TRADITIONAL MARKETING FUNCTIONS
IN THE FOOD INDUSTRY--2000 A.D.
Contributed by Jarvis L. Cain
Department of Agricultural and Resource Economics
University of Maryland
College Park, Maryland

Relates the traditional marketing functions to the food industry and comments about their relevancy for the next twenty-five years.

INTRODUCTION

As one attempts to catch even an ever so blurred glimpse into the future of the food industry, it is useful, at times, to focus upon some traditional guide posts. In an earlier paper, we looked at what might happen to the basic institutional structure in the food industry in 2000 A.D. In this paper, the industry under inspection and the time frame are the same; but the guide posts are different. Here we propose to look at traditional marketing functions and how they might change in the food industry over the next twenty-five years.

FUNCTIONS DEFINED

Over the years, many listings of marketing functions have appeared. For our purposes here, the listing of functions and specific definition of marketing functions itemized by Beckman and Davidson will be used.

Marketing Function - a major and distinctive economic activity which is inherent in the marketing process, pervades it throughout, and which, through the principle of functionalization and a continuous division of labor, tends to become specialized. Also, to paraphrase the authors, functions are universal and indispensable. They must be performed by someone.

Beckman and Davidson list the following as marketing functions:

1. Buying
2. Selling
3. Transportation
4. Storage
5. Standardization and grading
6. Financing
7. Risk bearing
8. Market information

Thinking in terms of basic types of utility, these eight marketing functions would be involved with time, place and possession utility. The fourth basic utility, that of form utility, is traditionally not included in the discussions.

At this point, the traditional approach begins to show its first point of breakdown. It can be successfully argued that marketing involves the decision to make possible basic form utility creation as well as form utility change as exemplified by a very general usage of the term processing. In the earlier work, we cited many instances of the spread of form utility creation throughout all food marketing institutions. It is possible to argue that form change also takes place during the performance of such marketing functions as transportation, storage and
standardization and grading. Thus, in the future, food marketing will be involved with all four basic types of utility creation.

Assumption Concerning Food Consumption - 2000 A.D.

A listing of some assumption regarding future food consumption from an earlier paper,4 will serve to set the stage for our discussion of marketing functions in the future.

1. There will be many more food consumers in the year 2000 A.D. than today.

2. Disposable incomes will be much higher.

3. There will be little change in the areas where people live, hence, life will be more within the urban context than today.

4. The housewife will spend an increasing amount of her time in a myriad of activities away from the home.

5. The housewife will want as little personal involvement as possible in supplying the family with its food needs.

6. The place of the meal in the social structure will tend to be diminished to the level of a simple intake of nutrients necessary to sustain life.

7. Emphasis in the entire human feeding and eating operation will be speed and convenience.

A digression is necessary at this point to allow comments in two areas before beginning our look at marketing functions in the food industry of the future. First, traditionally the merchandise handled throughout the food industry has been thought of as physical goods. Recently, we began to think of merchandise as a combination of goods and services, although this concept has not completely permeated the industry. In the future we must not only consider the goods and the services embodied in them; but also we must consider the consumer's perception of that product or service and what utility that perception provides to the consumer. The image that individual consumers form of the product and/or service will be quite variable. This increasing of difficulty to quantify the merchandise being marketed has implications for all the functional classifications.

Secondly, change in all eight of the functional classifications will not proceed at the same rate. In fact, we will probably be looking at eight different rates of change with none of them being constant rates of change.

FOOD MARKETING FUNCTIONS - 2000 A.D.

Buying and Selling

These two marketing functions will be considered together because it is difficult to separate them and desirable to coordinate these activities. Traditionally goods were bought for resale. Physical goods were present and inspected; dollars (or credit arrangements) were exchanged; title was transferred and the goods usually were physically moved.

Traditionally the "free market myth" is attributed to the food industry. Such assumptions of the competitive model as: (1) many buyers and sellers, (2) complete mobility of factors of production, (3) complete information, (4) homogeneous products, were attributed to the food marketing situation.

Whether this ever existed or not is academic. The point is that in the future, none of these conditions that might have surrounded the exchange
functions will be present. Both buyers and sellers will be fewer in number. Factors of production will be immobile in the short run and only partially mobile in the longer run. Information will be anything but complete; and products will be even more heterogeneous due to the many combinations of commodities offered (not necessarily more in number) than today.

The vision of computers buying and selling from computers between divisions or companies under the same control is partly here now can easily extend itself throughout the industry. Money rarely changes hands now and will be eliminated in the future. When one group (through vertical integration) controls the entire distribution channel, the question of title transfer becomes academic. It becomes more of a worry for the insurance company than for corporate management. Of course, these two could be one in the same.

Along with these "mechanical aspects" of buying and selling there is a perspective change that will be taking place in the food industry of the future. Traditionally we have bought and sold commodities. As times change, we will combine these commodities into meals and exchange these. Ultimately we will be buying and selling nutrition, without regard to form. This may not come to pass by 2000 A.D., but it will eventually.

Cries of protest begin to arise at about this point. Computers will take over the food industry! Humans will no longer be needed! And many other such cries can be heard. Nonsense!! What will be done is to lift from man the burden of an endless series of routinized details and to provide him with time to again apply creativity to the decision-making aspects of food marketing. What new resource combinations can be used to provide the nutrients demanded by the people we must feed in the future? How can we present these items to our many publics? These two questions, answered adequately, can tax the food industry's creativity for many years to come.

Transportation and Storage

These two physical functions will be considered together because of the extreme interdependence of one upon the other. Developments in these two marketing functions are closely linked to changes in production, preservation, transport and storage technologies. Traditionally, we produce food close to our people; transported, stored and preserved our food only as a necessary expedient to get around the limitation of season. As the life style and food demands of our society changed, we developed a tenuous balance between the four sets of technology. Changes in one set of technologies would affect the other three and not always in a positive manner. Also, the supposed ultimate benefactor of all this change, the consumer, has not always enjoyed the fruits of technical change directly as our theories tell us.

An interesting philosophical point here. As this country was settled, we essentially took the people to the food. Then, with the advent of the industrial revolution, we found it necessary to bring larger groups of people together to work in factories. At that point, we began to take the food to the people. Until the present, our basic thrust has been to crowd some 90% of our people into 10% of our land area and move food to them. Rapidly, changing technologies and essentially unlimited resources made these changes possible. In the mid-1970's with its series of crises, largely related to the way we use our resources, we may well be seeing the signaling of another change in direction.
A logical direction of such a change would be to start moving the people back to the food. Presently, there are a number of serious proponents of this policy. However, if we can make it technologically possible to remove the resource constraints on the basic make-up of our food system, other possibilities come to mind. If the sea is to become a larger source of our nutrients as some suggest, then we may not need to move people. We could be shipping nutrients inland instead of to the coast as we are doing now. If we were to develop new resource combinations for our nutrients, then a new set of technologies in all four areas - production, preservation, transport, and storage - may have to be utilized. This allows the possibility of creating an almost infinite number of functional systems.

To bring the discussion into sharper focus, let us look at the four technological areas individually for more specific changes which might effect the future of the food industry. First, in the area of production technology, the most significant changes are in the areas of utilizing more plant protein and protein from the sea, in many forms, to substitute for animal protein in our diets. Substantial utilization of the soybean, fish oil and meal and a variety of microbiological life from the sea as our chief source of protein rather than red meat and milk could have a dramatic impact on food marketing.

Second, in the area of preservation technology two points of focus are important. Both the specific preservation technology and the volume of product handled are critical. Major preservation technologies such as canning, freezing, refrigeration and pasteurization involve significant uses of energy and other material resources. Other technologies such as irradiation and dehydration may involve less energy or resource use especially when considered in a total distribution system context. The basic size of a container used in preservation provides a very serious constraint to physical handling efficiency. Canning in consumer size (303) units at points of production and moving these across the country for ultimate consumption is an excellent example. In this case, the container, case and packing medium all must be transported and handled unnecessarily often over great distances. Changes in either specific preservation technology or unit of volume to be handled would definitely effect transport and storage technology.

Third, in transport technology major changes will be made in the area of intermodal shipments, size of units in shipments (especially local delivery), and in energy utilization. Regarding intermodal shipments, many of the problems in transport today have to do with failure by each mode to realize that it was in the business of moving goods from point to point. The classic example is the railroad. For many years the railroads thought they were in the railroad business, while the truck (in the transport business in part) took much of their long haul business away from them.

We are presently moving very slowly to a truly intermodal system of transport for the country. However, there are still many legal and regulatory problems, labor problems, facility and management problems to be solved. The point of this part of the discussion is that a unified coordinated approach to the transport of food is needed in this country.

The major area of change needed relative to size of unit handled is in the movement of food from processing-manufacturer or wholesaler or warehouse to the retail food store or feeding
institution. Research is currently being started on ways to reduce the fantastic number of individual deliveries by suppliers to the retail level units. Order consolidation will do much to ease the time consuming burden on the retailers and cut the cost of excessive delivery for the suppliers.

Regarding energy savings, much work will be done to match the mode (and its relative energy-weight ratio) to the transport task. This goes back to the coordinated system concept discussed earlier. We have paid a terrible energy consumption price for speed in getting food items to market which may not have been necessary.

The goal of an efficient and effective storage and transport system is a constant flow of goods toward the consumer with a minimum of storage for emergency and safety reserves. Everytime the system stops, it costs money (time is money). Everytime the goods are handled it costs money (labor and damage to merchandise). The act of storage itself costs money (2% a month). The idea of having huge storage areas for surplus food products is simply too costly for us to afford. The idea of living "from hand to mouth" with a little to spare is distasteful to many. But, with the rapid changes in consumer demand and the rising costs of all factors of production, the more temporary method of doing business will become a way of life before 2000 A.D.

Market Information

Discussions in this area usually start off by extolling the virtues of the latest advance in electronic information handling systems, their speed and capacity to generate volumes of data. However, in the food industry of the future, the "hardware" of data handling systems is not the problem. This is a case where the technology has far outstripped the capacity of the industry to fully utilize its output.

The problems in the market information function for the food industry of the future are (1) what types of information will be needed? and (2) who will utilize the information in decision making? Traditionally, the market reports have been in terms of commodities at farm level. Gradually, selected information from terminal markets and processors found its way into the system. But the major thrust of food industry market information has been oriented toward the farm. Where does one go to find data on numbers of hamburgers, pizzas, fried chicken pieces or TV dinners? And, a related question to be answered later, what would he do with the information if he had it? Management of retail food outlets and feeding establishments don't care about numbers of basic commodities. They want to know about supply and price of the food items into which commodities are used as inputs. This is the point where the market information system has broken down. Informational input is not in a useable form for proper decision making within the food distribution system; a great deal of work is needed to answer the questions: What are the information needs for the total food industry in a systems sense?, and What are the information needs at the various institutional levels within the distribution channel that will provide for a meaningful look at the total picture? In short, the old system is "micro" and oriented toward production. Our suggestion would be to make it "macro" and oriented toward consumption.

The second point of problem with market information has to do with utilization of the information in decision making. When a majority of the population were involved in the production of food, it was easy to justify the
expenditure of public funds for market information. However, with the tremendous concentration that has taken place and will continue to take place at all levels of the food industry, it becomes a more questionable expenditure. As fewer and fewer people can utilize the data in industry decision making situations, the need for mass distribution of such information would appear to be diminished. However, there are at least three other groups that could utilize market information—regulatory agencies, research groups and public interest groups. Whether the two sides use the information in such a way as to maximizing consumer satisfaction is open to question. However, the point is both the types of information and the users of the information in the future will be different and changes must be made accordingly.

Risk Bearing

There are three elements to the risk bearing function that are pertinent to our discussion: (1) degree of risk, (2) capacity to bear risk, and (3) willingness to bear risk. As to degree of risk, on the one hand there will be less risk and greater market stability because of dealing with more processed products and in the sense of large firms having companion products to support any individual product. On the other hand, the tremendous speed of change that is upon us from all sides would tend to increase risk in decreasing the life of an established product (obsolescence). Also, the costs of bringing out a new product are quite large and the failure rate quite high. On balance, one could say that the food industry of the future will experience a greater degree of risk.

Relative to capacity to bear risk, increasing size; vertical, horizontal, and conglomerate integration; and a broadening financial base all tend to increase the capacity of the large firms to absorb risk. With the trends toward fewer and larger firms mentioned earlier, the capacity to absorb the additional risk mentioned above is most probably there. Unfortunately, for the small operation, at any level, unless he has a speciality or some protection; the outlook regarding capacity to absorb risk is not good.

The third and most important element is the willingness to bear risk. Given our present basic method of industrial organization, the larger, more bureaucratic and more mature an enterprise becomes the more importance is given to security and the less willing is a group to take a chance. Examples are everywhere in government, industry, and universities. The "entropy trap" is engulfing our large institutions and destroying their willingness to bear a risk.

Paradoxically, it is within the smaller and less mature firms and institutions, which generally lack the capacity to absorb risk, where the willingness to bear risk is the greatest. The challenge of the future under the risk bearing function in the food industry is to somehow equate the capacity to absorb risk with the willingness to absorb risk.

Standardization and Grading

The concept of developing and using commonly understood criteria for evaluating the quality of individual commodities is hardly one that can be argued with. The problem that the standardization and grading function will have in the food industry of the future are involved with (1) the composition of the criteria, (2) the items to which the criteria are applied, and (3) the ultimate use of the criteria. First, in the area of
composition of the criteria, traditionally the focus of the criteria had to do with evaluation of physical or qualitative characteristics of commodities and rating them against some standard. A problem arises due to the fact that the services added to the product are not included as well as the consumer's perception of utility in the product, both of which were mentioned earlier. Admittedly, these last two components of the criteria are difficult to quantify. However, at the same time, these elements will much outweigh the physical characteristics in the future food consumer's mind.

Traditionally, the criteria were applied to commodities. But what about the combination of commodities and for a change of commodities for which there are no standards. How do we grade a pizza or T.V. Dinner or a bucket of fried chicken? As the types of food become more a part of our diet, standards will be developed for regulatory and business purposes.

Thirdly, as to the ultimate uses of the criteria. In the past, standards were developed for the use of producers, processors and food distributors and had no meaning to the ultimate consumer. In the future, the consumer will have greater input into the criteria and the food industry will have to meet them.

In summary, in the future we will have more complex and objective criteria applied to a much broader range of items, geared for use by producers and marketers as well as the ultimate consumer.

Financing

Traditionally, investments in the food industry have tended to be held within a narrow range of investors, and on numerous occasions these investments have been shown to return less than opportunity cost. This is less true today; and in the future investors in the food industry will be demanding competitive returns on their money. In addition, the composition of the investing group will be much more diverse than in the past. All segments of the food industry will lose their air of specialty to the investing public in the future.

In keeping with the spirit of recent rapid rises in rates of inflation, it is difficult to visualize a period for some considerable years before a leveling off or decreasing in the inflation rate will occur. This condition is particularly disconcerting to an industry, such as food, which has historically experienced a relatively stable cost of money situation. But, it is a fact of life, money will cost more and thus demand a greater return from the investment.

Another problem here has to do with length of investment. Rapid technological change brings rapid obsolescence. This tends to increase the risk involved and shorten the life of the investment. Pressure in the area of more temporary or transitory investment for the food industry of the future will be quite strong.

SUMMARY

In attempting to summarize the discussion, it is important to note:

1. Marketing functions will still be performed by the food industry in 2000 A.D.

2. There will be many changes in the mechanics of their performance.

3. They will most likely be performed by different types of people, with different attitudes.
4. Most importantly, they will be performed within a significantly different institutional context.

One thing is certain. The food industry between now and 2000 A.D. will be anything but dull.

FOOTNOTES


