Food Marketing Costs: A 1990's Retrospective

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U.S. consumers spent $618.4 billion on food in 1999 (excluding imports and seafood), up 37 percent from the $449.8 billion spent in 1990 (table 1). Consumers bought a larger volume of food, value-added processing and packaging of at-home foods increased, spending at restaurants and fast-food outlets grew, and prices for marketing inputs rose. All of these factors contributed to the jump in food spending during the 1990's.

Consumers' changing preferences drove their food selections, affecting the marketing services needed to provide these foods. Busy consumers of the 1990's demanded quick, easy-to-prepare convenience foods. The strong economy of the last several years raised incomes and allowed more consumers to pay for highly processed convenience foods.

A changing workforce—with more working women and more two-income households—and modern cooking technology, especially microwave ovens, also played major roles in the marketing cost picture of the past decade. People have less time available to prepare food at home, increasing the demand for quick, easy-to-prepare meals. Grocery stores took convenience a step further by offering prepared entrées and side dishes ready for the oven, microwave, or dinner plate. *Supermarket Business* magazine reported that service deli sales in grocery stores doubled from 1990 to 1999.

Demand for convenience was reflected in increased sales for meals and snacks consumed away from home. The proportion of the food dollar spent eating out grew from 44 percent in 1990 to 47.5 percent in 1999. This demand for convenience reverberated throughout the food marketing industry and translated into a derived demand for a variety of marketing services—labor, packaging, transportation, energy use—which boosted aggregate marketing costs.

Consumer food expenditures can be separated into two broad components—marketing costs and the farm value. Marketing costs accounted for 80 percent of total consumer food spending, with the farm value comprising the remaining 20 percent. Higher marketing costs were the primary cause of ris-

The volume and variety of prepared foods offered by grocery stores boosted employment and labor costs for food stores over the last decade.

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ing consumer food expenditures over the past decade. Between 1990 and 1999, marketing costs rose 45 percent and accounted for most of the 37-percent rise in domestic consumer food spending. In comparison, the farm value of food purchases climbed only 13 percent between 1990 and 1999 (fig. 1).

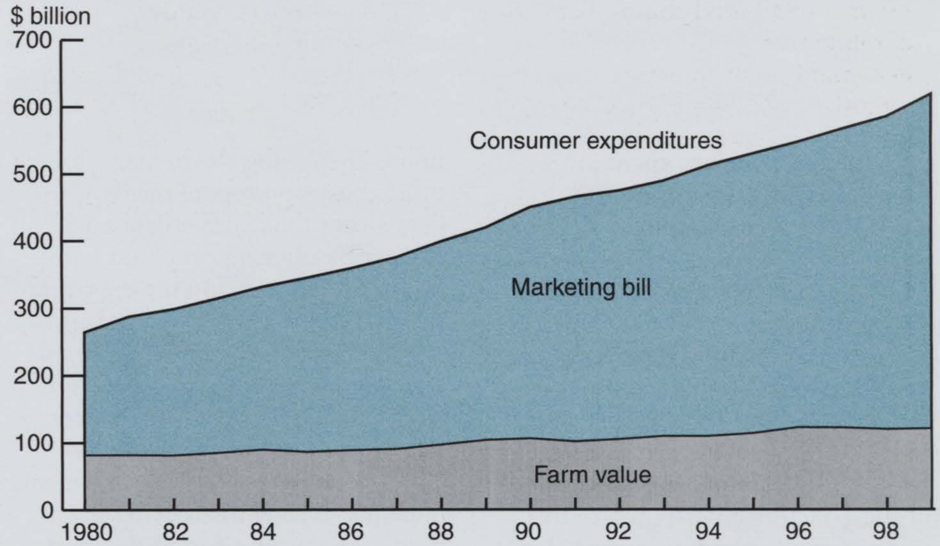
Marketing costs are measured by the marketing bill, which is the difference between the farm value of domestically produced foods and the final cost to consumers. The marketing bill provides an estimate of the costs associated with processing, wholesaling, distributing, and retailing foods produced by U.S. farmers and eaten by U.S. consumers. Expenditures for imported food and seafood are excluded from these estimates.

Labor Costs Rose 56 Percent During the Decade

Labor costs are the largest component of the marketing bill. At $240.1 billion in 1999, labor accounted for 39 percent of the food dollar in 1999, up from 34.5 percent in 1990 (fig. 2). Moreover, labor costs accounted for 60 percent of the marketing bill increase during the 1990's.

Employment in the food industry rose 14.5 percent during the 1990's. Eating and drinking places experienced the largest employment rise. Hiring in this sector surged 21 percent between 1990 and 1999. In 1999, 7.9 million people (about 56 percent of the 14 million workers in the food

Figure 1
Marketing Costs Rose 45 Percent Between 1990 and 1999



Data for foods of U.S. farm origin purchased by or for consumers for consumption both at home and away from home.
Source: USDA's Economic Research Service.

Table 1
Consumers' Demand for Convenience Boosts the Marketing Bill

Item	1980	1990	1995	1999	Change, 1990-99
	Billion dollars				*Percent*
Labor	81.5	154.0	196.6	240.1	56
Packaging materials	21.0	36.5	48.2	50.9	39
Rail and truck transportation	13.0	19.8	22.3	25.2	27
Fuels and electricity	9.0	15.2	18.6	21.8	43
Pretax corporate profits	9.9	13.2	19.5	26.2	98
Advertising	7.3	17.1	19.8	23.8	39
Depreciation	7.8	16.3	18.9	22.6	39
Net interest	3.4	13.5	11.6	15.2	13
Net rent	6.8	13.9	19.8	23.9	72
Repairs	3.6	6.2	7.9	9.5	53
Business taxes	8.3	15.7	19.1	21.5	37
Total marketing bill	182.7	343.6	415.7	497.9	45
Farm value	81.7	106.2	113.8	120.5	13
Consumer expenditures	264.4	449.8	529.5	618.4	37

Source: USDA's Economic Research Service.

marketing industry) worked at away-from-home eating places—a booming industry.

Food stores employed 3.5 million people in 1999, 24 percent of all food industry employees. Employment in food stores increased 8 percent over the last decade. Much of this rise was due to the extensive use of part-time employees, who made up as much as 65 percent of total employment at retail food chains. Foodstore employment increases were largely generated by the increase in labor-intensive food offerings, such as prepared foods in the salad bar, bakery, and deli sections.

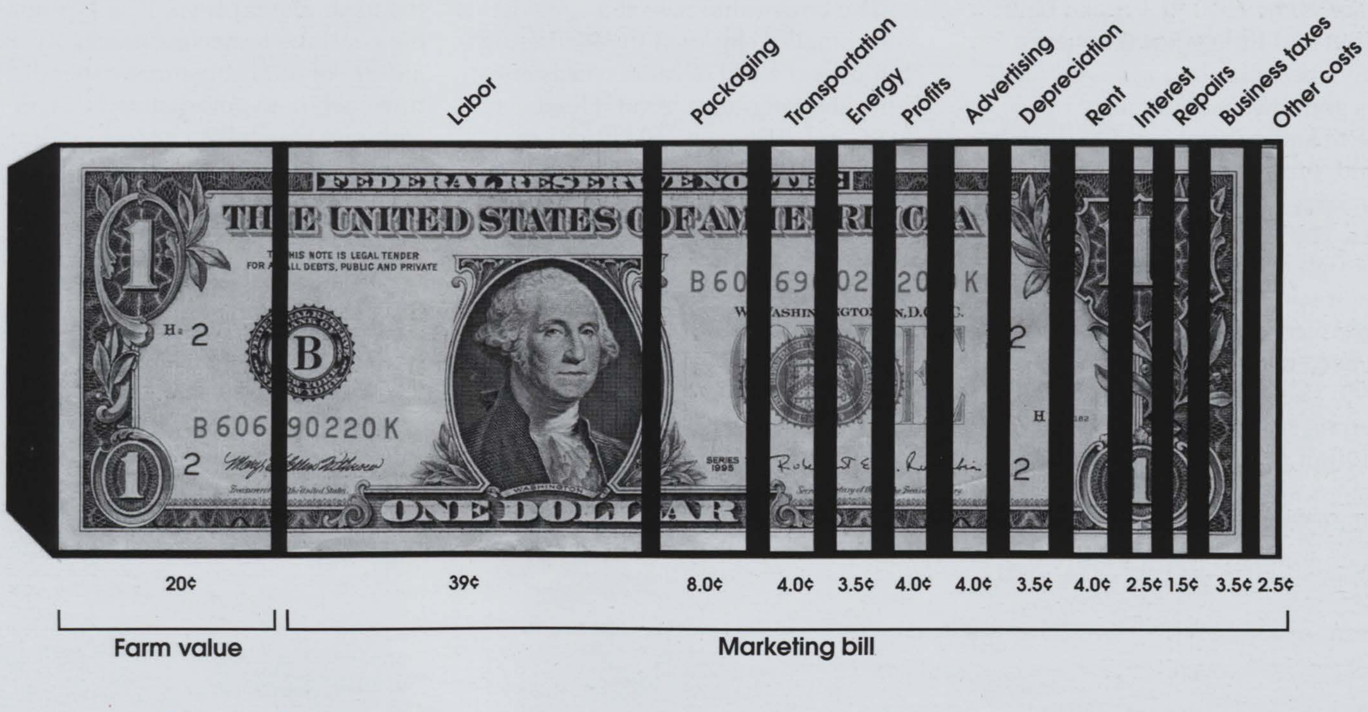
On the other hand, food manufacturing employment rose only 1.5 percent to 1.7 million workers in 1999. This slight increase reflected increased mechanization and technological improvements in this sector, which raised employee productivity and reduced hirings. About 12 percent of food industry employees worked in food processing and about 7 percent in food wholesaling in 1999.

Increased demand for additional food industry employees also exerted upward pressure on hourly wages. For example, the wages of foodstore employees rose 27 percent during the 1990's, after an 11.5-percent increase the previous decade. Foodstore wages generally increased 2.5 to 3 percent per year during most of the decade. However, wages rose only 0.3 percent in 1991, with the largest increase in 1998, when wages climbed 4.3 percent. The rising cost of employee benefits was also an important factor affecting labor cost growth during the 1990's. This increase was largely due to higher medical care costs. However, increases in medical care costs were less of a factor by the end of the decade. The Consumer Price Index for medical services grew 9 percent in 1990, but only 3 percent in 1999.

Packaging Costs Also Increased

Meanwhile, packaging—the second largest marketing cost component—also grew continuously over the last decade, although at a less dramatic pace than labor. Food industry purchases of packaging inputs rose 39 percent, from $36.5 billion to $50.9 billion over the decade in response to the demand for convenience foods, which required greater use of paperboard and plastic materials. This increase was considerably smaller than the 68-percent increase posted during the 1980's—a decade in which prices for plastic and other packaging materials rose at a faster rate than during the 1990's.

Figure 2
Labor Took Biggest Chunk of Food Dollar in 1999



Source: USDA's Economic Research Service.

The price of paper and paperboard (about 40 percent of total packaging costs) rose 26 percent during the 1990's in response to higher spending patterns and restricted industry production capacity, especially during the middle of the decade. This increase was substantially smaller than the 38-percent price rise for paper packaging recorded during the 1980's. Meanwhile, plastic prices fluctuated in response to changing oil prices and the price of competing packaging materials. The price of plastic rose 15 percent between 1990 and 1999, compared with a 31-percent increase during the 1980's.

Other Costs Displayed Steady Increases

Most other costs rose steadily, but retained roughly the same share of the total consumer food dollar. Energy and transportation costs grew at a fairly steady pace, rising 43 percent and 27 percent, respectively, during the decade. Changes in oil prices due to external shocks (such as the 1990-91 Persian Gulf crisis) had little effect on energy prices because food industry facilities are powered primarily by electricity and natural gas. On the other hand, oil price changes affect the trucking industry, which uses diesel fuel. The price of diesel oil declined through most of the 1990's, with major spikes in 1996 and 1999. However, the price of diesel oil was 18 percent lower in 1999 than in 1990. Therefore, oil prices tended to restrain transportation cost increases through most of the decade. Other factors, such as higher compensation for drivers, were largely responsible for higher transportation costs.

Advertising expenses rose 39 percent, from $17.1 billion in 1990 to $23.8 billion in 1999. Food manufacturers spent about half this total, with foodservice companies spending another 25 percent, and food retailers about 15 percent. Depreciation, rent, and repairs together came to $56 billion, and accounted for 9 percent of the 1999 food dollar. The foodservice sector incurred about 40 percent of these costs as the result of high property rents. Foodstores made up about a quarter of total depreciation, rent, and repair costs, while manufacturing and wholesaling establishments together accounted for the remaining 35 percent. Net interest accounts grew 13 percent during the last decade. Most of the increase occurred in the foodstore sector, reflecting higher debt acquired due to merger and acquisition activity.

Farm Value Posted Big Gains in Mid-1990's

The farm value rose at a considerably smaller clip than the marketing bill over the last decade, consistent with the long-term trend. However, 1995 and 1996 were exceptions to the overall trend. The 1995 farm value rose 3.8 percent, a larger percentage increase than the marketing bill. In 1996, the farm value grew by $8.4 billion, greater than marketing costs in both absolute dollars and as a percentage, thereby exerting a larger effect than the marketing bill on consumer food expenditures for the first time since 1973. The 1995 and 1996 increases reflected sharp, across-the-board farm price rises in 1995, and for several commodities—eggs, poultry, fresh fruit, wheat, and dairy products—in 1996.

Future Costs May Mirror Inflation

Marketing costs are complex aggregates which do not change dramatically, as do the prices of individual commodities such as wheat or beef. Marketing costs tend to provide a cushion, which absorbs the shocks of changing farm values, so only a portion of a change in farm prices are reflected at the retail level. Over the years, marketing costs have persistently tended to rise, following the rate of inflation, whether farm prices rose or fell. Because marketing costs account for about three-fourths of consumer food expenditures, marketing cost increases can, and often do, override the effect of a reduction in farm prices on retail prices.

Assuming these market fundamentals hold, the trends in farm value and marketing costs of the last decade are expected to continue into the next. The farm value will probably continue to decline gradually as a share of total consumer expenditures, while the marketing bill will continue to exhibit a corresponding increase. Labor costs will continue to gradually rise as a percent of the consumer food dollar. This largest component of the consumer food dollar will rise roughly commensurate with the general rate of inflation, assuming the labor market supplies sufficient workers to meet food industry requirements. Other marketing costs are expected to change in a less dramatic manner than labor. ■