



***The World's Largest Open Access Agricultural & Applied Economics Digital Library***

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

## THE COMMISSION ON FOOD MARKETING: IMPLICATIONS FOR FOOD INDUSTRIES IN THE SOUTH

Donald E. Farris\*

About three and a half years have passed since the National Commission on Food Marketing published its findings on organization and competition in the food industries. This has been sufficient time to observe some of the impact of the study. The purpose of this paper is to evaluate the future changes in the food industries against the background of the Commission findings and conclusions.

There has been some confusion about the nature and role of the National Commission on Food Marketing compared with that of the National Advisory Commission on Food and Fiber. To make sure there is no confusion concerning the Commission discussed in this paper, the distinction will be reviewed briefly.

The National Commission on Food Marketing was an independent Congressional Commission established by Public Law 88-354 in 1964. The purpose of the study was to examine the food marketing industry with respect to its organization, competition and equity. The Food and Fiber Commission was established by President Johnson in 1965 by an executive order for the purpose of making a long range appraisal of agricultural policies and related foreign trade policies.

The paper will summarize the principal conclusions of the Food Marketing Commission, then proceed to discuss the implications of the study for the South as it relates to the future structure and organization of the food industries.

### COMMISSION CONCLUSIONS

In the final report prepared by the Commission the conclusions of the majority were supported by nine of the fifteen members. The conclusions of the majority will be related, but the implications will be discussed from the standpoint of an appraisal of important developments related to the study.

The Commission concluded that by available standards of measurement (and compared with other sectors), the food marketing system generally appeared to be efficient, competitive, progressive, and appeared to be serving the public interests well. However, as might be expected in any large and complex sector there is opportunity for improvement. The Commission majority agreed that a number of changes in laws, regulations and government services and industry practices offered promise of improving performance and/or equity in the food industries [3, p. 105].

In connection with equity considerations, the Commission concluded that both producers and consumers needed additional protection and information provided by government to deal on a more equal basis with the larger marketing firms. Recognizing that producers as a group had experienced chronically low incomes, especially in those enterprises where there were no government programs attempting to restrict output, the Commission majority thought it advisable for producers to have some additional vehicles to strengthen their bargaining power. The Commission majority suggested that government do everything possible under existing laws and regulations to encourage the growth of producer cooperatives. They further urged broadening the legislation authorizing marketing orders and agreements to extend to a much larger number of agricultural commodities.

A more comprehensive conclusion and consequently a more controversial topic is the suggested legislation that would permit agricultural marketing boards. These boards could be designed to provide a method of supply control and price negotiation. It would also provide for the board to be the recognized bargaining agent for the commodity under its jurisdiction [3, pp. 110-111].

The Commission generally agreed that growth of the largest firms in food marketing had not progressed

\* Donald E. Farris is an associate professor, Department of Agricultural Economics and Sociology, Texas A&M University. Helpful suggestions were made by Drs. M. L. Godwin, R. A. Dietrich and W. E. Black.

to a point where dissolution of the largest firms was necessary, but the majority concluded that to safeguard what now appears to be a very healthy over-all competitive climate, it was time to limit growth by horizontal merger and acquisition on the part of the largest firms in the food industry.

Advertising and promotion programs in the food industries probably received the most criticism. Not only are some segments of the industries spending large sums on advertising and promotion, but expenditures have increased rapidly in the last few years [6, p. 68 and 4, pp. 233-239]. This problem and the related problem of consumers having difficulty comparing value among brands, led the majority to conclude that consumer grades should be developed by the government and be required on all standard food products where feasible [3, p. 109].

Numerous conclusions were directed toward improving government regulatory and service activities in food marketing but time does not permit the discussion of these. The focus of the Commission conclusions were directed toward limiting the horizontal growth of the largest firms and encouraging the size or the ability of the smaller firms to act as larger units. They were also directed toward slowing down the proliferation of product differentiation and reducing the associated advertising and promotion costs.

Most of the conclusions had some relationship to the future structure and organization of food industries and the purpose of the remainder of this paper is to examine the implications of the Food Commission findings and related developments with respect to the structure and organization of the food industry in the South over the next decade.

The Commission findings and conclusions were not without controversy and the precise impact of the study is not readily measurable. There have been a number of developments in the courts, in the Administration of the Federal Government, in the Congress and in the food industries that have been in line with the Commission findings and conclusions, but several matters have been considered by Congress and rejected.

## PROJECTIONS

Considering the whole sweep of the Commission recommendations, current related developments in government regulatory agencies, recent court actions, and developments in the food industries, four premises are listed (or they might be called projections) concerning the events of the next decade on which the statements in this paper will be based.

First, there will be limitations on horizontal mergers and acquisitions by the largest firms in the food in-

dustries; thus, restricting somewhat the horizontal growth of the largest firms. Second, there is a desire among farmers to develop greater bargaining power, and government will attempt to encourage this development. In the absence of a severe crisis in farming, support will not likely be sufficient to authorize the agricultural marketing boards suggested by the Food Commission. Third, there will be no effective restraints on vertical or conglomerate integration with the exception of some of the very largest firms in food marketing. Fourth, the Commission's recommendation on compulsory consumer grades will be ignored.

## IMPLICATIONS FOR STRUCTURE AND ORGANIZATION

A number of implications follow from the foregoing premises and current developments regarding organization and structure in the South. These are expected to apply during the 1970's.

(1) There will be fewer retail food firms largely as a result of merger and acquisitions among the firms below the top 20 food chains. Furthermore, there will be even fewer wholesale buyers for retail firms, because it is reasonably clear that for most retail products, central or group buying has some clear advantages. There will apparently still be an adequate number of buyers generally to maintain effective competition, however. Entry into food retailing will still be relatively easy; in addition, expansion on the part of the smaller firms will continue to be relatively easy.

(2) Correspondingly, there will be fewer firms in the entire food marketing system. This is a continuation of an established trend. The principal difference is that the most rapid growth will not be among the largest firms, say the top 5 or 10 in each industry, but the group below the top ten. Because of government restraints, the largest firms will not have the same opportunities for merger and acquisition. Furthermore, some of the medium and medium large firms have had the highest profit rates which gives them good opportunities for rapid growth.

(3) Changes in the organization of the largest firms will tend toward vertical and conglomerate growth through merger and acquisitions. In recent months a number of the largest food firms have either made it known that they are seeking a desirable merger, or have been approached by parties interested in merging. Since horizontal merger can be expected to be blocked by law, some of these firms will likely push vertical integration as far as profitable and possible by law. Four of the largest meat packers cannot legally integrate forward into retailing. If they attempt substantial integration backward into livestock feeding they are likely to face legal difficulties - thus, the best

possibility for growth is conglomerate merger; already, three of the top four have moved in this direction.

(4) There has been some concern about large industrial corporations moving into farming, but with some isolated exceptions there has been little profit incentive for food marketing corporations to integrate backward through ownership into the production activity except where it brings some opportunities for important efficiencies. There are situations where speculation on land appreciation or tax incentives are primary considerations. Generally, however, large corporations are looking for places to put their capital where the profit on assets or net worth is highest. Using this as a criteria, agricultural production has been about the last place to invest money.

This point is emphasized by a comparison of profit rates from income tax returns of corporations in agriculture, forestry, and fisheries with those in food and kindred products manufacturing. Profits before income taxes as a percent of total assets of agriculture, forestry, and fisheries corporations averaged 2.85 per cent for 1957-62 and 2.32 for 1962-66. The comparable figures for food and kindred products manufacturers were 9.37 and 9.11 per cent. Over eighteen thousand corporate farms reported a profit rate of 3.3 per cent in 1965 [cf. 7]. Kost found that the average rate of return for a sample of common stock was 9.31 compared to 4.41 per cent for farm real estate during the 14 year period from 1950 to 1963 [2, p. 213].

Where labor requirements are high, minimum wage laws and prospects for labor union problems will discourage the food marketing corporations considering backward integration into production. Where coordination or financing has some definite efficiencies, contracting for the production may be much more attractive.

(5) More producer bargaining groups should emerge in the next decade. Not only does this idea currently have appeal to producers, but new legislation now gives organizers more protection than before. Paarlberg observes that producers are inclined to try to develop bargaining groups, even if they recognize that possible monetary gains are quite limited [1, p. 135].

(6) Producer cooperatives appear to be following the trend of public corporations and expanding through the horizontal, vertical, and conglomerate merger route. Five producer integrated cooperatives are now on the list of Fortune Magazine's 500 Largest Industrial Corporations. This number is likely to grow substantially in the next decade. Incidentally, profit rates of these five have been above the average of the 500.

(7) In the future more industry groups in food will likely develop their own market information sources. The Food Commission suggested that U.S.D.A. consider a substantial change in its approach to providing market information. The suggestion involved more timely information on supplies, terms of contracts, and direct sales. To facilitate this they suggested that Market News have authority to require cooperation where necessary. So far, this has seemed to have little appeal. Instead, groups such as the National Egg Company and the American National Cattlemen's Association are offering special programs supplying market information.

(8) Related to this, there seems to be more incentive to develop pricing arrangements based on some type of formula. These formula pricing arrangements are based on certain cash or futures markets, or costs as they relate to prices of inputs such as grain. The fact is, that before contracting can develop very far, there must be a forward pricing scheme developed that is satisfactory to both parties of the contract. If a specific price is negotiated, then the buyer needs to be able to hedge on a futures market to protect himself against price changes.

(9) Forward integration by producers appears to offer opportunity for profit over the next decade. An analysis of profit possibilities will often show that extra money invested in marketing will return more than money invested in expanding the size of the farm unit. The problem is that unless one invests in lumps of a million dollars or more to integrate forward such a move may not be feasible or profitable. Except in cases where producers are already involved in a cooperative, they may not be in a position to integrate forward into marketing. There are other ways producers may develop the organizational base to permit them to acquire or merge with marketing firms. For example, a group of farmers could organize a corporation and exchange shares of stock for the assets owned by the individual farmers. This would permit the larger farm corporation to either exchange stock in a merger or it would provide the base for a loan or a stock issue to acquire marketing assets. There is currently little indication that much of this will occur in the next decade, but it appears to offer opportunities that leadership in agriculture and government should investigate. Development of this organizational base, regardless of the specific route, is almost a prerequisite for farmers to develop to the point where they can get into the mainstream of American business. This seems to be much more important than developing bargaining power. As a matter of fact, it may be the most effective way of developing bargaining power.

More product proliferation is likely, but advertising and promotion costs probably will grow at a slower

rate because of continued growth of retail private labels. During the next decade, industry structure will change by a gradual increase in horizontal concentration below the largest 5 or 10 firms in most food industries. The largest 5 are likely to lose in percentage share of total sales as meat packing has in the last two decades because of faster growth by other firms in the industry. Conglomerate and vertical integration will continue, especially among the large and medium-sized firms. Growth in bargaining groups and in producer associations will increase concentration at the production end. The result will be slightly less disparity between the size of the units facing each other in markets.

Changes in the organization of firms will come more rapidly than changes in industry concentration. Vertical and conglomerate growth will go a few steps toward pulling and pushing agriculture into the mainstream of the American business community.

#### **DEVELOPMENTS IN CERTAIN FOOD INDUSTRIES IN THE SOUTH**

What are the implications of the foregoing for the structure and organization of specific commodity groups important in the South? What specific developments can be expected in the next decade?

(1) In the milk industry there will surely be more horizontal mergers of producer cooperatives. The successful merger of all the milk producer cooperatives in Texas, Arkansas, and Oklahoma, plus others in Kansas, New Mexico, and Missouri into Milk Producers, Incorporated may provide a pattern for other areas. In about a decade, producer cooperatives have completely changed the structure of the milk industry in some areas. Most of the changes have occurred in the last five years.

Forward integration into processing and distribution are possible next steps, but legal barriers may prevent the larger dairy cooperatives from distributing fluid milk. However, there appears to be adequate opportunity to consolidate in one organization most activities such as fluid milk assembly, processing and distribution of manufactured dairy products. Such activities would appear to improve efficiency as well as strengthen the bargaining power of the dairy cooperatives.

(2) Performance has been superb by most of the standard economic criteria in the poultry and egg industries. New developments in technology and management have made it possible for firms to grow in the face of a downward trend in prices for two decades. Producers have reaped little benefits from this progress, and processor profits have been modest [5, pp. 57-65]. Contrast returns in these industries

with some other industries that have made great progress, such as the computer industry, or the drug industry where patents, leasing, etc. have permitted the innovators to reap large profits. In the case of poultry and eggs, practically all of the benefits from progress have been passed on to consumers in the form of lower prices while prices of other food items generally have increased.

The recommendations of the Commission to aid producers in developing bargaining power on the one hand, and maintain competition by blocking mergers and acquisitions in the largest firms, on the other hand, could result in greater equity and probably interfere little with future growth of the poultry and egg industries in the South. Although there will be fewer firms in poultry and egg marketing in the next decade, concentration will be less than a number of food marketing industries.

Producers will recognize bargaining associations as a vehicle useful in protecting a substantial investment and in negotiating equitable contracts. Already the American Farm Bureau through its American Agricultural Marketing Association claims to represent producers responsible for 20 to 25 per cent of the broiler output in ten southern states [1, p. 141].

(3) In the hog and pork industry the trend toward predominately direct sales seems clear. Growth of grade and yield selling looks promising and contract production likely will follow these developments. As yet, there seems to be little incentive for packers to integrate into hog production. However, feed companies probably will do considerable contracting of production similar to their current activities in poultry and eggs. If hog production is to expand in the South, feed companies appear to be one of the principle stimulants.

(4) It is probable that in the next decade a feedlot system based on silage or other roughage will develop in the South to feed calves to heavier weights than is the current practice. This development will probably grow as cattle feeding expands. Packer feeding, already important in the South, will likely continue to grow. Legislation designed to prevent packer feeding of cattle was defeated, and there seems little likelihood that it will be prevented in the near future. The Commission, in effect, stated that they did not oppose packer feeding [3, p. 95].

Except for packers integrating into feeding, vertical integration in the cattle and beef industry apparently will develop slowly. With the growth of custom feed-lots, there will be a few more ranchers and farmers feeding cattle. Direct selling of fed beef on a yield basis or a grade and yield basis seems sure to expand. Contracts for both fed and feeder cattle will logically

follow this development. Many changes will be taking place and highly publicized changes will create the impression of drastic changes but only gradual changes in the structure and organization of the cattle and beef industry are likely in the 1970's.

(5) The fruit and vegetable industries are so diverse it is difficult to make accurate general statements. In areas such as Florida and the Texas Rio Grande Valley marketing orders and agreements may have wider use. For the rest of the South where production is scattered and in small units, marketing orders have little chance of being effective. Production very likely will continue to decline in the rest of the South. Contracts for processing crops is a standard practice; it seems logical that contracting of fresh production will also become important. The problems of obtaining labor will probably stimulate the need for contracting the production of fresh vegetables.

### OTHER MATTERS

The Commission left almost untouched the subjects of transportation and powerful labor unions as possible impediments to good performance in the food industry. These problems may be less acute for the South than for other areas. As a matter of fact, some labor problems may work to the advantage of the South. For example, lower wage rates and less powerful labor unions in the South have no doubt contributed to the growth of independent meat packers in the South.

As marketing firms become larger, and fewer firms are needed to serve a local area, the structure of local

and regional markets will become more critical. Maintenance of effective competition and dissemination of accurate market news is essential for the system to perform well at the regional and local level. The National Commission on Food Marketing did not have time to explore this problem except in a few cases. It could well occupy the attention of some of the Southern regional research committees. This area of study presents some interesting problems of the optimum size versus the necessary number of firms or other conditions to assure effective competition.

### CONCLUSION

Much of the attention of the leadership in Southern agriculture and of farmers in general, has been devoted to government programs for cotton, tobacco, and rice. Future expansion of income from agriculture in the South seems to depend on the other commodities. The development of a marketing system for these farm products has lagged behind other areas. The work of the National Commission on Food Marketing has resulted in a possible framework for producers in the South to play a greater role in marketing.

The Commission was only a study and advisory body; government and the food industries must choose those policies and practices they wish to implement. Whether they select the framework suggested by the Commission or develop others, it appears that to provide direction and to develop the organizational base that will permit farmers to play a larger role in food marketing is the greatest challenge of the 1970's to agricultural leaders of the South.

### REFERENCES

1. Agricultural Policy Institute, *Competition in Food Marketing*, Raleigh, North Carolina, May 1957.
2. Kost, William E., "Rates of Return for Farm Real Estate and Common Stock," *American Journal of Agricultural Economics*, Vol. 50 No. 2, p. 218, May 1968.
3. National Commission on Food Marketing, *Food from Farmer to Consumer*, Washington, D.C., June 1966.
4. ———, *Organization and Competition in Food Retailing*, Technical Study, No. 7, Washington, D. C., June 1966.
5. ———, *Organization and Competition in the Poultry and Egg Industries*, Technical Study No. 2, Washington, D. C., June 1966.
6. ———, *The Structure of Food Manufacturing*, Technical Study No. 8, Washington, D.C., June 1966.
7. U. S. Treasury Department, Internal Revenue Service, *Corporation Income Tax Returns*, Washington, D.C., Publication No. 16 (years 1958 through 1966).

