MARKETING ADJUSTMENT AND AGRICULTURAL ADJUSTMENT

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What effect will the changes in the organization and structure of the food processing industries have upon agricultural producers during the next several years? The increased decentralization and the rise in the number of small and medium-sized processors in the meat industry will increase the competition for supplies in the producing areas. This increased competition is in part the result of the increased number of buyers in the market and in part the result of increased requirements for high quality raw material. Along with the possible price benefits resulting from increased competition for raw materials will be the increased quality requirements which these new plants will demand. The increased control of the quality of finished products coupled with increasing concern with production costs in the plant means that processors will be more interested in raising their quality requirements and reducing the tolerances within different quality grades. It is very likely that producers will be forced to adopt new and improved breeding systems and production methods if they are to compete effectively in this higher quality, more competitive market. It will mean relatively higher producer prices than would have prevailed without this development. It will also mean increased quality standards with greater price spreads for lower quality products.

Another possible result of the increased decentralization of meat processing and milk processing plants in the Midwest region is increased competition from other areas. The shift out of cash crops, such as wheat and cotton in other areas of the country, has led farmers into feed grain and livestock production. Up to this time, however, this production has been geared in many areas to the market outlets that were available. Increased decentralization through the establishment of small flexible plants in such areas will provide added incentive for production in these areas. This increased output will increase the pressure on Midwestern producers. While it is difficult to see any mass shifting of the major production areas, it is very likely that midwestern producers will have to be able to produce a higher quality product for lower average price level in the coming years.

The change in the nature in organization of the processing industry will mean that the distance between the producer and the consumer will widen further. The consumer will be further removed in terms of product identification from the producer than in the past. Additional processing

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and fabrication of agricultural products in the marketing system will make it more difficult to separate the consumers' demand for food from the consumers' demand for food services at the retail level. Along with this will come an increase in communication problems within the production and marketing system between the producer and the consumer. Also, the producers' proportion of the consumers' food dollar will decline as more and more processes and services are added to products by the processing and marketing system.

All of the above are not new developments. They have been going on for some time, and as the nature of the processing industry changes, they will become more intense in the future. This increase in intensity will not occur at an even rate for all products. It will occur much more rapidly, for example, in meat products, perhaps, than for poultry products. To a large degree the poultry adjustment and changes have already taken place, whereas in the case of red meats, we are in the middle of this process of change. This intensification of competition for markets, competition for supplies, and increased quality requirements provide an additional incentive for larger-sized farm units and increased production efficiency at the farm level.

The fact that the retail outlets are very quickly becoming very capital intensive and are faced with the constant marginal cost for labor, as well as an attitude of nonprice competition along with a host of other things, has had repercussions in the processing industries. The trend toward larger units in terms of both the individual store and the retail firm has tended to increase the bargaining power of the retail sector of the food industry in relation to processors. This increased economic power has caused processors to alter their operations drastically during the past 15 years. Even casual observation reveals a very significant shift in product type and quality in almost every area of food processing.

The cereal industry, once characterized by the cracker barrel, 100 pound sack of flour, and bread and pastry baking, has shifted emphasis drastically in the past 15 years. The cereal industry was perhaps the first major processing area to recognize the possible gains from products that were more closely tailored to consumer needs and products that could be merchandised effectively through modern retail units. The development of cake and pastry mixes of all types represented a radical shift in operations for the cereal industry. Shifting to consumer-size units and branding and promoting them on a nation wide basis resulted in cereal processors becoming involved in the day-to-day decisions at the retail level. This meant nationwide promotion, constant expenditures for product development and product improvement, and to quite a large degree, a shift in emphasis from merchandising unfinished components to merchandising food as only one of the components in a product whose major attraction was the inclusion of labor and services in the final product.
The poultry industry has undergone a similar transition since World War II. It is even more apparent, however, in the case of the poultry industry because the shift in product type and the services connected with the product coincided with the development of the poultry industry as we know it today. Ice-packed poultry and New York dressed poultry are terms the modern housewife probably would not recognize if she were quizzed about poultry products. As the poultry industry moved from a farm chicken business to a modern, highly integrated commercial meat production business, the product shifted from a product with a minimum of processing to a highly processed and serviced product. Two to 3-pound broilers available 12 months of the year was unheard of prior to 1940. In the case of poultry meat, the shift in emphasis from a partially processed to a ready-to-cook product did not involve as much nationwide promotion or product differentiation between processors at the retail level. Much of the competition was in the form of price competition with competing red meats. Advances in production technology resulted in production efficiencies which were very quickly passed on to the retailer and consumer.

The red meat industry has undergone a similar shift in type of product during the past two decades. Meat processors have been constantly faced with the need to develop products that will compete with nonmeat foods in terms of convenience and price. More and more of the retail meat products are processed and serviced products as compared with 20 years ago. The introduction of defatted, skinless hams, heat-and-eat sausage products, corned beef, and many new types of luncheon and loaf products are first-hand evidence of these shifts.

One sector in the food business has not had as many basic changes in handling, processing and servicing as have the aforementioned areas. The fruit and vegetable industry, especially the vegetable industry, has not had nearly the basic change in type of product being merchandised today as compared with pre-World War II products. Even here, however, there have been some significant shifts in merchandising methods for particular items. For example, carrots, which were once sold in bulk with tops, are now prepackaged in film bags, topped and priced on a pound basis much as are cake-mix products, poultry products and meat products. In addition to the change in the merchandising of several of the fresh products the vegetable industry has been foremost in shifting from a fresh or canned product toward a frozen product. While this shift has had an impact upon merchandising methods and sales at the retail level, it has not involved a basic change in the product form but rather additional services and specialized storage for the vegetable product.

In addition to the shifts in the product type that have occurred within these major sectors, a completely new area of food processing has also developed. Since 1945 the frozen food industry has increased spectacularly in both
product line and size. While much of the increase came in the form of previously merchandised products now being offered to consumers in an additional form, such as frozen vegetables, frozen fruits, and frozen meat and poultry products, it has also involved development of completely new products and services that heretofore were unavailable. For example, the frozen concentrate juice industry provides a completely new product line available to consumers. Even more striking, however, is the development of the frozen dinner and frozen pie business. In these products the processor and merchandisers have been primarily concerned with developing a product that would provide the utmost in convenience and, at the same time, have price appeal.

**Small Changes in Branding**

The trend toward a greater degree of concentration of retail units into local and small chain operations both as single corporate entities and voluntary associations has resulted in a very rapid increase in the number of chain "private" brands available to consumers. This, I think, is a natural outgrowth of the developments we had been discussing. As store size and volume increased, small chains and associations were able to economically brand products sold through their outlets. As processors shifted their type of products and developed more products in final form for consumer use, it provided an added incentive to merchandise these products to retailers on a contractual, custom-labeled basis. In many cases processors were not especially enthusiastic about the shift from packer labels to private labels. They realized that the increased use of private labels would give them less control of consumer buying decisions. The store rather than the packer was associated with a certain quality and a certain flavor of a particular product. However, the size of retail outlets and the market power represented by these outlets made it imperative that they merchandise their product on a private label basis as well as on a packer label basis.

The retailers, of course, have been very interested in pushing private labels for several reasons: (1) In many cases the retailer brand is of equal or better quality than is the packer brand; (2) if they merchandise primarily their own brand, they are merchandising every other product in their store whenever a consumer purchases a private label item, and (3) their margins in many cases are better on their own labels than on packer labels.

This growth in the number of small chains and in the resulting growth in the number of private brands has forced the processors to do more national promotion and merchandising of packer label items. This is an effort on the part of the major processors to regain, to some degree, the consumer loyalty they once enjoyed. Increased brand loyalty results in greater
control of consumer purchase patterns. Private labels, which were once primarily confined to canned fruit and vegetable items, now include such diverse items as meat products, milk, frozen foods and bakery items. The processors' problem in this "battle of brands" is, of course, further complicated by the fact that there is not, so far as the consumer is concerned, very much actual difference between private labels and packer labels. This is to be expected since most private labels come through the same plants and use the same raw materials as do packer label items.

As the marketing power of the retail sector of the food industry has increased, it has forced some very fundamental changes in the wholesaling methods and procurement methods involved. Many retailers are now large enough to specify product quality they wish and to demand price offers before the sale is completed.

This increase in specification buying has prodded processors to devise methods of increasing control over the quality of raw material and the processing facilities required to perform the functions. This means two things: (1) The processors have been investing in new high capacity, high speed operations which will enable them to exercise more precise quality control and cost control of their operations and (2) it has resulted in more streamlined and more direct methods of procurement of raw materials.

The shifts in plant location and type of plant in the meat industry, the canning industry and the milk industry are examples of this type of change. A large investment in new plants has taken place in each of these areas. These plants are flexible plants in that they can operate at different levels of output efficiently, as well as being very capital intensive. This, in a sense, provides major processors with scale advantages (economies of size) that are not available to retailers through other channels. When this scale advantage is combined with increased and accelerated promotion and advertising programs to hold and to some extent retail consumer loyalty, it promises stiff competition for private labels so far as price and quality is concerned.

The need for increased control over quality of finished product means that processors must also increase control over quality of raw materials. In many instances this has meant that the processors have made efforts to develop a source of supply on contractual basis or on a direct basis that will permit them to exercise discretion in accepting or rejecting the product offered to them for processing and to exercise more price discrimination in purchasing raw materials. This has occurred in the case of egg handling and packing. During the past 15 years the traditional first assembler-wholesaler-packager-retailer chain of events has been to a large degree supplanted by a direct-purchase system by wholesaler-retailers wherein they serve as assemblers, handlers and packagers of eggs at the source of supply. In some cases this has been accomplished through direct extension of their procurement failities into producing areas, while in other cases it
has been accomplished by contractual agreements with assemblers in producing areas to provide a certain volume at a certain quality level for every month of the year. This need for quality control of raw materials has also resulted in more direct buying on the part of meat processors. This has permitted meat processors to "educate" producers as to the quality they desire at a given plant and thereby reduce the variation in quality of finished products.

The new, relatively small, highly efficient, flexible plants are better able to operate profitably under present widely fluctuating supply conditions than are the large terminal-based plants built 30 to 50 years ago. The adoption and installation of modern, high speed processing has also made it possible to operate profitably at somewhat lower levels of capacity than was true with the large centralized plants years ago.

In addition to advantages gained from being able to operate profitably at lower levels of operation these modern, decentralized plants also are in a better position to offer improved service to processors' customers. Cost of transportation both in terms of distance and in terms of time is considerably reduced under such operations. In addition, these plants are more adaptable to specialized production of particular commodities to fit a given market than are large central processing operations.

With the investment in new facilities, new products and accelerated promotion, the processor hopes to regain some of the prestige and consumer control which has been gradually taken over by the retailing sector of the industry. Whether or not processors will be successful in this venture, only time will tell. However, in the intervening period it will undoubtedly provide for some lively competition between the different sectors of the marketing industry.

**Meat Processing -- An Example**

The meatpacking industry is a good example of an industry where the processors had, relatively speaking, a superior competitive position during the 1930's. In the thirties, packers were relatively few in number and were, in a sense, in the driver's seat. On the one hand, producers, from whom they procured the raw material, were large in number and relatively uninformed concerning prices and quality. On the other hand, the customers of the meatpackers, while larger than the producer units, were still relatively small compared with the packers and were large in number. Under these conditions, the packer was in a position to expend resources in research and collecting market information that would provide information concerning supplies, prices and demand that a national distributing system would permit him to exploit. Since 1945, however, this position has been altered drastically. Supermarkets, stores doing $400,000 per
year or more in volume, now account for a major portion of the total retail grocery volume. These operations are larger and are more informed than were their counterparts 30 years ago. Also, in this consolidation and growth process, supermarket operators, either corporate or voluntary associations, have acquired the resources necessary to develop and procure research and economic information concerning food distribution.

At the same time that this consolidation and growth occurred in the retail food industry, there was an extended period of enforced federal meat grading. This reduced some to the advantages of private brands for packers in that retail meat buyers had a basis for comparison of the quality of fresh beef and lamb procured from both large and small meat processors. Because of this grading requirement, small packers who heretofore were restricted to a regional or a local demand because of inability to sell their label to operators in other regions were in a position to sell beef and lamb on a quality basis in any market. This, of course, immediately increased the competition in the processing and distributing business.

In addition, there was increased use and dissemination of market news information to producers. This gave producers additional information concerning market conditions and prices at different points and provided them with alternative outlets which they, perhaps, were unaware of previously and reduced the price uncertainty involved as to price in shipping to more distant points.

These changes contributed to significant changes in the structure of the meatpacking industry. The additional information on the part of producers concerning prices and markets combined with the specification buying made possible through the use of federal grade standards provided added incentives to small shipper-type processors to locate and operate in areas of surplus meat supplies and sell a national market on the basis of grade specifications.

The end result of all these structural changes in the meat-processing industry has been an increased degree of competition in the industry and has tended to center the competition on price rather than brand quality as was the case prior to 1940. The industry today has more of the attributes of a competitive market than it had 30 years ago.

This trend toward decentralization and increased competition between processors has by no means been completed. Within the last year one of the large meatpackers has closed down a number of plants in widely scattered areas of the country. Another packer has recently built several small, highly capitalized packing plants in widely scattered areas. Other companies are also in the process of adding decentralized plants to their operation.