

FARM AND RANCH BULLETIN

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THE WHY OF FOOD PRICES

Supplying food to 192 million U. S. consumers is a major endeavor of the marketing system. The food industry is one of the more important segments of our economy and faces new demands from consumers each day. Marketing firms have increased in some lines — such as fully processed, ready-to-cook, and specialty items — and have grown larger in others, while the numbers of producers of raw food products have decreased.

The movement from rural areas to cities has contributed to the need for specialization among farmer groups and has encouraged the more complete preparation of food items by processors in order to meet the changing pattern of family activities. The demand for prepared foods, more variety, and different methods of packaging has changed the marketing structure and increased the spread between the price farmers receive and the price consumers pay.

The costs of the marketing functions, including transportation and packaging, have increased, since more is demanded of each function before a product reaches the consumer. The addition of built-in services, however, has not added proportionately to the cost, since gains in productivity also have been increasing. Fewer farmers and ranchers have provided the total volume at a cost lower than it would have been without the adoption of new technological advances.

During the past 15 years, tremendous strides have been made in all phases of marketing

from the producer to the consumer. The food marketing industry is presently a \$46 billion a year operation and employs 4.8 million people. The increasing volume of business and the growing number of employees have been needed because the marketing services demanded by consumers have more than doubled. The result of these demands has been an increase in overall prices of food since 1947-49.

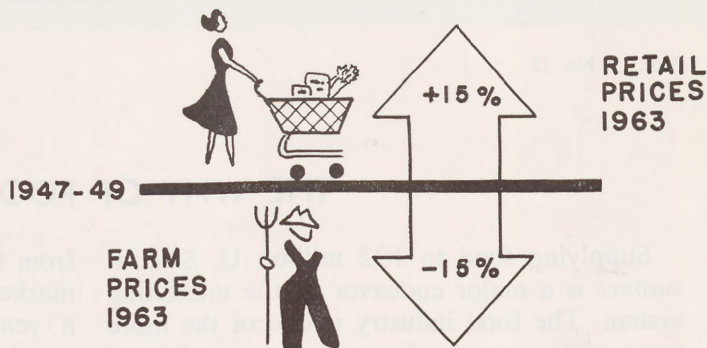
Prices for unprocessed raw farm products at the same time have tended downward. The marketing share of the consumer's food dollar is the greatest in almost three decades, but the farmer and rancher receive an average of only 37 cents of this dollar. The farmer's share of the consumer's food dollar fluctuates in relation to the need for marketing services before reaching the consumer. The amount of processing and packaging, the length and type of storage, and the extent of other services needed determine, in large part, what the farmer's share will be.

Changes in the preferences and tastes of consumers for different foods, as well as in the form desired, have also kept the dynamic food industry and the producer active in making the necessary adjustments. The shift in consumer demands among the various products has resulted in some products being faced with a growth equal only to that of population increases, while other products, such as frozen foods, account for an increasing percentage of food purchased, as consumers have more income to exercise their demands for a greater variety. A reduction in the manual effort ex-

FOOD PRICES

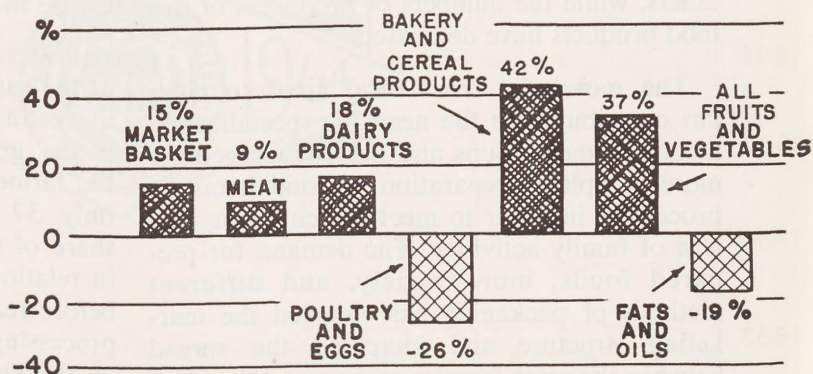
FOOD COSTS CONSUMERS MORE THOUGH FARMERS GET LESS. Retail prices of food, excluding seafood and imports, were 15 percent higher in 1963 than in 1947-49. How come — when farmers got 15 percent less? The answer is a 44 percent increase in marketing costs.

CHANGES IN FARM AND RETAIL PRICES



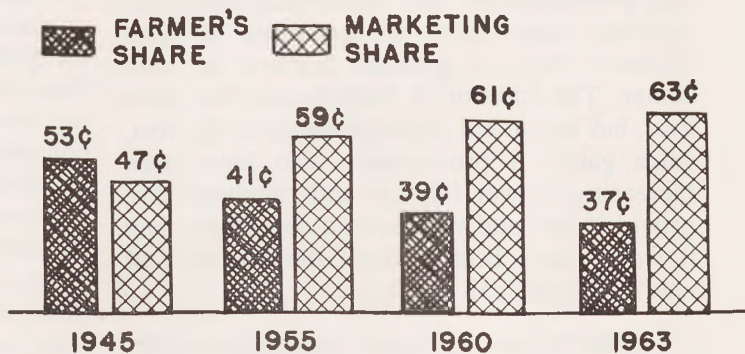
RETAIL PRICE RISE HASN'T HIT ALL FOOD GROUPS. Bakery and cereal products, and fruits and vegetables have each climbed around 40 percent. But poultry and eggs, and fats and oils actually cost considerably less today than in 1947-49.

CHANGE IN RETAIL COST 1947-49 TO 1963



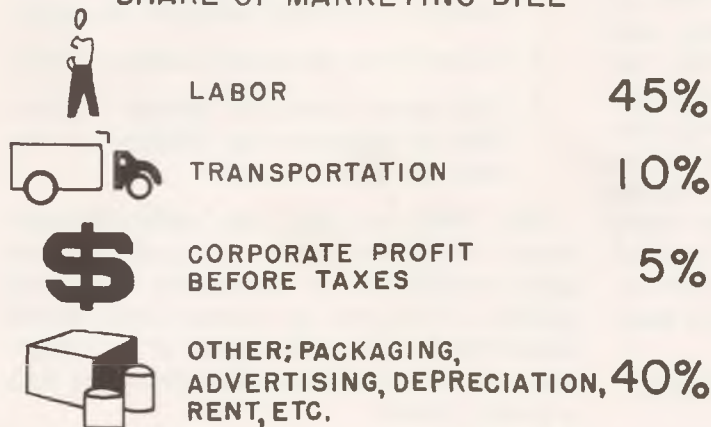
MARKETING TAKES EVER MORE OF CONSUMERS' RETAIL FOOD DOLLAR. At war's end, farmers got over half of every retail dollar. Today they receive just over one-third. The rest goes to process, package, transport and distribute the food the farmer grows.

CONSUMER'S FOOD DOLLAR



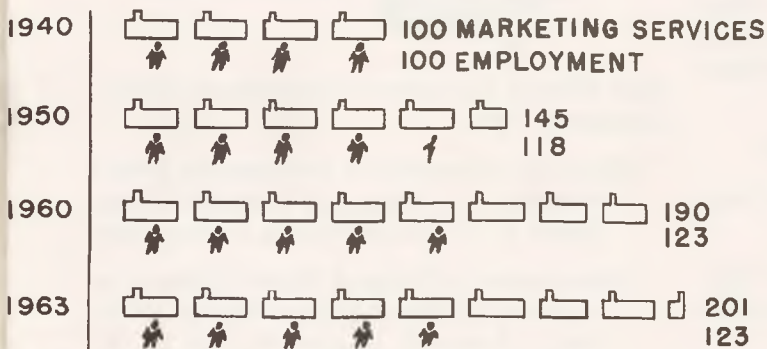
AND WHY... ■■■

SHARE OF MARKETING BILL



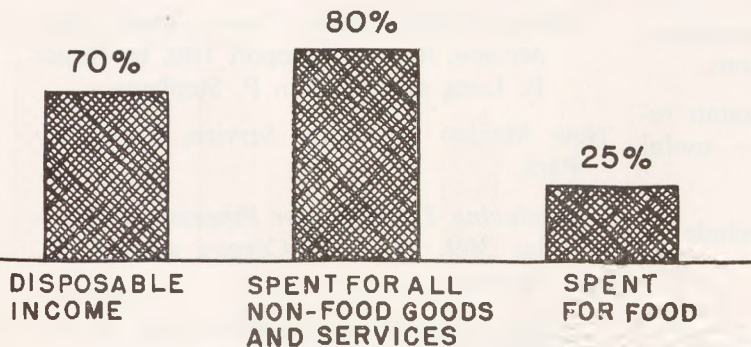
RISING COSTS ARE KEY TO MARKETING BILL. Food marketing is a giant \$46 billion a year operation, employing 4.8 million workers. All costs have risen in the last 15 years, but labor costs—the biggest item—count most. Average hourly earnings, now \$2.17, have doubled since 1947-49. Still workers in food processing firms don't make as much as those in manufacturing as a whole.

MARKETING SERVICES AND EMPLOYMENT



WORKERS EARN MORE BUT PRODUCE MORE, TOO. Retail food prices would be higher today if output per man-hour hadn't increased. While earnings have nearly doubled since 1947-49, labor costs per unit of product have gone up only 36 percent. Marketing services have mushroomed since 1940 with a smaller increase in employment.

CHANGE IN PER CAPITA INCOME AND SPENDING INCREASE SINCE 1947-49 PER PERSON



FOOD IS A BARGAIN DESPITE MARKETING COST INCREASES. Personal income has increased far more than food expenditures in the last 15 years. What's more, we're buying more meat and other high quality foods which would have added to the food bill even if prices hadn't risen.

Figures are for USDA's market basket of farm foods representing quantities purchased by an urban wage earner or clerical worker family in 1952.

pended on many jobs has reduced food energy requirements and thus affected the buying habits of consumers.

From 1962 to 1963, the cost of the farm food market basket had the greatest year-to-year advance that has occurred since 1958, as the charges for assembling, processing, and distributing rose rather sharply. Labor has been, and continues to be, the largest single cost in the marketing system, even though productivity per man-hour worked has been increasing. Despite the rising cost of marketing, which is attributed to more services being added, the American consumer is the best fed in the world on the lowest percentage of disposable income spent by consumers for food.

Credit — A Boon to Agribusiness?

Unless all factors involved in developing a credit policy are carefully considered, the extension of credit to customers can be a risky business, says Kenneth Wolf, Extension Economist with Texas A&M University. Mr. Wolf points out that serious financial trouble often develops when managers of agribusiness firms fail in this respect.

Advantages to granting credit include:

1. It provides the setting for a more personal relationship with customers.
2. Credit customers are more regular; they usually do not pursue bargains as much as do cash customers.
3. Quality usually is of more interest to credit customers than is price.
4. Goods may be exchanged and adjustments may be made more easily.
5. Credit customers provide a permanent mailing list for special promotions.
6. A study of credit customer accounts reveals buying trends and habits — useful information in planning sales.

Disadvantages to granting credit include:

1. Operating capital is tied up.
2. Pricing must include interest on borrowed capital needed to grant credit.

3. Some customers overestimate their abilities to pay.
4. The privilege of returning goods often is more easily abused by credit customers.
5. Additional administrative costs are incurred in handling accounts receivable.
6. Losses from delinquent accounts occur.
7. Delinquent customers hesitate to continue to patronize the business as they may feel embarrassed.

Mr. Wolf says that wise agribusinessmen should weigh these advantages and disadvantages carefully before formulating their credit policies. Those who do extend credit should insure that they are receiving all of the benefits that can be derived from the advantages such a policy affords.



Publications

New Mexico Agricultural Experiment Station,
University Park:

Effects of Wounding on Sweetpotato Sprout Production, Research Report 92, by David C. H. Hsi and David B. Ferguson.

Performance of Dryland Winter Barley Varieties at the Plains Branch Station, 1954-1963, Research Report 96, by N. R. Malm.

Performance of Dryland Spring Grain Varieties, Plains Branch Station, 1960-1962, Research Report 97, by N. R. Malm.

Pump Irrigation Costs, Curry County, New Mexico, Research Report 100, by Roger B. Long and William P. Stephens.

New Mexico Extension Service, University Park:

Producing Tomatoes for Processing, Circular 369, by J. N. Corgan and M. D. Bryant.

Copies of these publications may be obtained by request to the respective publishers.

