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## MARKETING COSTS AND MARGINS -- DISCUSSION

By Richard O. Been 1/

In his transmittal of the announcement and instructions for this session, Harry Trelogan concluded by saying that he looked forward to "an interesting, informative, and possibly a lively session." Now I believe we can all agree that Professor Goldberg's paper has been highly interesting, and that Ken Ogren's paper has been informative, and you see where that leaves me. I fear that I cannot possibly be lively.

I intend to say some things that I could not say if I were affiliated with the Federal bureaucratic structure.

The two papers of Goldberg and Ogren have reemphasized the basic and vital role of the statistical information series on price spreads and marketing margins and costs. These data, if properly used, are the measuring stick for countless detailed projects in marketing research and should constitute major guide lines for the total marketing research program. They comprise the essence of the measures and barometers of the agribusiness marketing complex. Yet the improvement of these statistical

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1/ Safeway Stores, Inc., Oakland, California. The opinions expressed are the personal views of the discussant and do not necessarily represent the views of Safeway. Presented at the annual meetings of the American Farm Economics Association, Oklahoma State University, Stillwater, Oklahoma, August 25, 1965.

measures in terms of adequacy and reliability is tedious and unexciting and is not calculated to make the big splash among marketing research achievements.

Both of the papers reflect the most recent fad in marketing research -- the obsessive and exaggerated focusing upon the retailer. It would almost appear that retailing is a recent discovery of market research workers. I assure you that it has been with us throughout the long preceding era in which it was neglected by agricultural economists. We are, of course, flattered by its present prominence, although disturbed by the imbalance in its evaluation as evidenced in much of contemporary marketing research.

My comments will be critical in a diagnostic sense. I apologize in advance for neglecting much of the detailed content of the two papers. I consider that those papers reveal a condition of statistical inadequacy that is symptomatic of a deeper-seated malady.

Ken Ogren has pointed out that 1965 is an anniversary year. It is the 30th anniversary of USDA publication, on a sustained and continuing basis, of statistics on price spreads between farmers and consumers.

Next year, 1966, will be the 20th anniversary of another event that should loom large in the history of marketing research -- the establishment of the Research and Marketing Administration under authority of the Research and Marketing Act -- the Agricultural Marketing Act of 1946.

The topic of this session, and the tone of the papers you have just received, constitute testimony to the fact that marketing cost and margin data currently available are inadequate to meet the demands that are presently placed upon them. In what ways are they inadequate? Why are they inadequate?

The papers of Goldberg and Ogren have afforded some insight into the first of these two questions. We have learned of certain ways in which the data are inadequate. Now for the second question -- Why? Ray Goldberg's paper suggests that possibly lack of imagination regarding the aspects of concept and method might constitute a partial answer. Ken Ogren implies that lack of a fully cooperative attitude and performance on the part of an industry called upon to report its operating data might be one of the answers. That strikes rather close to home. We have had some problems in maintaining regular reporting of Company data to his Division in spite of a favorable policy attitude and a sincere wish to cooperate.

Many inescapable inadequacies of detail exist, in the nature of data bias, error and unavailability. We may set aside the details at this session and concentrate upon the much more significant inadequacies in the broad program of development of these statistics of marketing.

I believe that the roots of today's inadequacies in the USDA statistics on price spreads, marketing costs and margins lie much deeper, and must be sought in the historical record of development, particularly during the 19 years that have passed since 1946. I was and am far from satisfied with the progress of the price spreads, costs and margins work of the USDA during the last five years of my own association with it -- from 1946 to 1951. That was the early phase of the RMA program, that unprecedented and mammoth escalation of the total marketing research enterprise which lifted such research for the first time from its prior modest beginnings into the more select atmosphere of the megabuck appropriations.

It is my belief that if there is any single factor which is responsible for today's inadequacies of price spread, marketing costs and margins statistics, it is the early administration of the RMA. I say this with full realization that I stand beside an individual who was closely associated with that administration. In retrospect and with benefit of the perspective of enlightened hindsight, he might agree with much of what I am going to say.

The present state of inadequacy in the statistics of price spreads and marketing margins and costs may then be fundamentally a legacy we have inherited from the past. In the mid-forties, the few persons then engaged in marketing research hailed the emergence of the Research and Marketing Act as the long-delayed and final recognition of the significance of farm-to-consumer marketing to agriculture and the farmer. We looked forward to its development with high hopes. We were implicitly confident that the vast scale of research operations envisioned in the language of the Act would unquestionably mean a preliminary period of exploration and formulation of a master program for integration of the many detailed projects to be selected and undertaken. The vital role of adequate marketing statistics on price spreads, margins and costs in that program appeared so obvious that its inclusion was taken for granted. It seemed obvious <sup>application of</sup> that an Act so explicitly geared to marketing efficiency and costs, to reducing costs of marketing, and to improving the farmer's share of the consumer's dollar must necessarily develop highly accurate indicators of where we were, where we had been, and of the degree of progress being achieved. Even today it is difficult to realize how far wrong were those anticipations.

There never was a program for the RMA, in the real sense of the term. There were some who pleaded for an initial and a preliminary period of survey, of planning, of orientation, of careful framing of an integrated program for marketing research. But, administrative levels were more interested in immediately establishing an operational front with Congress.

I would say, from my observation, that resistance to promoting an active and aggressive program of development in price spreads and marketing margins and costs came from several sources. First, there were strategically placed administrators within the USDA who strongly opposed suggested RMA research in those areas. Second, a prohibition in certain terms of the Act against using the new research funds to substitute for existing research funds was interpreted to prohibit extending the price spreads activities of the Department. Third, the commodity and functional Advisory Committees repeatedly turned thumbs down on tentative proposals that research projects be initiated in the areas of costs and margins.

I certainly do not propose to condemn the practice of setting up industry committees to assist in guiding large-scale research activities which directly impinge upon industry. But it is not in the province of such industry representatives to frame the outlines of what should have been an integrated and unified research program. If the Advisory Committees could have been presented with a coherent and unified program of marketing research and asked to advise and assist in the particular phase relating to their product or functional interests, the response might have been more constructive. But, to the extent that they were expected to initiate, suggest and outline areas of research, is there any wonder that they minimized their own involvement in what might have become a burdensome venture into the unknown.

The research climate gradually changed. The National Advisory Committee of the RMA came out with a strong recommendation for cost and margin research. In at least one USDA agency, a revised administrative structure was able to short-circuit the previously effective obstructionism at intermediate administrative levels. Eventually Congress itself earmarked funds for specific and mandatory application to cost and margin research.

By the time that cost and margin research was finally incorporated into the RMA activities, the opportunity apparently had passed for constructive integration of that aspect into the total RMA effort. Cost and margin work became an appendage, an afterthought. Research faddism was turning into other channels.

So much for the evolutionary review. After reading and listening to the two papers just delivered, I feel that a good deal in the way of criticism and exploration of inadequacies has been left unsaid. The proliferation of Government research contracts into the Universities, and the consequent increased dependence upon the sources of these funds, has been accompanied by increased reluctance to speak out with really incisive criticism. Thus is lost a valuable and constructive resource in marketing research. Although regrettable, these are the facts of life. The common target that remains available to the government-academic establishment is the area of private business. A representative from private industry in turn can be more direct and open in his criticism of government activities, but may be reluctant to voice criticism of the business community.

The contributions to our knowledge of marketing margins and costs that are directly attributable to the administrative direction of Frederick L. Thomsen -- "Tommy" Thomsen -- should not be underrated.



During the mid-forties his Division of Marketing and Transportation Research established the "market basket," the "marketing bill," the "food cost share of disposable income" and many other measures, methods and concepts that prevail today. His administration, with limited resources, produced a series of definitive monographs on cost and margin breakdowns for major product groups. Few of those breakdowns have been updated, and that fact adds another prop to the establishment of the present Food Commission.

Exploration of a variety of concepts and statistical measures is the essence of research, and deserves whole-hearted approval. But, a principal affliction of marketing statistics is their ambiguity, their imprecision in definition, and the consequent confusion on the part of both sincere and malevolent users. Some new labeling of the alternative measures must be devised to afford clear-cut distinction among them. I fearfully contemplate the day when there will be five or fifteen different determinations of related measures all grouped under a single label such as "farmer's share" or "marketing bill." That would be an open invitation to confusion that would tend to destroy communication instead of aiding it. In a related field, the statistics on farm income have achieved an acceptably precise nomenclature with analogous multiple measures of closely related items.

Price spreads, marketing costs and margins are statistical series. To a degree, they may be developed from existing secondary data. Beyond that degree, they will involve collection of new primary data. The problem of finding cooperating reporters is an old one that has been acceptably resolved in most cases.



What is disturbing in much of the new data collection demands is the shift in emphasis of research objectives from that of providing statistical measures, indexes and comparisons, to that of operational and structural reform. The firm called upon to cooperate in supplying data today may justifiably feel that its role more closely resembles that of a volunteer subject in a medical experiment than that of the traditional data reporter. When the data collector and the reform crusader are combined in the same person or in the same agency, the integrity of the data collection and processing may well be suspect.

History and diagnosis of a malady -- here the conditions leading to a statistical inadequacy -- do not necessarily indicate a cure, nor even ~~the~~ a prescription for treatment. Sometimes it must be regarded as successful if it merely helps to produce a better understanding and a philosophical acceptance of the existing situation.