IMPLICATIONS FOR CONSUMERS IN THE WORK OF THE NATIONAL COMMISSION ON FOOD MARKETING

Talk by G. E. Brandow
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The Food Commission spent one and one-half years in making as thorough an economic study of the food industry as time and money permitted. On instructions from Congress, the Commission sought to appraise the effectiveness of competition in the industry, its efficiency, services to consumers, and the distribution of economic power in the system. Also according to its instructions, the Commission presented findings and conclusions on these topics and on desirable changes in statutes or public policy. The Commission's findings and conclusions are presented in its final report published last June, and ten supporting Technical Studies set forth a great deal of economic data and analysis about the industry.

I hope in this talk to develop the principal implications for consumers contained in this body of data, analysis, findings, and conclusions. The Commission was critical of the industry in some respects, but the criticisms must be kept in perspective. A favorable over-all appraisal was expressed as follows: "The Commission completed its study believing that the contribution of the food industry to a high and rising level of living was fully comparable with that of other leading sectors of the economy. In broadest terms, the industry is efficient and progressive. Supplied by a highly productive agriculture, manufacturers and distributors have provided consumers with a varied, abundant, and nutritious array of foods at generally reasonable prices."

When the Commission saw ways in which the industry's performance might be improved or a continuing good performance might be more nearly assured in light of changing conditions, it proposed measures it believed would be useful. Here the Commission was dealing with controversial issues, and there was dissent within the Commission itself about them.

The consumer's stake in effective competition

Much of the Commission's work centered around the nature of competition in the food industry and how, if at all, it was being modified by the industry's changing structure--that is, by the growing size of food manufacturers and retailers, by the tendency for successive steps of production, processing, and

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distribution to be combined under one management (vertical integration), and by "corporate sprawl" across separate fields. No one has a greater stake in effectiveness of competition than the consumer, for the nature of competition has much to do with the products offered at retail, how they are packaged and distributed, and--especially--the terms on which they are offered. Our economic system relies mainly upon competition as a built-in form of discipline requiring business firms to produce goods and services useful to consumers, to do this efficiently, to be progressive in developing better methods and products, and to hold prices closely in line with necessary costs and reasonable profits.

The Food Commission studied the competitive environment in which the food industry operates, and its performance, in an effort to appraise whether competition is effective in this sense. On the whole, the industry scored well. The Commission's principal concern in this area was that business might become so concentrated in the hands of a few dominant firms in the several branches of the industry that the discipline of competition would be lost. It proposed, therefore, that the largest firms should not be permitted to acquire larger shares of markets by merging with other firms in the same field. This proposal asked for more positive application of a policy that extends back for three-quarters of a century. This morning, however, I am less interested in discussing the particulars of the policy than to show that the issue of how to maintain effective competition is highly significant to consumers.

The spread between farm and retail prices

A perennial topic of discussion is the spread between farm and retail prices. The Commission developed additional data about price spreads and made extensive studies of the costs and profits that lie behind them. The industry was considered to be generally efficient, except for certain selling and distribution practices discussed in the next section. On the whole, profits in the food industry were about in line with profits in the American economy at large; only in a few fields were profits high enough to indicate substantial ability to insulate prices from the leveling effects of competition.

It would be possible to reduce some price spreads without diminishing value rendered to consumers. But, in the main, price spreads are high because processing and distributing foods are costly even when efficiently performed. In part, price spreads are high because consumers want variety, built-in maid service, and pleasant shopping environments; a wide price spread is not objectionable if it creates corresponding value for consumers. I particularly want to warn against an apparently easy answer to farmers' and consumers' problems--the notion that it would be possible to reduce consumer prices and raise farm prices by substantial amounts by reducing excessive profits and inefficiency in processing and distribution. The gains that seem attainable usually are distinctly modest and difficult to achieve.

Consumer sovereignty and its problems

In the end, the basic reason for the enormous resources devoted to food production and marketing is to satisfy consumers' wants. (The exceptions are export and other nonconsumption uses of food.) The expression of consumer wants in the marketplace is supposed to guide the myriad of activities in which the industry engages. Costs incurred in the production, processing, and distribution of food that do not yield corresponding value to consumers--directly or indirectly, in the long run if not the short run--are a waste of resources and a form of inefficiency. In less formal language, such costs make food prices unnecessarily high.

This is the idea of consumer sovereignty. One of the most important implications of the Commission's study is that consumers have difficulty of playing the role of sovereign well, and the difficulty is likely to become worse. Problems arise from the influence of promotion and its costs and from lack of information with which price and quality comparisons can readily be made.

Selling costs.--The food industry is made up of enterprising people--as we would want it to be--and they do not sit back waiting for the consumer to make her queenly desires known. Instead, they engage in all sorts of advertising, sales promotion, and other devices to get her to buy what they have to sell. New products, some of which she never thought of, are launched at her with almost as much planning and effort as goes into a rocket launching at Cape Kennedy. Retailers improve their stores, provide parking lots, offer trading stamps, run games, and jiggle prices up and down to attract her into their emporia. In short, Lola gets, not what Lola wants, but what Lola can be sold.

This situation is not dealt with easily either by the consumer or public policy because such behavior of the food industry (and it is by no means confined to foods) has both desirable and undesirable aspects. The consumer certainly gains from information about the foods that are available and at what prices. She quite likely approves of better stores and parking lots and is willing to pay for them. Many new products undoubtedly are worth their cost. But much advertising is merely expensive attention-getting, and false impressions of value may be implanted in the consumer's mind. For every genuinely useful new product, there may be a dozen trivial variations of shapes, colors, and sizes that serve mainly to increase costs of manufacturing and retailing.

The Commission's data contain numerous examples of the higher prices that may result for consumers. Between 1955 and 1964, large retailers added about 4 percent to the selling price of food to cover higher costs of doing business; 41 percent of the wider margin for retailers was accounted for by increased promotion costs, including trading stamps. (The stamps, of course, had some value to consumers.) A declining rate of inventory turnover contributed to higher retail costs; the rising proliferation of products carried by retailers was one of the reasons for falling turnover.

More than $2 billion is spent annually in advertising food. In an extreme case, breakfast cereals, about one-fifth of the money the consumer spends goes to pay the cost of persuading her to buy a particular brand rather than another and to buy it in a particular store rather than in the one a block or two away. At the other extreme, two products often sold by grade, fresh beef and frying chickens, have only about 3 percent of the sales price represented by promotion costs, mostly by retailers. Promotion--advertising, trading stamps, games--ordinarily is undertaken to increase volume of business, but any successful promotion by one firm tends to be countered by competitors. Thus the firms often end up merely by maintaining volume rather than increasing it, and promotion costs must be covered by higher sales prices.

A striking indication of imperfect knowledge on the part of consumers emerged in a comparative study of manufacturers' advertised brands and retailers' brands. For such standard, familiar products as canned peaches and frozen orange juice concentrate, prices of advertised brands averaged about 20 percent higher than prices of retailers' brands of comparable quality. This is a situation that could scarcely exist if a large proportion of consumers were good judges of intrinsic value and bought accordingly. The lesson here is not that retailers' brands are always best buys--that is not true--but that significant gains can be made by consumers by better-informed buying.

Some inefficient distribution methods persist at least in part because they fit into processors' selling efforts. Much bread, considerable milk, and a number of grocery items such as crackers and cookies are delivered to stores and displayed for sale by the manufacturer or processor. This often makes distribution costs from plant to store shelf unnecessarily high, but it permits the processor to manage the display of his product in the store. Consumers' tendency to buy on impulse or to judge quality by the amount of product on display is an important reason why the processor wants to sell this way.

The high costs occasioned in some parts of the food industry by intensive promotion, superficial product proliferation, and expensive distribution methods--all tracing back to the incentive to influence the consumer--were the principal shortcoming the Food Commission found in the industry's efficiency.

Information; the ability to compare.--The consumer obviously needs accurate information and the ability to compare products offered to her if she is to shop in her own best interests and play the role of sovereign effectively. The difficulties here are familiar and were summarized by the Commission in its final report as follows:

> "Some advertising is misleading or downright deceptive; some package sizes and designs exaggerate the contents; essential information that should be contained in labels is often hard to find, illegible, or even missing; package contents may be in odd or nonstandard amounts for no technical reason, making price comparisons difficult; per-pound prices of the 'large economy size' occasionally

are higher than per-pound prices of smaller sizes; 'cents-off' labels proclaim price reductions that may not be genuine; special prices create confusion as to what the going price is; not all products advertised as weekend features are sold at special prices; consumer grades are confined to a few products and are by no means uniformly used even for those; and standards of identity are lacking for many products."

Again, most of these are not black-or-white matters in which consumers' interest clearly indicates precisely what the situation should be. For example, there are important problems in knowing what information in labels would be most useful to consumers. Technical matters relating to the physical properties of foods have an important bearing on package sizes that would be best from the consumers' standpoint. How far consumer grading can feasibly be carried can be determined only by experience. In the Food Commission's view, however, the marketplace could and should provide the consumer with more information, contain fewer distractions and sources of confusion, and otherwise enable consumers to shop so as to get the most for their money.

Trends in the food industry suggest that the situation may become even more confusing. Rising consumer incomes and changing styles of living, together with new technology in industry, increase the emphasis on convenience products, prepared foods, and other highly processed, often elaborately packaged items, none exactly comparable with another. Price and quality comparisons will be even more elusive than they are now.

Commission conclusions relating to consumers

"The consumer is, indeed, a sovereign;" the Commission's final report said, "but she is not, as she is so often told, an all-knowing, all-powerful, and fully-served sovereign." The Commission's conclusions as to what might be done about this strongly emphasized the importance of giving consumers as much objective information as practicable and then letting their free choices guide the industry.

One proposal was to require consumer grades on foods to the extent feasible. This would apply mainly to widely used packaged foods. It would not apply to perishables, to new products, or to highly heterogeneous foods. This seemed to be the best way to cut through the product differentiation that makes price and quality comparisons difficult. Of course, brands would continue to be used and probably would have meaning for many consumers. But emphasis would be shifted from what is outside the package to what is inside it.

A related proposal was that standards of identity should be established for more foods. These define what a given food is, so that consumers will not be misled and reputable processors will not be put at a disadvantage. Since grading and standards may come slowly, the Commission urged that added information be contained in labels where this would be especially helpful--for example, showing the butterfat content and overrun of packaged ice cream.

The Commission also urged that, "Packages and their labels should assist consumers in gaining an accurate impression of the contents and in making price comparisons." Here the Commission was speaking of ideas popularized under the heading of "truth in packaging," but it did not endorse any particular bill.

A final proposal dealt with the desirability of making consumer information, education, and protection a more positive part of the activities of the federal government. The Commission specifically proposed a centralized consumer agency in the executive branch. While I personally lean toward the alternative of having existing agencies give full recognition to their duties and opportunities in the consumer area, the need for adequate representation of consumers' interests in government activities seems clear.

The Commission was able to give some attention to the special problems of the urban poor. Families in low income areas appear to pay more for food than do other families, not because particular retailers discriminate against the poor but because the poor usually are served by small stores charging above-average prices, often need credit, and frequently buy in small amounts at high unit prices. Essentially, the poor are a high-cost market, and this compounds their difficulties. The poor also seem to be the least-skilled buyers and among the most readily influenced by promotion.

Concluding remarks

The results of the Commission's work lead to the following summary:

1. There are significant gains to be made both by individual consumers and in the over-all performance of the food industry if consumers can be enabled to be better-informed buyers of food. Potential gains appear to be greatest for poor families.

2. The government has a role to play in providing "rules of the game" that assure consumers of more adequate information. Included are consumer grades, standards of identity, and reasonable standards for labels and packages. None of these substitutes someone else's choices for consumers' choices.

3. The final responsibility rests with the consumer. Education has an important contribution to make in enabling men and women to be more effective as consumers, just as it has in making adults more able to achieve their goals in other areas.

4. The gains to be realized, with perhaps a few exceptions, are not the dramatic and readily achieved kind that make a big splash and win instant acceptance. The spread between farm and retail prices we hear so much about is not going to be drastically reduced. The task is long-term and unspectacular.

5. Lasting gains are likely to come only from solid analysis and education based on sympathy for consumers' interests and on knowledge of the economic and technical facts of life about the food industry. The problems are too complex to be solved merely by good intentions.

To this I should like to add three further observations.

It is a major misfortune that a deep gulf usually separates consumer and industry groups when policy matters such as the foregoing are discussed. The tension between consumer and industry spokesmen is approximately that between cats and dogs. Often, neither shows much real interest in understanding what the other is talking about. Many problems that might be mitigated by voluntary means remain untouched, with the result that demand for government action rises.

The second observation is that educators and researchers working on problems of consumers need to form independent appraisals. This is a controversial area. One can easily get--in fact, one can hardly avoid--all sorts of handouts setting forth self-serving interpretations of issues relating to consumers. Some sophistication in appraising such interpretations is essential.

Finally, it appears that we now are in a period when systematic, continuing attention to consumer interests is developing. Such questions will receive more attention in research, adult education, activities of government agencies, and--in response--industry itself. Home economics can play an important role in this development.