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PANEL DISCUSSION: OUTLOOK FOR THE FOOD AND FIBER INDUSTRY*

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The great revolution in the retail farm supply structure is now past history. Traditional independent and cooperative outlets were challenged by the development of manufacturer-owned (integrated) retail units. As a result all of the farm supply industries freshly sought an answer to the question: Are we meeting the demands of farmers in the most effective manner? We heard a great deal about complete agricultural service centers, about highly specialized anhydrous ammonia outlets and for a substantial range of product and service-dispensing retail units serving farmers needs between these extremes.

In the midst of this diversity of retail outlet type, a commonly expressed question was: What does the future hold? Will farmers of the future be supplied by one type of outlet rather than another? I wish to suggest to you this morning that the diversity in farm supply retailing will continue for some time.

For convenience, manageability and aggregate policy value we speak of the demand for an input like fertilizer. Or we may wish to define this product more narrowly (demand for anhydrous, etc.). But usually we do not think in such broader terms as the demand for a "fertilizer program". Yet you and I know that many farmers buy

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fertilizer in context of a complete servicing program -- farm management services are provided to help farmers decide on crop production, soil tests are made, fertilizer levels recommended, and the fertilizer is delivered and applied. The farmers who buy their fertilizer this way clearly represent an extreme on a spectrum of product-service demands for fertilizer. The other end of this spectrum might be represented by the farmer who buys his nitrogen at the lowest possible cost, and picks it up, and applies it himself. Similar diversity in demand exist for other inputs.

These demands are further segmented by product differentiation due to brand names and "special secret formulations". And true to the market patterns associated with monopolistic competition, product or outlet loyalties exist and a range of prices are paid for essentially the same product.

The severability of the demands for certain farm inputs largely explain the continued existence of diverse retail structures. The continuance of such a structure would have to be justified by the projection of this demand segmentation. This leads us to the question: What are the primary forces that create different expressions of demand for purchased inputs by farmers? Much of the difference can be explained by variations in (1) opportunity costs and (2) farmer knowledge.

Opportunity Costs

Whether a farmer has an input like feed delivered to his farm or picks it up clearly depends upon several things: (a) availability of a truck, (b) immediate alternative uses of his time, (c) joint decisions

(like picking up a machine part) or (d) it may be a result of a more general decision to not concern himself with feed pickup as a general practice. Viewed in the broader context, he has made a long run decision to specialize his time and resources on tasks other than feed delivery. Given that farmers value their time differently, that these opportunity costs vary over the year and by size and type of operation, some diversity in product-service demand will continue to exist.

Farmer Knowledge

In assessing the role of knowledge in the purchase of farm supplies, it is convenient to categorize it as (a) technical and (b) market knowledge. U.S. farmers are noted for their technical competency but, of course, technical knowledge about farming is not complete. There is still a "mystery" about feed formulation, for example. Every feeder (and certainly every feed manufacturer) has his own theory of what should be fed and in what quantities. I doubt if this uncertainty will be allayed in the near future.

Without a "market news" service on the input side, price information on farm supplies must be sought out by each farmer. This imposes a "cost of search" on the farmer, which interrelates with his opportunity costs and technical knowledge. In a market that emphasizes non-price competition, information about prices is not difficult to obtain but is difficult to assess. I do not see this market knowledge factor changing much in the years ahead.

In sum, opportunity costs and inadequate knowledge will encourage the continued segmentation of demand for farm supplies. In turn, I offer you the outlook for a highly diversified retail farm input structure.