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The Food Marketing Revolution, 1950-90

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In this report ... *Changes in food marketing have been pervasive since World War II. The makeup of the population, lifestyles, incomes, and attitudes on food safety, health, and convenience have drastically changed. These changes mean that farmers and marketers of food products have had to alter the way they market food. The manufacturers, wholesalers, retailers, and foodservice firms that make up the food marketing system have made vigorous efforts to meet changing consumer wants and needs.*

Marketing the Nation's food and fiber is a huge undertaking. It embodies a variety of functions, employs 17 percent of the work force, and contributes 16 percent of the gross national product. For food alone, marketing cost $415 billion in 1990.

The markets for agricultural products have changed rapidly throughout the post-World War II period. Markets now offer a wide choice of products, a variety of distribution systems, and many built-in services, such as precooked meats or microwave meals. Much of this diversity has resulted from the keen awareness by food manufacturers, wholesalers, retailers, and foodservice firms that the market is consumer-driven and by the competitive efforts of marketing firms to adapt. Consumer spending in the marketplace provides constant feedback on how closely marketers have met perceived wants. Finding out what consumers want and how they feel about various product characteristics has become big business. Management practices now involve studying changes in consumer lifestyles and preferences, and adjusting businesses to capitalize on those changes.

Changes that have influenced the way food is marketed involve:

- Demographics—the makeup of the population.
- Consumer lifestyles—especially the demand for convenience.
- Economic conditions—income and inflation.
- Public policy and private attitudes on food and health, food safety, nutritional labeling, and other food-related issues.
- Food programs.
- Farm policies and programs.

The Consumer World

Demographic shifts involve declining household and family size due to later marriages, more divorces, smaller families, and less doubling-up (two families in one household). With more young and old people maintaining their own residences, the proportion of single-person households went from 11 percent in 1950 to 24 percent in the late 1980's. The proportion of families with more

Major Postwar Changes in Food Marketing

Causes of change:

- Smaller households—fewer children, more single-person households.
- Higher incomes—more multiple-earner households.
- Desire for convenience.
- Concerns about health and food.
- Corporate restructuring through mergers and divestitures.

Changes in marketing:

- Supermarket boom through the mid-1960's.
- Diversity among supermarkets since then—low prices versus greater assortment.
- Away-from-home eating share nearly doubled; growth mostly in fast food with fixed menus.
- Food wholesaling dominated by large firms.
- Large, diversified firms dominate food manufacturing.
- Manufacturing internationalized.

than one earner began to increase sharply after World War II—from 39 percent in 1950 to 59 percent in 1988 (fig. 1). With the combined effects of rising real income per wage earner and declining family and household size, average real income per person in households rose 126 percent between 1950 and 1988. (Real income is what is left after price inflation is accounted for.)

More money and less time for food procurement, preparation, and consumption in many households have made convenience the key to effective marketing. In families where all the adult members work outside the home, time for meal preparation has shrunk from 30 minutes a few years ago to 20 minutes. The microwave oven has become a standard appliance in more than 90 percent of American homes.

As incomes and the number of multiple-earner families rise, individuals eat out more often. The share of food expenditures away from home rose from 25 percent in 1954 to 46 percent in 1990 (fig. 2). Most of this growth was in fast-food places. Their share of away-from-home food rose from 4 percent in 1954 to 34 percent in 1990, while the share of table service restaurants, lunchrooms, and cafeterias declined from 48 percent to 37 percent.

These demographic changes mean that demands for various foods have changed since different population groups vary in what and where they eat and how they shop. Young, higher income households eat out more often and purchase different foods than older, less prosperous people. Households with children spend more of their at-home food dollars on milk and sweets; the elderly spend more on fruits and vegetables. Higher income families spend more on fish, cheese, and butter. Food demand also differs among races and geographic regions. For example, people in the Northeast drink more milk than those in other regions of the United States.

The influence of health concerns on food choices reached a high level in the 1980's and is still rising. In the 1980's, foods were increasingly divided into those perceived as "good" and "bad," depending on popular perceptions of health consequences. For example, concern about the health effects of cholesterol became a major influence on food choices, and the view of fiber as having beneficial health effects boosted demand for certain products. And weight concerns fueled the salad bar phenomenon.

Interest in convenience and health played major roles in altering the foods eaten at home (fig. 3). Between the early 1970's and the mid-1980's, consumers started eating:

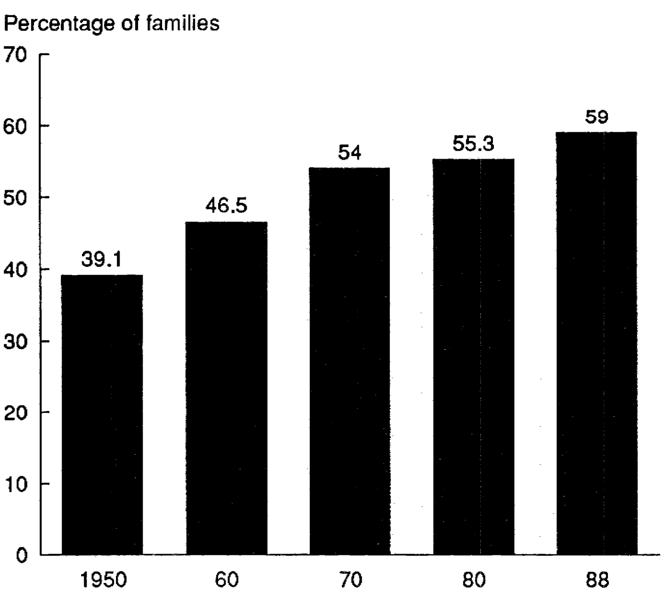
More

- Poultry
- Cheese
- Fresh fruits and vegetables
- Processed fruit and juices
- Cereal products
- Other prepared foods

...And less

- Beef and pork
- Processed vegetables
- Bakery products
- Sugar and sweets
- Coffee and tea

Figure 1
Share of families with more than one earner



Source: Bureau of the Census.

Figure 2
Food service and fast food as a share of all food

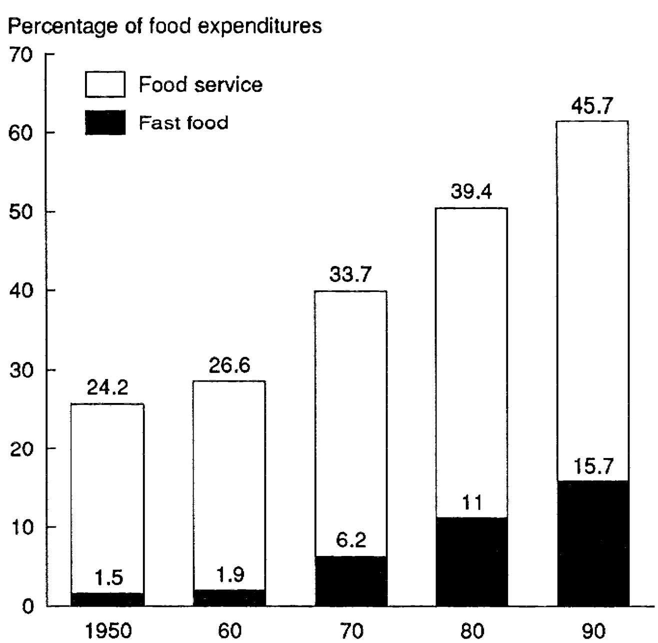
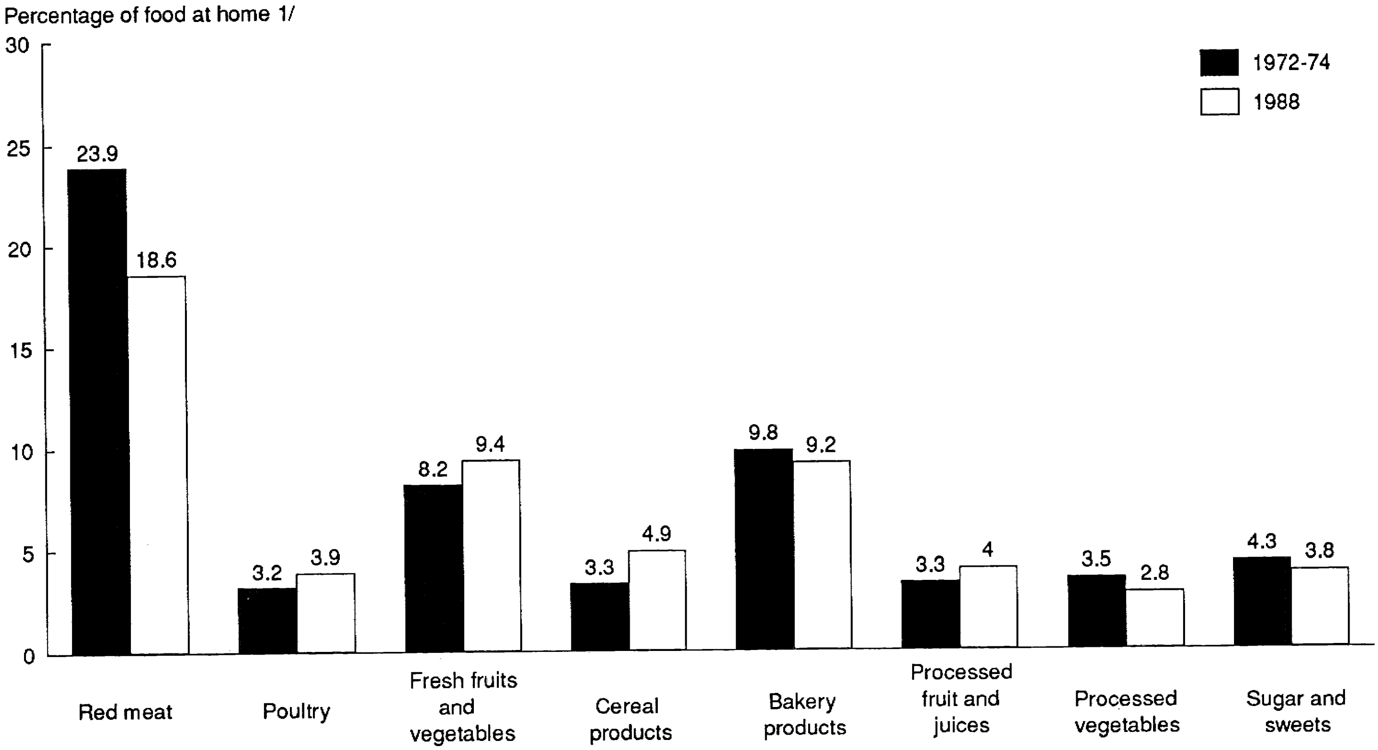


Figure 3
Consumer expenditures for food at home by food group



1/ At constant (1982-84) prices.
Source: Consumer Expenditure Survey, Bureau of Labor Statistics.

Changes in Marketing

Farmers, manufacturers, and marketers have adjusted, sometimes defensively, to these changes. But such changes also create opportunities. As more specialized retail market segments have developed, the wholesale and food manufacturing sectors have responded. Some manufacturers that once supplied all parts of the market are now specializing in one segment such as branded consumer products, foodservice products, or ingredients for other food manufacturers. In general, only very large firms have the resources to both supply and market a broad line of branded consumer foods. This kind of operation requires continuous product development and promotion. Since 90 percent or more of new products do not succeed, only firms with extensive resources can compete in the branded area.

Other manufacturers have chosen to emphasize products developed for food service or for particular segments of the foodservice market. For example, some specialize in products for a particular hamburger chain like McDonald's. Several manufacturers have gone extensively into wholesaling to foodservice outlets, with only a part of the products they distribute made in their own factories.

A massive restructuring of corporate America and the food sector has been going on for 30 years and the pace is accelerating. Mergers have been a major force in changing the organization of food manufacturing and the kinds of business they do. Companies increasingly handle a broader line of products. Specialized canners of fruits and vegetables have expanded their lines to a wide array of food and nonfood products, as have dairy firms and meatpackers.

Food manufacturing, like many other lines, has gone international since World War II. Many large U.S. food companies are manufacturing and selling abroad—several sell more in foreign countries than in the United States. Partly because food product manufacturing by U.S. companies has moved abroad, however, exports of U.S.-made food products have grown fairly slowly.

American companies have moved into other countries, often by acquiring local firms. Similarly, European, Canadian, and most recently, Australian companies have acquired U.S. food firms. After decades of following a quiet course in the United States for fear of antitrust action, world companies (companies that operate all around the world), such as Nestle and Unilever, have made major American acquisitions.

All of these changes mean that manufacturers are looking to farmers for altered or new products, and that farmers must adjust to the changing demands. Farmers are increasingly paid on the basis of how well they perform in providing commodities that meet the buyer's specifications. Procurement arrangements for many commodities have changed as farmers and manufacturers have attempted to shift the incidence of risk of crop failure or price change between one another. For example, Florida citrus is mostly sold to processors under pooling arrangements, with both cooperatives and proprietary processors.

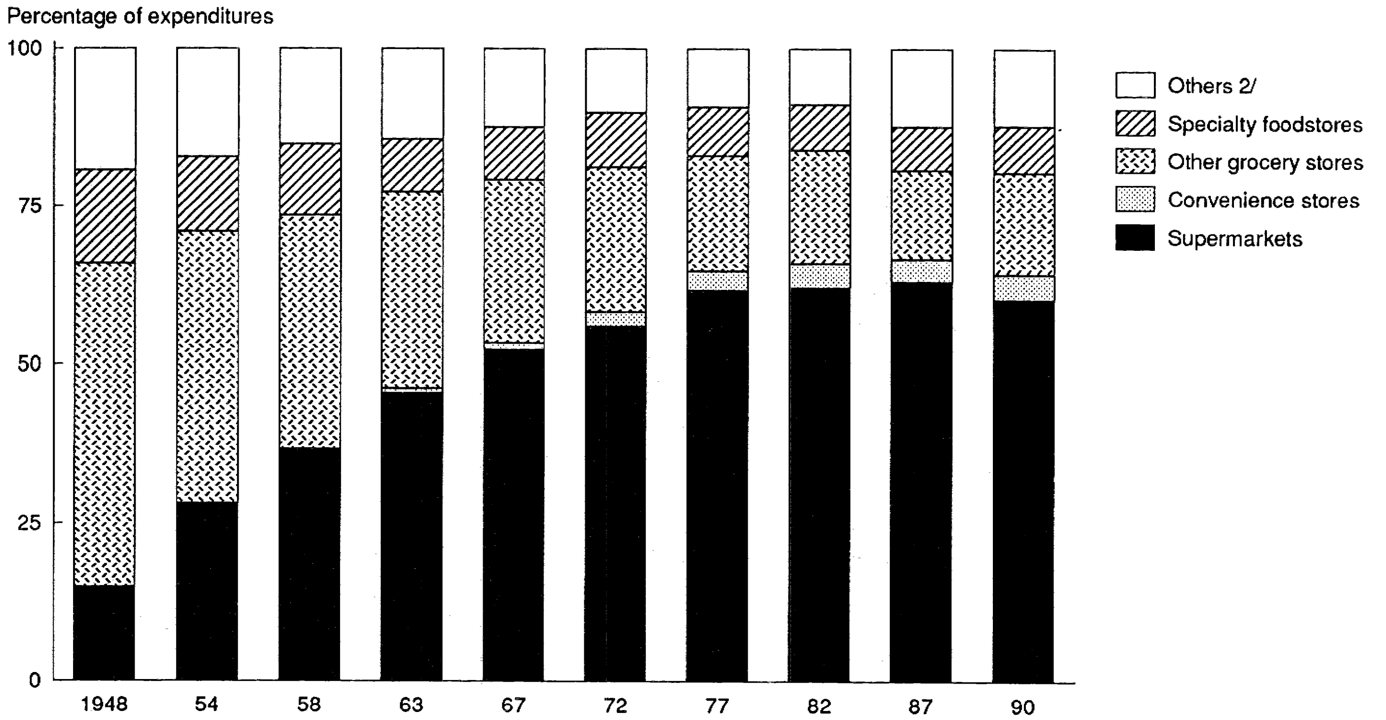
Changes at the consumer level have also forced marketing changes. As a result, retailers have worked to identify and develop profitable market segments (groups of customers) within each of the home and away-from-home markets for food.

Retailing

The supermarket boom was the dominant development in food retailing from the end of World War II to the mid-1960's. Since then, retailers have used increasingly diverse strategies to attract customers. Supermarkets' share of grocery store sales jumped from 23 percent in 1948 to 60 percent in 1963, followed by slower growth until the late 1970's and no growth in the 1980's (fig. 4). In the last 15 years, store formats have flowered, each format appealing to a different segment of the market. In the 1980's, the share of conventional supermarkets fell from 73 percent to 43 percent, while the share of larger stores with broader assortments increased. Those emphasizing low prices increased market share from 5 percent to 16 percent of supermarket sales, while those emphasizing broader selection rose from 22 percent to 42 percent.

The national share of supermarket chains with warehouses—which use their own staffs to do most of their buying—increased from 30 percent of grocery store sales in 1948 to 47 percent in 1977. Most of the increase came in the 1950's. Since 1977, the share of such chains has shown no trend.

Figure 4
At-home food sales 1/



1/ Sales of food for home use by type of outlet.
2/ Includes other stores, home deliveries, mail order, and sales by farmers, manufacturers, and wholesalers.

Food Service

The dominance of chains—owned and franchised—in fast-food and, to a lesser extent, in full-service restaurants means that menu items are locked in. A hamburger emporium will have hamburger every day and a pizza place will serve pizza. So, demand for specific foods is much less responsive to price. Fixed-menu eating places now do much more business than restaurants with more flexible menus that can be quickly changed to omit items with rising prices. Eating places with fixed menus made 56 percent of sales in 1966, rising to 73 percent in 1979 and 80 percent in 1988.

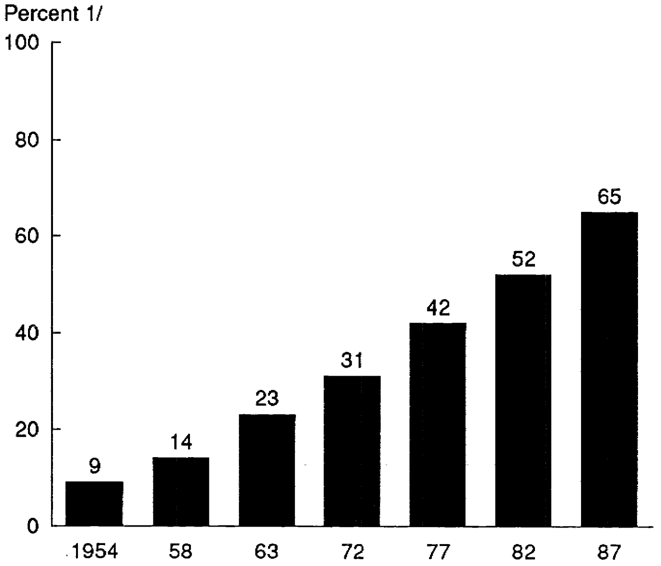
Wholesaling

Changes in retailing and food service on one side of wholesalers and in food manufacturing on the other side drove wholesalers toward a whole new world. Large supermarket chains have long done their own wholesaling through their own warehouses and still generally do, but smaller chains have increasingly relied on independent wholesalers for their supplies.

As food service has grown to more than half the market for independent wholesalers, specialization into foodservice wholesaling has became typical. Mergers among wholesalers in the 1970's and 1980's transformed grocery wholesaling from a local or regional enterprise into a near-national business, largely aimed at either foodservice or supermarket customers. Food wholesaling was typically a local business until recently, although a few companies operated a number of units generally within a few hundred miles of each other. Until the 1950's, general-line grocery wholesalers typically did not handle perishables. Such firms began to expand into produce, frozen foods, and to a lesser extent, meat during the 1950's and 1960's in order to offer a complete line to retail customers. Others specialized in serving foodservice establishments.

Few wholesale companies, by our definition, which is based on national volumes, were large until recent years. In 1954, only five general-line grocery wholesalers qualified as large. Those five companies made 9 percent of the sales of all general-line grocery establishments (fig. 5). The number and sales share of large companies have jumped since then. In 1987, 32 large companies made 65 percent of the sales of general-line grocery wholesalers.

Figure 5
Large wholesalers' share of sales



1/ Sales made by large grocery wholesalers as a percentage of sales made by all grocery wholesalers.

Manufacturing

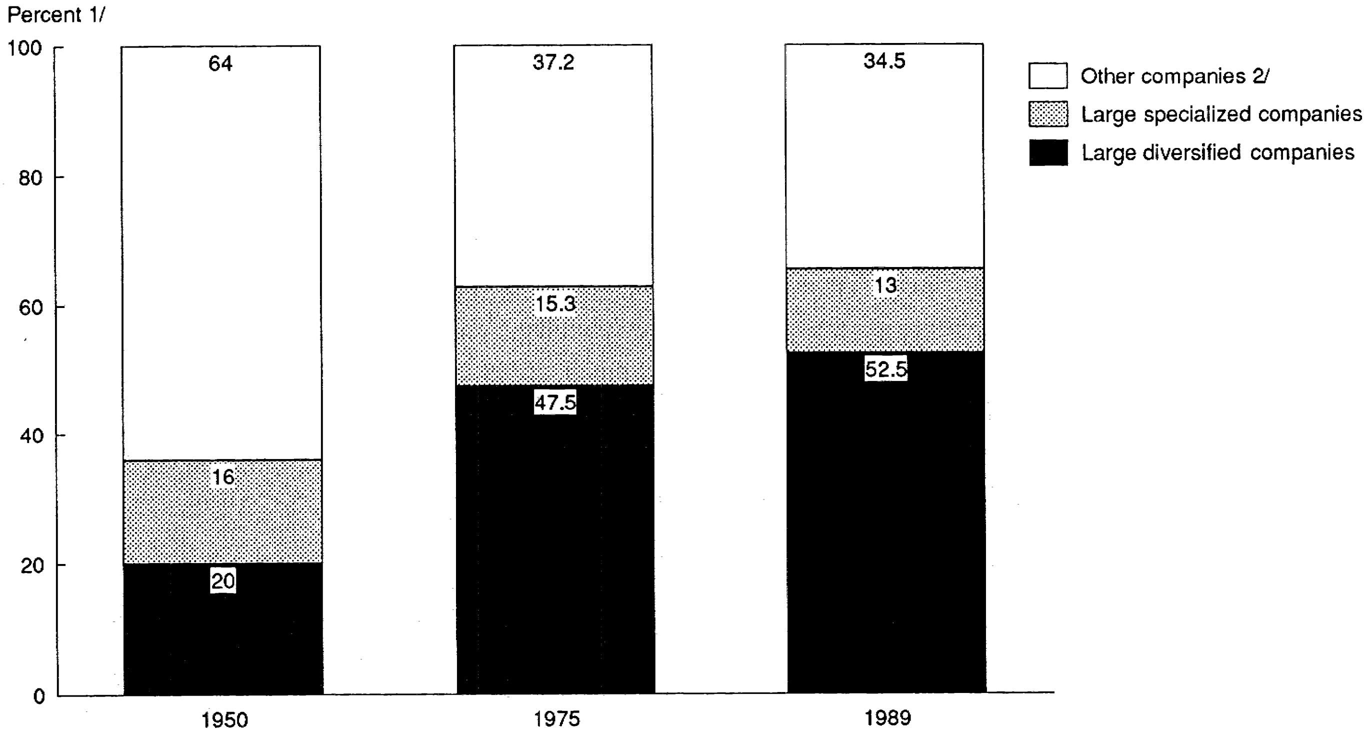
The economic landscape in food manufacturing has been drastically rearranged in the postwar period. Major changes include:

- Large companies are manufacturing a larger share of food (fig. 6).
- Large companies are more diversified in a variety of food products and nonfood products and foreign operations, although there has been some withdrawal from nonfoods in recent years.
- Large food companies are moving toward specialization in one segment of the market—products for the grocery store trade, products for food service, or ingredients for other manufacturers.
- Much of the change has been through mergers, acquisitions, leveraged buyouts, and divestitures.

Food System Response

Responding to consumers' desires for convenience and healthfulness, food manufacturers have reshaped the composition of the food basket. Technological developments have created whole new industries and transformed all the old ones. New product lines and in-

Figure 6
Large manufacturers' share of food sales



1/ Large manufacturers' sales as a percentage of sales of food, alcoholic beverages, feed, and pet food by all manufacturers.
2/ Includes integrated retailers and wholesalers and all smaller companies.

dustries, some of which started before the war but grew in later years, include:

- Frozen fruits and vegetables.
- Frozen concentrated fruit juices.
- Fresh fruit juices.
- Frozen prepared foods, including entrees and complete meals.
- Frozen baked goods.
- Dehydrated vegetables and soups.
- Refrigerated doughs.
- Corn sweeteners.
- Processed egg products.
- Fresh, prepared foods.
- Shelf-stable foods (vacuum-packed in plastic containers).

In other industries, such as fluid milk, chicken, beef, and ingredients, technological and other changes have drastically altered the mix of products.

One of the most important health concerns of consumers is with fat and cholesterol. Raised consciousness about the effects of cholesterol on health has generated changes at all levels of the production and marketing system for products containing fats, both fats occurring naturally as a constituent of the product, such as beef and dairy products, and those used as ingredients in preparing a product.

Manufacturers' efforts to deal with these issues have spawned technologies to produce fat substitutes which, in turn, have generated a whole set of new product lines. Success of these new products could replace some of the demand for fats and oils with demand for substitute materials.

Food safety concerns, especially over pesticide residues, have heightened in recent years. Marketers have made a variety of efforts to deal with these issues. Pesticide-free products and organic produce have been introduced, for example.

Effects of Government Policy

Changes in government policy affect food marketing in different ways, depending on the type of program involved—namely, programs for food, basic commodities, and sugar; milk price supports; and milk marketing orders.

Food Programs

Domestic food programs have different effects on food markets, depending on the nature of the program. Food stamps modestly raise demand for food but do not influence food choices. Products purchased by USDA, either for surplus removal or distribution, bypass the wholesale and retail segments of the food market. Distribution to households or to institutions tends to replace purchases that the recipients would have made in the commercial market. Products distributed to schools and institutions probably tend to displace purchases on the commercial market nearly one-to-one, except when very large quantities of one product are distributed and some other product is displaced.

Basic Commodities

Farm programs that support the income of producers of basic commodities, such as grains and cotton, have been changing over the years. These changes have caused farmers, first handlers (country grain elevators, for instance), and users of these products to alter their marketing strategies. Since the 1960's, successive farm legislation has changed farm programs to allow markets to play a greater part in setting prices, while still allowing the Government to provide part of the income support for farmers through direct payments. Other changes have altered the choices facing market participants, notably farmers. Programs that were formerly compulsory are now voluntary, so each farmer must decide whether or not to participate and how.

Sugar Program

Under a high price umbrella provided by the sugar program, the technology for alternative sweeteners has been developed and these alternative sweeteners have taken major shares of the sweetener market over the past 20 years. High-fructose corn syrup has taken over almost the entire market for caloric sweeteners in soft drinks, and low-calorie sweeteners have captured a major share.

Milk Price Supports

The price support program for milk effectively determines minimum prices for the major components of milk, butterfat and solids-not-fat, by setting the prices at which USDA will buy butter and nonfat dry milk. Over the past 20 years, those purchase prices have been adjusted so as to substantially alter the relative value of butterfat and nonfat solids. The price of a pound of butter was about four times the price of nonfat dry milk 20 years ago. In 1990, the price of butter was the same as the price of nonfat dry milk.

Milk Marketing Orders

The production and marketing of milk have changed in many ways since the Federal milk marketing order program began in the 1930's. Everything seems to have changed except the fundamentals, indicating that a classified pricing system or something like it is still required to cover the additional costs of marketing milk for fluid products as compared with milk for manufactured products, such as cheese, butter, and nonfat dry milk.

Implications for Pricing and Demand

Many of the changes described have significantly affected how market prices are formed through the multiple levels of the food system. The relationships among farm prices, manufacturers' prices, wholesalers' prices, grocery store prices, and restaurant prices have been altered, and demand relationships have changed.

Growth in Food Service

The foodservice share of food spending and consumption has dramatically risen since World War II. This rise has altered the relationships between farm prices and consumer prices in several ways. Foodservice margins (the charge for preparing and serving a meal) are much wider than those for food sold through stores, which involves less service. Restaurant prices tend to be substantially more insulated from farm price changes than are foodstore prices. Restaurant prices often react much less to changes in farm prices than do foodstore prices.

More Disassembly

Some agricultural products are disassembled into several components, each of which has significant value. In the postwar period, many products have moved toward more disassembly, or the disassembly operation has moved to an earlier level in the marketing system. For example, the disassembly of beef carcasses into retail cuts has moved to earlier stages in the marketing channel over the past 25 years. Chickens and turkeys were sold as whole birds (that is, not disassembled) for many years, but since the early 1960's more and more birds have been cut up and some further processed by the manufacturer or distributor. More than half of all poultry is now cut up.

Milk is now routinely separated into the butterfat and skim portions, the latter often further disassembled into a variety of products. The Federal Government encouraged the manufacture of nonfat dry milk on a large scale during World War II. The prevalence of disassembling has changed price relationships, leading to problems in the measurement of prices for use in demand analyses and other subjects. For fluid milk, changes in product mix, containers, and services (that is, having the milk delivered to the home versus buying it at the store) have caused movements of consumer prices (the rising or falling of prices) to differ from the movements in measures of pure price change, such as the Bureau of Labor Statistics price indexes.

The dramatic changes in the form in which chicken has been sold over the past 30 years have created substantial differences in price movements between individual products, such as whole chicken, and measures of average prices of all chicken.

Besides eating away from home more often, especially at fast-food places that feature hamburgers and fries, consumers have changed the types of beef they buy to eat at home. Consumers are buying more of the beef cuts that are quickly and easily prepared and fewer of the cuts that take more time and effort to prepare. Purchases of hamburger have significantly increased since the early 1970's, and purchases of steaks have fallen only modestly; both of these items are easy to prepare. Purchases of roasts, which take longer to cook, have dropped sharply. The changing demand of consumers for home-use beef and of foodservice buyers means that less of the beef that could be cut into roasts is actually sold in that form and more beef ends up in hamburger. The shift by packers to selling individual cuts facilitates such a change.

Continuing Change

The only certainty is that change will continue. But beyond that, some changes are much more likely than others. For example, barring major disaster, the U.S. population will continue to grow older. Less certain but still highly probable, incomes will continue to rise, as they have in most years since the Great Depression. Changes in the makeup of the population, population growth, and rising incomes likely will mean that away-from-home eating will further outpace at-home eating. If the food choices of each population group remain unchanged, then the changing makeup of the population would mean that at-home consumption of fish, cheese, fresh fruit, and vegetables would rise more than consumption of eggs and milk.

Marketing firms, from first handlers through manufacturers, wholesalers, retailers, and foodservice firms, will continually need to adjust. Buffeted by changing consumer demands on the one hand and pressures of their suppliers on the other, marketing firms will continue to combat the vigorous efforts of their competitors for market share and profits. All segments of the food industry will continue to operate under conditions of low net margins per unit and fairly sharply rising unit costs when operating at less than capacity. Thus, the pressures to maintain volume will continue, while the pressures for change mount.

Note

Use of brand or firm names in this publication does not imply endorsement by the U.S. Department of Agriculture.

This report is based on the forthcoming Agricultural Economic Report, *Rearranging The Economic Landscape: The Food Marketing Revolution, 1950-90,* which expands on the points made here.

Acknowledgments

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For Additional Information...

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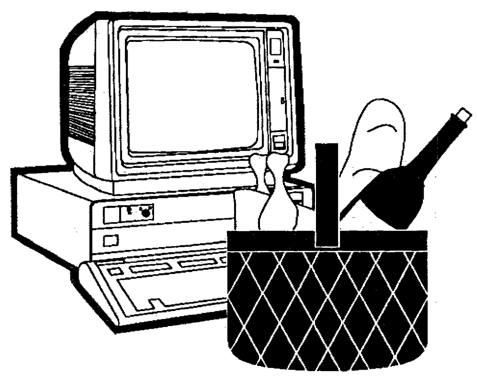

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1. How many new food and grocery products were introduced in 1989?

   (a) 989   (c) 8,971
   (b) 3,787   (d) 12,055

2. Which group dines out most often?

   (a) 14-24 year olds   (c) 45-64 year olds
   (b) 25-44 year olds   (d) 65 years old and older

3. Do you know the largest market for U.S. exports of processed food?

   (a) Canada   (c) The Netherlands
   (b) Japan   (d) Mexico

4. Let's check your knowledge of the many "new" foods available these days. Do you know what *surimi* is?

   (a) A type of cabbage   (c) A fat substitute
   (b) A fish product   (d) An artificial sweetener

Ready to tally your score?

4. Surimi is a minced (b) *fish product* used in products that simulate crab, shrimp, and other popular seafoods.
3. Exports of processed food to (b) *Japan* totaled $5.4 billion in 1989, followed by $1.5 billion to Canada.
2. The correct answer is (b) *25-44 year olds*.
1. The correct answer is (d) *12,055*, but an estimated 90 to 99 percent of new food products fail.

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