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# Food Marketing Costs Rose Little in 1992

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**F**ood marketing costs rose 2.2 percent in 1992 to about \$372 billion—the smallest increase in the last 20 years. This slight rise was the result of only small price increases for most inputs purchased by the food industry. Higher labor costs accounted for most of 1992's increase. Other inputs—such as packaging, energy, and transportation—rose little, while profits dropped.

## Marketing Costs the Most Persistent Source of Rising Food Expenditures

Food marketing costs are measured by the "marketing bill," which represents the cost associated with processing, wholesaling, distributing, and retailing of foods produced by U.S. farmers and eaten by U.S. consumers. It is the difference between the amount farmers receive for food and the amount consumers spend for consumption (at and away from home). The marketing bill excludes expenditures for imported foods and seafoods.

The marketing bill has been the driving force behind increases in food expenditures over time (fig. 1). Between 1982 and 1992, the mar-

keting bill grew at over twice the rate of the farm value, 70 percent compared with 30 percent. The bill now accounts for 78 percent of the cost of food, the same as in 1991.

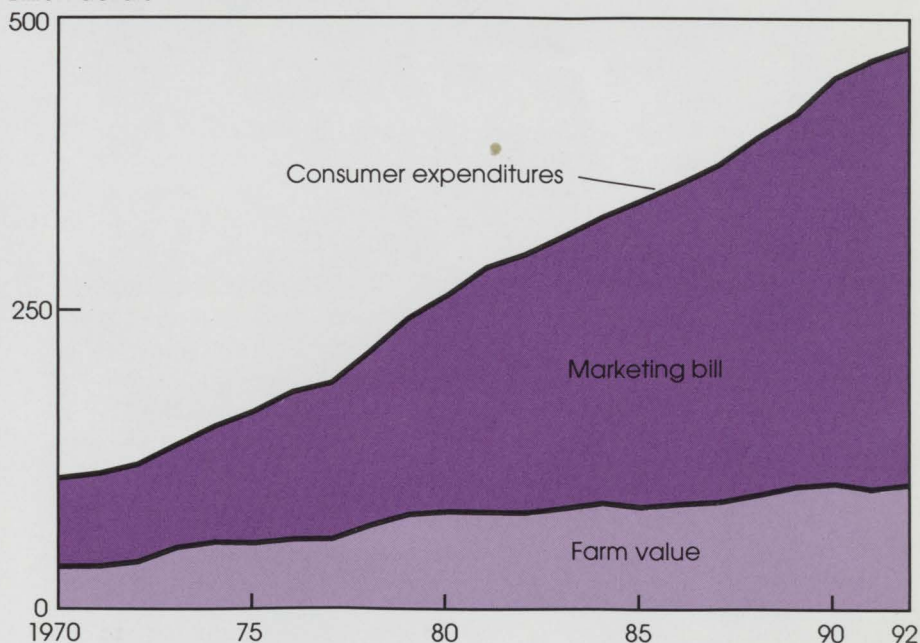
There are several major causes underlying the growth in marketing costs. These include higher prices of marketing inputs, larger volume of food purchased by consumers, higher percentage of food

sold through restaurants and fast food outlets, and more value-added processing and packaging.

Costs of the marketing functions performed differ between food bought in foodstores and meals and snacks purchased for consumption away from home. About 26 cents of each dollar spent in foodstores paid for the farm value in 1992. Thus, 74 cents paid the mar-

Figure 1  
Marketing Bill Accounted for Over Three-Quarters of 1992 Food Expenditures

Billion dollars



Note: Data for foods of U.S. farm origin purchased by or for consumers for consumption both at home and away from home.

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keting bill for food eaten at home. For each dollar spent for food away from home, 15 cents covered the farm value, with marketing costs taking the remaining 85 cents. The away-from-home farm value is smaller than the corresponding at-home figure because the cost of preparing and serving food is a major part of the cost of food eaten away from home.

The food processing and marketing industry is an important part of the American economy. The \$372 billion the industry received from consumers in 1992 paid the wages and salaries of millions of employees and paid for all the other costs of doing business. This figure represents 6 percent of total gross domestic product.

### Labor Costs Largely Responsible for 1992 Marketing Bill Increase

Labor costs overshadow all other costs in the marketing bill, and accounted for 35 percent of food expenditures in 1992 (fig. 2). Rising labor costs have accounted for about 46 percent of the total increase in the marketing bill over the last decade and were the largest single source of the 2.2-percent increase in 1992.

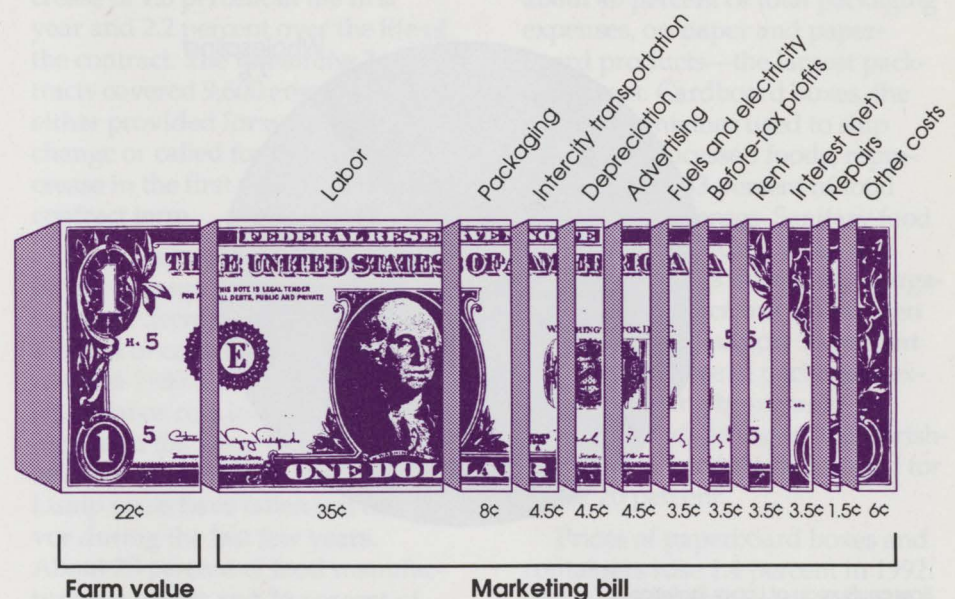
Labor costs grew about 4.3 percent to \$167.8 billion (table 1), primarily reflecting higher wages and benefit costs. This increase, however, was slightly below 1991's increase because of reduced hiring by food industry firms. The 1992 increase also was less than the average annual rise of 5.7 percent recorded during the past 10 years.

### 1992 Food Industry Employment Declined

Approximately 12.2 million workers were employed in processing and distributing food in 1992. About 53 percent worked in away-from-home eating places, 26 percent in food stores, 14 percent in

Figure 2

About One-Third of Every Dollar Spent for Food in 1992 Went for Labor Costs<sup>1</sup>



Note: <sup>1</sup> Includes food eaten at home and away from home. Other costs include property taxes and insurance, accounting and professional services, promotion, bad debts, and many miscellaneous items.

food processing, and about 7 percent in food wholesaling (fig. 3).

The recession visibly affected food industry employment. The number of people working in the sector fell slightly in 1992, in contrast to an average annual 2.2-percent rise over the last 10 years. The decline was largely attributable to sluggish retail sales growth. In 1992, consumers spent a record

low 11.4 percent of their disposable income on food.

Employment rose only 0.3 percent in eating places and declined 0.1 percent in food manufacturing. Food retailers employed 0.8 percent fewer people in 1992 than in 1991.

The use of part-time workers has helped restrain hiring by food

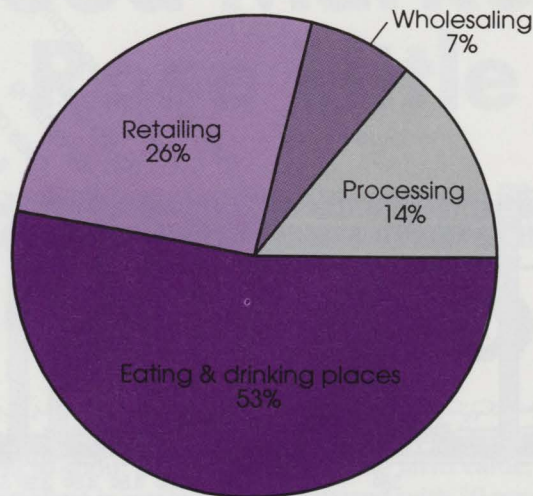
Table 1

Higher Labor Costs Boost 1992 Food Marketing Costs

Component	1975	1980	1985	1990	1991	1992
	Billion dollars					
Labor <sup>1</sup>	48.3	81.5	115.6	154.0	160.9	167.8
Packaging materials	13.3	21.0	26.9	36.5	38.1	39.2
Rail and truck transportation <sup>2</sup>	8.4	13.0	16.5	19.8	20.4	20.6
Fuels and electricity	4.6	9.0	13.1	15.2	16.3	16.8
Pre-tax corporate profits	7.1	9.9	10.4	15.0	16.1	15.9
Other <sup>3</sup>	29.7	48.3	76.5	103.1	111.7	111.2
Total marketing bill	111.4	182.7	259.0	343.6	363.5	371.5

Notes: <sup>1</sup>Includes employees' wages or salaries and health and welfare benefits. <sup>2</sup>Excludes local hauling charges. <sup>3</sup>Includes depreciation, rent, advertising and promotion, interest, taxes, licenses, insurance, and professional services.

Figure 3

**The Food Industry Employed 12.2 Million Workers in 1992**

Source: Bureau of Labor Statistics.

retailers. Many food retailing employees work part-time. According to *Progressive Grocer* magazine, part-time employment accounted for 65 percent of retail food chain employment in 1992.

Part-time employees restrain labor cost increases in several ways. They are often paid less and receive fewer benefits than full-time employees. Part-timers also cut labor costs by reducing overtime work by full-time employees. Greater use of part-time workers has likely held down the rise in average hourly earnings in food retailing.

### Wages and Benefits Rose

Total labor compensation costs can be broken down into two components: wages and salaries, and employee benefits. Employee benefits include paid leave, insurance benefits, supplemental pay, retirement and savings benefits, and legally required benefits, such as Social Security.

The Employment Cost Index (ECI), a quarterly series published by the Bureau of Labor Statistics,

helps track the relative impact of wages and benefits on labor costs. The ECI includes employers' cost of employee benefits and lump-sum payments to workers. While the ECI is only available for the retail segment of the food industry, it can be used to illustrate developments in employee benefits which affect the entire food industry.

The ECI for foodstores rose 3.8 percent in 1992. This increase included a 3.3-percent gain in wages and salaries. Although not reported separately, the increase in benefit costs was probably about 5.8 percent in 1992, or 1.8 times the rise in the wage rate of foodstore workers. Compensation costs rose more than wages and salaries in 1992 because the increases in the costs of benefits were much greater than the gains in wage rates.

Hourly earnings of workers in food stores increased 2.2 percent, faster than the 1.4-percent rise of 1991. Hourly earnings of workers in food processing grew 2.9 percent in 1992, the same as 1991's increase. Earnings in wholesaling also rose at the same 3.1-percent rate as in 1991. In eating and drink-

ing places, however, hourly earnings rose 2.1 percent—half the rate of increase reported in 1991.

The biggest issue affecting the food industry labor picture is the rising cost of health benefits, which increased due to higher health-insurance premiums and pensions. Health-insurance costs have skyrocketed in recent years along with the rising cost of medical care. The Consumer Price Index for medical services increased 7.6 percent in 1992, roughly equal to the average annual increase of the last 10 years. Spiraling health-care costs and benefits continued to be the most common, and contentious, bargaining issue. (These benefits may take anywhere from 10 to 30 percent of the cash available in union contracts.) In 1990, health benefits became the number one issue in collective bargaining between workers and food companies and in 1992 were rated as the most serious issue affecting foodstore management. In some instances, unions traded all or part of a wage increase to avoid a cut in health-care benefits or a shift of health-insurance costs to their members.

### Labor Contracts Postpone Wage Increases

Most major collective bargaining agreements in the food industry—contracts that cover at least 1,000 employees—provided wage increases in 1992. Because the agreements are usually in effect for 3 to 4 years, the terms of the settlements serve as important barometers of future changes in labor costs, even though union memberships may account for as little as one-third of total food industry employment.

There are two types of labor contracts: front-loaded and back-loaded. Front-loaded contracts provide the largest wage adjustment in the first year of the contract. These settlements compound the amount of the percentage in-

crease in the later years of the contract. By contrast, back-loaded contracts provide lower wage increases in the first year, compared with subsequent years. Back-loaded contracts dampen wages by basing increases in the later years of a contract on a lower initial wage. These contracts were prevalent in the mid-1980's, as food industry firms sought to control costs.

The Bureau of Labor Statistics reports that 27 major contracts covering 165,300 workers were negotiated in the foodstore industry in 1992. Average wage adjustments were up 3.4 percent in the first year and 3.2 percent over the life of the contract.

While specific figures are not available, back-loaded contracts were more prevalent than front-loaded contracts in 1992 foodstore bargaining agreements, and provided slightly lower wage adjustments than the contracts they replaced. Negotiators agreed to implement back-loaded wage structures in an effort to control short-term costs by postponing wage increases, because food retailers have been adversely affected by sluggish sales stemming from the weak economy. However, the number of foodstore employees covered by 1992 bargaining agreements were about equally divided between back-loaded and front-loaded contracts.

Food processing firms entered into 17 contract settlements covering 32,113 employees. Average wage adjustments were up 2.5 percent in the first year and 2.6 percent over the life of the contract. Front-loaded contracts were also less prevalent in this sector than has been the case during the last few years. Of the total number of food processing contracts, 9 settlements covering 15,092 employees were front-loaded. These employees received average wage increases of 3.2 percent in the first year and 2.7 percent over the contract term. Five contracts covering

7,421 workers were back-loaded, and called for an average wage increase of 1.0 percent in the first year and 2.2 percent over the life of the contract. The remaining 3 contracts covered 9,600 employees and either provided for no wage change or called for the same increase in the first year as over the contract term.

Lump-sum payments, granted in lieu of wage increases or to offset wage decreases, were a popular method of containing labor costs in the mid-1980's. These payments restrain labor cost increases by holding down the wage base used to calculate benefits and pensions. Lump sums have fallen out of favor during the last few years. About 20 percent of food manufacturing workers and 26 percent of food retailing employees covered by 1992 contract negotiations agreed to lump sum payments. The proportion of foodstore workers covered by major contracts containing lump sum provisions has declined to 18 percent from a high of 60 percent in 1987, reflecting the continued decline in the implementation of this contract provision.

### **Recession Holds Down Packaging Cost Increases**

Packaging is the second-largest component of the marketing bill, accounting for 8 cents of the food dollar. Costs of these materials rose only 2.9 percent in 1992, the smallest rise in the last decade.

Consumer purchases of value-added products (such as frozen prepared dinners and other convenience foods requiring specialized packaging) fell in response to the sluggish economy, causing weak growth in aggregate sales of packaging materials. Also helping to hold down costs was a 1.8-percent drop in the price of packaging materials in 1992. Higher packaging costs were largely due to the expanded size of the food industry.

In 1992, the food industry spent approximately \$15.7 billion, or about 40 percent of total packaging expenses, on paper and paperboard products—the largest packaging cost. Cardboard boxes, the primary container used to ship nearly all processed foods, represented about 33 percent of total packaging expenses. Sanitary food containers, including those for such products as fluid milk, margarine, butter, ice cream, and frozen food, were also almost 33 percent of total paperboard packaging expenses. Folding boxes used for such dry foods as cereal and perishable bakery products accounted for about 20 percent.

Prices of paperboard boxes and containers rose 1.4 percent in 1992. The increase, however, was held back as the price of paper bags plummeted 14.5 percent in 1992. Paper bag prices fell in response to excess manufacturing capacity as well as competition from plastic bags.

Metal containers made up about 20 percent of food packaging costs. Prices of metal cans rose 1.6 percent in 1992. Cans have become less important for food packaging because of the increased availability of glass and plastic bottles, the year-round availability of fresh fruit and vegetables, and the increased use of microwavable dishes for frozen foods. The price of glass containers, which are largely used to enhance product image, dropped 0.4 percent in 1992. Glass containers accounted for approximately 15 percent of packaging costs.

Costs of plastic containers and wrapping materials accounted for nearly 20 percent of food packaging costs. Plastic is an important source of trays for meat and produce, bottles for milk and fruit juices, jars and tubs for cottage cheese and other dairy products, and flexible wrapping materials, such as polyethylene film for protective covering of baked goods,

meat, and produce. Plastic is an oil derivative, and became cheaper to produce due to lower crude oil prices, resulting in a 0.3-percent fall in the price of plastic containers in 1992.

## Transportation Costs Rose Little

Intercity truck and rail transportation costs for farm foods amounted to \$20.6 billion in 1992, or about 4.5 percent of retail food expenditures. Railroad freight rates for hauling food products advanced only about 0.6 percent in 1992, slower than the 1.7-percent gain in 1991. Most foods shipped by railroad are canned and bottled products. Trucking rates also rose little, reflecting lower operating costs. For example, operating costs of trucks hauling produce fell 2 percent in 1992. Truckers experienced a decrease in fuel costs of 6 percent, while wages remained steady. Fuel and labor account for half of total truck operating costs. Other expenses—such as depreciation and maintenance, overhead, licenses, and insurance—fell an average of 1.7 percent.

## Energy Bill Rose Modestly

Energy costs rose 3.1 percent last year to about \$16.8 billion, making up about 3.5 percent of retail food expenditures. While the increase was about the same as some of the other major cost components, it was somewhat smaller than the rise in all other bill components during the last 5 years, except transportation and depreciation. The energy bill includes only the costs of electricity, natural gas, and other fuels used in food processing, wholesaling, retailing, and food-service establishments. Transportation fuel costs, except for intracity transportation costs incurred in food wholesaling, are excluded.

Public eating places and other facilities accounted for nearly 40 per-



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cent of the fuel and electricity costs incurred by the food industry. Their energy expenses have risen because of the large growth of the away-from-home food market. Energy costs of retailers accounted for about 26 percent of the energy bill. Food processing was responsible for another 20 percent, with wholesalers taking up the remaining 14 percent.

Higher 1992 energy costs resulted largely from expansion in the food industry. The energy cost of processing and retailing food is primarily affected by natural gas and electricity prices. A 1.1-percent rise in the price of electricity used by food marketing firms was a major cause of the 1992 cost increase. However, natural gas prices dropped slightly due to abundant supplies, which were 2.7 percent higher than in 1991.

Away-from-home foodservice had the highest energy costs per

dollar of sales, about 3.1 percent. About 85 percent of this cost came from the use of electric power. Energy costs of retailers and wholesalers also consisted mostly of electricity. Electric power accounted for 56 percent of food manufacturing energy costs, with natural gas making up the remaining 44 percent.

## Profits Squeezed

Before-tax profits dropped 1.2 percent to \$15.9 billion in 1992, accounting for 3 percent of 1992 food expenditures. Profit margins were squeezed, especially in the second and third quarters, by slowed consumer spending and by increased price competition among supermarkets, wholesale clubs, and mass merchandisers. Profit margins increased greatly in the fourth quarter when consumer spending returned, reflected in strong Thanksgiving and Christmas holiday business. However, the larger fourth quarter margins were not sufficient to overcome weaker margins recorded earlier in the year.

The industry mitigated downward pressure on margins by controlling costs. Food retailers continued to achieve greater efficiencies through the increased use of new technology, especially computers, for inventory management and merchandising. Retailers controlled labor costs, their largest operating expense, by using checkout scanners and computer programs that assist in labor scheduling. Efficiencies were also achieved by energy conservation and improved routing of delivery trucks to stores.

Profits were also affected by a change in corporate accounting methods. Corporations are no longer deferring the cost of retirement benefits (such as health insurance), but must take these benefits into account prior to accrual. This adjustment, made in the fourth quarter of 1992, resulted in a large drop in reported profit margins. ■