but that it has tremendous potency to affect both the operation and the well being of farmers on one hand and consumers on the other. In fact, it may well be the most powerful element of the three. When this recognition is coupled with the fact of increasing urbanization of our body politic and the increasing affluency of our people, transition to consideration of total food policy seems inevitable.

The problems are here. How they are to be solved furnishes us many challenges. The evidence shows that we have developed an operating production and marketing system which has encouraged the development of a very high level of living. Certainly, through most of our history, with some exceptions, it has done this with a considerable degree of operational efficiency, social justice and receptiveness to the wants and needs of society. The past, however, cannot be used to distort the view of the future. Just as the initial industrial revolution was accompanied by child labor exploitation and occasional robber baron behavior on the part of management, the present revolution in our food-marketing industry raises many questions concerning the behavior and relative positions of various involved parties. These questions must be hammered out on the anvils of public opinion.

