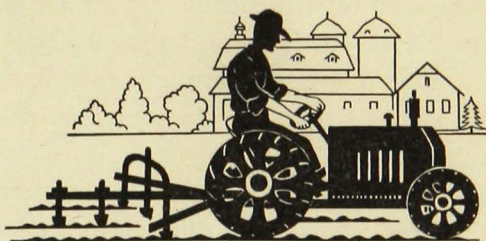
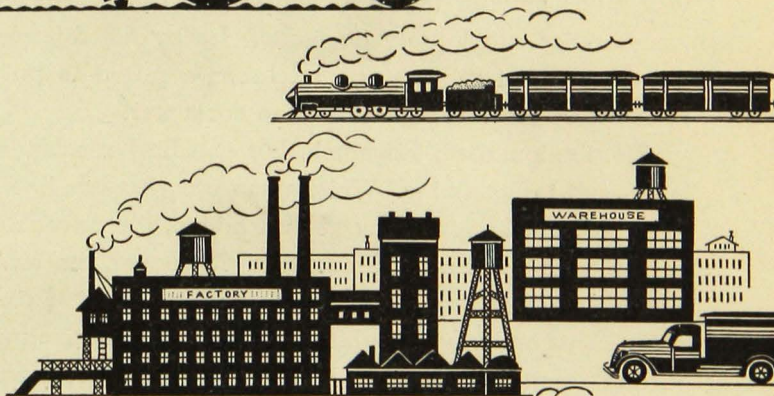


# Marketing Costs of Minnesota Foods

PRODUCER



PROCESSOR



DISTRIBUTOR



CONSUMER



W. B. Carver

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UNIVERSITY OF MINNESOTA  
*Agricultural Extension Service*  
DEPARTMENT OF AGRICULTURE

## Summary

About half of consumers' retail expenditures for the principal food products of Minnesota farmers during the past 20 years have been absorbed by processing and distribution. The share absorbed has been relatively larger when prices were low than when they were high.

For some commodities the "share" returned to the farmer was much smaller than for others. The differences between commodities are largely accounted for by the differences in the amounts of processing and labor required to put goods in the form most acceptable to the consumer.

Distribution costs too much, but just how much too much is difficult to determine. While some progress has been made in improving the efficiency of distribution, the advances have not been as great as in production. Moreover, the increasing specialization of production together with changing consumer preferences and buying habits have placed a relatively greater burden upon distribution. In some cases consumers have slowed up progress in distribution by reluctance to abandon inefficient and costly methods of marketing.

Price spreads between the farmer and the consumer are largely the result of costs necessarily incurred along the way under the existing system of distribution. Further progress in reducing these spreads is not the exclusive responsibility of any one group, but is the task of everyone, including the consumer, who can play an important part.

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# Marketing Costs of Minnesota Foods

By W. B. Garver

**W**HO GETS the consumer's food dollar?" is one of the most frequently discussed questions today. Farmers have been particularly interested in this question during depressions because farm prices decline more drastically than retail food prices, and many farmers therefore feel that "the middleman," or distributor, is taking too large a proportion of the consumer's expenditures.

The spreads between farm prices and retail prices, commonly referred to as "price spreads" or "marketing margins," are the differences

between the retail price per unit of a given food and the farm price of the raw products (grain, animals, and others) necessary to yield the finished product. These price spreads are the payments absorbed by the economic system for the functions of processing and marketing that occur between the farm and the retailer's shelf or the consumer's doorstep. The nature and amount of these processing and marketing services vary between commodities. All farm products, of course, involve some marketing services, and nearly all farm products involve some manufacturing or processing costs. The only major Minnesota farm commodities not processed before delivery to the consumer are eggs and potatoes.

There are many elements in the total marketing costs. The commodities must be transported to markets. Some must be stored at least part of a season. Butter must be churned and packaged; milk is pasteurized and standardized; the grains are milled or crushed and packaged; the meats and poultry require inspection, slaughtering, cutting, packing, curing, and packaging; bread must be mixed, baked,

wrapped, and sliced; insurance must be bought to protect against risks of loss or damage; and jobbers, wholesalers, and retailers must pay interest on capital invested in plants and inventories. Moreover, goods must be delivered to stores or homes, and some must be refrigerated.

All these functions involve a very large bill for the wages and salaries of those who perform large or small tasks in transforming raw farm commodities into finished products and delivering them at the place and in the form most satisfactory to the consumer.

No informed critic of the distribution system would deny the existence of these services and their costs, although many critics evidently lack information on the extent to which such services are involved in distribution and the costs they impose. But a legitimate question has been frequently and repeatedly raised as to whether or not these services and their costs are too numerous and too high. The marketing system through which farm products reach the market is a complicated structure. A flat over-all judgment of the system is hardly pos-

sible. Each commodity has its own marketing system and its own marketing problems.

An over-all picture of the size and variation of the costs of marketing the items in a representative "food basket" of products used by the consumer can be set forth. However, to understand the reasons for the price spreads it is necessary to examine distribution costs by taking one commodity at a time and tracing it through the marketing system, analyzing processing and distribution costs step by step.

Mass production in industry has increased the goods produced per worker threefold in the past 70 years, but the output of distribution workers has hardly changed at all in that period. Is the distribution system modern and efficient or antiquated and wasteful?

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## *A Basket of Foods..*

### How Farmers Share In It

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ONE WAY of getting an over-all picture of the spread in prices between the farmer and the consumer is to price a list of typical foods used by consumers. A "representative food basket" is made up of various foods as nearly as possible in proportion to the quantities usually purchased in one month. In the figures used below these items were priced monthly at Minneapolis average retail prices. Monthly

Minnesota farm prices were used for the corresponding farm products.

The foods included are flour and bread; milk, butter, and cheese; pork and beef; chickens; eggs; and potatoes. The range from the highest to the lowest months, 1920-40, and the average for 1939-40, are shown in table 1. The high values are for 1920, the low, for 1933.

When the margins are expressed as a share of the consumer's retail dollar expenditure, they range from 35 per cent in early 1920 to 65 per cent in January, 1934. For 1939 and 1940 the margins have absorbed around 58 per cent of the consumer's dollar. Taken over the 20-year period, 1920-39, the farmer received slightly less than half (49 per cent) of the consumer's expenditures, with the other half going to processing and distribution.

### Margins Vary Less Than Prices

From figure 1 it may be seen that the margins show less variation from year to year and over the 21-year period than either farm or retail prices. Taking the 1920-39 average as a basis of comparison, the annual margins on the combined list of ten foods for the 21 years never rose more than 10 per cent above the average and dropped only to 13 per cent below the average for the lowest year, 1933. Meanwhile the retail value of the items ranged from 39 per cent above to 31 per cent below the average, and the farm value ranged from 69 per cent above to 46 per cent below the average.

Table 1. Value of 10 Minnesota Foods

	Highest	Lowest	1939-40 Average
Minneapolis Retail Value.....	\$31.68	\$12.37	\$20.00
Margin .....	12.77	7.87	11.70
Minnesota Farm Value.....	18.91	4.50	8.30

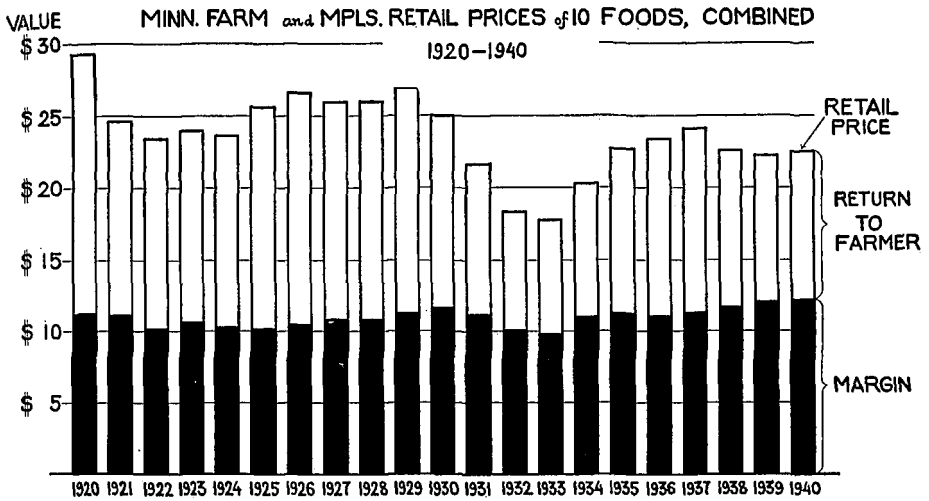


FIG. 1. PROCESSING AND DISTRIBUTION MARGINS CHANGE MUCH LESS THAN RETAIL PRICES OR THE RETURNS TO FARMERS

It should be pointed out that Minneapolis is not the chief market for Minnesota farm products. It is used here only as a practical and rough measure. If allowance were made on this "basket of foods" for the fact that most of these farm products go to other markets, the margins would be even larger because of the costs of transporting to more distant points.

high in price by the consumer and as too low by the producer. Possibly there is much truth in both points of view.

Over the 20-year period, 1920-39, the average Twin Cities retail price per hundredweight of milk was \$5.01. Of this the farmer received an average delivered price of \$2.02, the Twin Cities Milk Producers Association received \$.30 for handling and marketing, and distributors and retail handlers received \$2.69. In terms of prices per quart this means that consumers paid an average of 10.8 cents per quart of which the producer received 4.3 cents, 0.7 cent went to cover the Association's costs, and 5.8 cents was absorbed by distribution agencies. Thus the farmer received about 40 per cent of the consumer's milk dollar, while the marketing association absorbed 6 per cent and the distributive agencies 54 per cent. Since 1929 the producers' return has been less than 40 per cent; in fact, the farmer received less than one third of the consumer's dollar in 6 of the last 9 years,

## Commodity Margins

### The Middleman's Place

#### MILK

Of all the products that have been the objects of criticism as to price spreads, probably none has been as often and heatedly mentioned as fluid milk. Enjoying a reputation as a highly essential and wholesome food, milk is very generally regarded as too

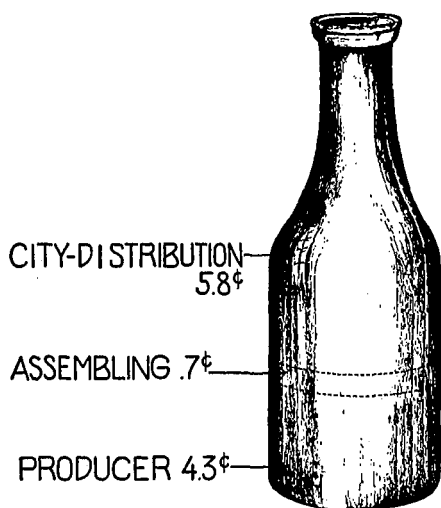


FIG. 2. THE WAY THE CONSUMER'S FLUID MILK MONEY WAS DIVIDED, 1920-39

and for 1938 and 1939 his share was under 30 per cent.

Since the Twin Cities Milk Producers' Association is a cooperative, the margin absorbed by this agency goes almost entirely for the general expenses of the association, for station expenses, and for supplies. About three fourths of the general expense is for labor and salaries. Data from the accounts of the Association indicate that, except for only two years, since 1927 the deduction or spread for fluid milk has had to be larger than actual costs on fluid milk in order to cover full costs on surplus milk processed into cheese, dry milk, casein, etc.

The spread between consumer prices and prices received by the T.C.M.P.A. in recent years absorbed nearly two thirds of the consumer's dollar. This goes to cover pasteurizing, processing, bottling, and delivery to homes and retail outlets. This margin has ranged between \$2.20 and \$3.35 per hundred-weight. At \$3.35 for 1939 the margin was the highest on the record.

Data are available for only one distributing company for one year (1935), and hence the picture of costs here is not conclusive although the costs are roughly alike for all companies. But with distribution absorbing from 5 to 7 cents per quart it is possible to get a fair idea of who gets this spread.

Costs are allocated over all "units": quarts, pints of milk; half-pints of cream, etc.; pounds of butter and cheese. For 1935, delivery and sales expense absorbed 3.04 cents per unit, to cover these items: labor; barn and garage supplies; power, light, fuel, and water; insurance; depreciation on buildings and equipment; licenses; coupon books; repairs, etc. Processing costs (for labor, supplies, power, bottles, repairs, insurance, depreciation) took another 0.96 cent. Administrative expense for office, officers' salaries, supplies, telephone and telegraph, advertising, taxes, bad account losses, etc., cost another 0.73 cent. Four fifths of the delivery and sales expense went for labor. Labor and salaries constituted more than two thirds of the total combined expense.

In the 14 years, 1922-35, this one company had net losses for two years, 1932 and 1933, and over the period showed a combined net profit of 2.5 per cent on gross sales. In 1935 the net profit was  $\frac{1}{2}$  cent per unit. However, fluid milk is sold at a net loss more often than at net profit by distributors. The balance is offset by profit on cream sales. For example, in 1935 this company's cream sales were only 9 per cent of the volume of business but this volume netted more than one half of the net profits, profit on milk being 0.3 cent per quart and on cream 3 cents per pint.

The margin on milk is certainly too wide. But it is not due to any "goug-

ing” by middlemen who thus wax wealthy. It is due to an inefficient and over-built system of distribution.

At present this distribution system is on the defensive against the rapid growth in and around the Twin Cities of “cash and carry” milk stands and stores which are selling an increasing volume of milk at 2 cents to 4 cents less per quart than delivered prices. Sales of evaporated and condensed milk are also increasing in importance.

**BUTTER**

Many changes have occurred in the methods of marketing butter in recent years. Formerly the wholesale receiver and jobber were the key points in the route from creamery to retailer. But by 1935 only a little more than one third of the butter was moving through these channels. More and more creameries are selling on the basis of prearranged agreements directly with retailers and large outlets, such as chain stores and meat packers.

Margins between Minnesota farm prices and retail prices in five markets—Minneapolis, New York, Chicago, Boston, and Philadelphia—amounted to 31 per cent of the estimated consumer expenditure over the period, 1926-38. Creameries get one pound of butter from approximately .8 pound of butterfat for which average return to the farmer was 28.9 cents from the average consumer expenditure of 41.7 cents per pound for the period. Average wholesale price was 33.8 cents. Thus the average margin for processing and wholesaling was 4.9 cents per pound, the retail margin, 7.9 cents.

Studies of creamery costs in the state indicate the average creamery processing cost to have been around 2.7 cents, leaving 2.2 cents per pound for the wholesaling margin. This means

that the farmer received about 70 per cent of the consumer's butter expenditures, while creameries and wholesalers absorbed 12 per cent and retailers 19 per cent. In 1932 the farmers' share was less than 60 per cent, while in 1936 and 1937 it was nearly 75 per cent.

**Butter Margins Decreasing**

The changes in marketing of butter in the past ten years have resulted in a gradual reduction of wholesale and retail margins. Some middle handlers have been eliminated. Chain stores have been handling an increasing proportion of the butter sales and apparently are able to turn stocks over on a smaller margin than most other types of dealers. The wholesale margin was around 6 cents per pound up to 1930, but since that time it has been gradually reduced to less than 3½ cents for the past 3 or 4 years. Similarly, the retail margin was 9 cents to 10 cents in the 1920's and has been reduced to 6 to 7 cents for recent years.

Better marketing organization has led to more economical handling of butter through a more direct flow of the commodity to the consumer.

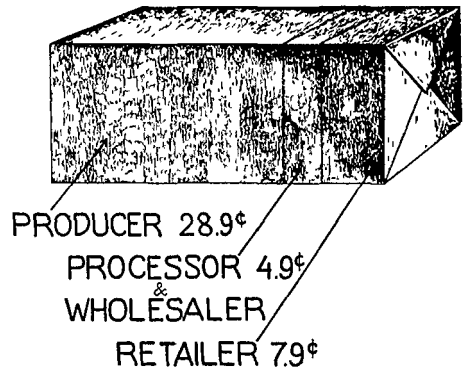


FIG. 3. HOW THE CONSUMER'S BUTTER MONEY IS SHARED

## WHEAT AND BREAD

Margins on wheat have a particular interest because of the extent of processing entering into bread costs and the changes that have occurred in recent years in consumers' tastes and preferences.

For the period, 1921-38, the average return to the Minnesota farmer per bushel of wheat was 99 cents. Adding to this the average cost of local elevator operations, transportation, terminal handling, and storage amounting to 22 cents, the cost to the miller was \$1.21 per bushel (No. 2 Dark Northern Spring). From the bushel of wheat the miller made flour which averaged a price of \$1.47, thus absorbing for the milling a margin of 26 cents.

Bread is probably the outstanding commodity to cite as illustrating that for some farm products there is more production involved after the material leaves the farm than on the farm itself. Flour is only one of the ingredients entering into bread although, of course, the principal one. (Flour accounts for two thirds of the ingredient costs.) Therefore, before examining bread making and distribution the margins on flour will be briefly examined.

For the 1921-38 period the farmer's share of retail expenditure for flour was 48 per cent. Eleven per cent was absorbed by the costs of marketing wheat and 13 per cent went to milling margins, while retailing absorbed 28 per cent of the consumer's flour dollar. Here the margins are more in line with the average of 50-50 split between farmer and distribution found for the combined list of foods.

From the flour and other ingredients the baker made bread which sold at an average Minneapolis retail price of

\$5.35, leaving a spread of \$3.88 for the other ingredients, baking, and distribution of bread. This gives a distribution of the consumer's bread dollar as follows: farmer, 18 per cent; wheat marketing costs, 4 per cent; milling, 5 per cent; baking and distribution, 73 per cent.

The wheat marketing costs varied from 2.5 per cent to 7.0 per cent over this same period, varying with the size of crop as well as with other minor factors. The farmer's share ranged from 10 per cent in 1933 to 23 per cent. The highest proportions came in years when prices were high, especially when the crop was relatively small. The milling spread also varied considerably, ranging from 1.3 per cent in 1937 to 10.5 per cent in 1933. But by far the largest part of the retail dollar goes to bakers and dealers. This share ranged from two thirds to four fifths during the period. This may appear unusually large, but an examination of the costs for this stage of marketing reveals some explanation for the wide spread.

Figures available on baking costs and retail margins do not extend back over this period. However, data is available based on average costs of between 40 and 50 bakeries or baking companies. Currently (1940) bread re-

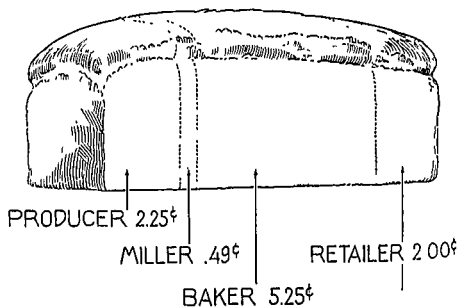


FIG. 4. THE BAKER IS PAID THE LARGEST SHARE OF THE CONSUMER'S BREAD DIME



tails at 10 cents in Minneapolis. The wholesale cost to dealers is 8 cents, which gives a spread of 2 cents to retailers, or 20 per cent of the consumer's bread dollar. The bakeries also sell a substantial volume to restaurants, hotels, institutions at 7 cents. Therefore, the average selling price of the bakeries was 7.25 cents. From this there is a deduction of .45 cent for losses on stale and damaged goods returned. Ingredients cost 2.43 cents per pound loaf of which 1.54 cents is for flour and .89 cent for other ingredients. Shop expense amounts to 1.74 cents per loaf, half of which is for labor and the other half for such items as wrapping, supplies, fuel, light, power, depreciation, etc.

Selling and delivery expense, which includes sales wages and commissions, advertising, vehicle expense, and depreciation, absorb 1.91 cents, half of which again goes as wages to labor. Finally, there must be deducted another .5 cent for administrative expenses such as executive and office salaries, taxes, stationery, telephone and telegraph, and depreciation. This leaves a net operating profit of .22 cent per loaf for the baking companies' share.

There was a time not long ago when "the bread that mother bakes" was the only bread known to the vast majority of people. But today the bulk of the bread is baked in large batches in large ovens by large companies, standardized to a uniform flavor and quality, sliced, wrapped, and delivered fresh at least once daily to the local merchant. This means that a very great change has come about in consumers' tastes and habits of buying bread, a change that has increased the amount of service to be paid for between farmer and consumer.

## PORK AND BEEF

The lack of sufficient data prevents a careful calculation of margins on pork and beef marketed exclusively from Minnesota. Data covering the entire United States meat industry must be used as a basis, supplemented by such data for Minnesota as are available. The calculations for a ten-year period, 1925-34, are shown in table 2.

The percentage margins varied on meats much as they did on other commodities when prices changed, the margins absorbing as little as 42 per cent in 1926 when prices were high, and as much as 64 per cent in 1932-34. However, it must again be pointed out that while the *percentage* part of the retail dollar represented by margins was larger in 1932-34, the *actual* margins as represented in *dollar costs* were somewhat less than in higher price periods.

The percentage rise came from a proportionally greater decline in farm prices than for the processing and distribution costs. The percentage margins ranged from 36 per cent to 66 per cent for pork and from 47 per cent to 63 per cent for beef. The actual margins on beef declined more from 1929-30 to 1932-33 than they did for pork. In the former years the margins were \$1.00 to \$1.50 higher for beef than pork, but by 1932-33 they were nearly equal.

Data indicate that the Minnesota beef and pork marketed during the same period yielded the farmer a slightly larger percentage share of the retail dollar than the share received by the average United States farmer, but the difference is not great.

The margins differ between kinds of meat, chiefly because of the difference between the services and costs in-

Table 2. Distribution of United States Consumers' Meat Expenditures, 1925-1934

	Beef Per cent	Pork Per cent	Total* Per cent
Farmers' return .....	46.3	52.2	48.9
Livestock marketing margin.....	3.9	4.4	4.3
Processing margin .....	12.4	19.4	15.7
Wholesalers' margin .....	4.9	5.2	5.0
Retailers' margin .....	32.5	18.8	26.1
<b>Total retail expenditure.....</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Beef, pork, lamb, and mutton.

involved. The farmer receives a larger share of the pork dollar than of the beef dollar largely because the live hog yields more edible product per 100 pounds than does beef, with pork dressing out 70-75 per cent and beef around 55 per cent.

### Processing Costs

Processing absorbs a little less than one sixth of the consumer's meat dollar, for pork nearly one fifth, and for beef nearly one eighth. Processing costs on pork are actually and relatively one half to two thirds larger than on beef per hundredweight of live animals because pork goes through much more processing than does beef. Nearly half the processing costs are for labor and wages, with an additional one fourth going for supplies, fuel, and power. Other operating expenses, such as interest, depreciation, taxes, and profits, account for the balance. The wholesaler's margin runs close to 5 per cent of retail expenditures for all meats.

### Retailers' Margin

Retailers' margins on pork were less than 19 per cent, representing a 20 to 25 per cent markup by retailers, while the margin on beef was nearly one third of retail expenditures, representing a 45 to 50 per cent markup by

retailers. This difference is not unreasonable but rather is about in line with the differences in costs due to cutting and handling. A breakdown of the retailer's 26 cents of the consumer's retail meat dollar shows that approximately 14 cents goes for wages and salaries, more than 2½ cents for store rent, 5¾ cents for other store expenses, such as light, fuel, taxes, depreciation, interest, delivery, and equipment, and 3.6 cents to profits.

Both wholesaling margins and livestock marketing margins were, in terms of actual dollars, relatively stable over the ten-year period. While retail margins fluctuated somewhat more, they declined much less than did farm prices.

### EGGS

The egg is one of very few Minnesota farm products that reach the consumer without processing. Consequently, the spread between the farm price and retail price is relatively narrower for eggs than for other commodities.

The average margin for the years, 1932-39, between Minnesota farm price and Minneapolis retail price was 11.2 cents out of the average retail price of 27 cents. This left the farmer 58 per cent of consumer's expenditure, while 33 per cent was taken by the re-

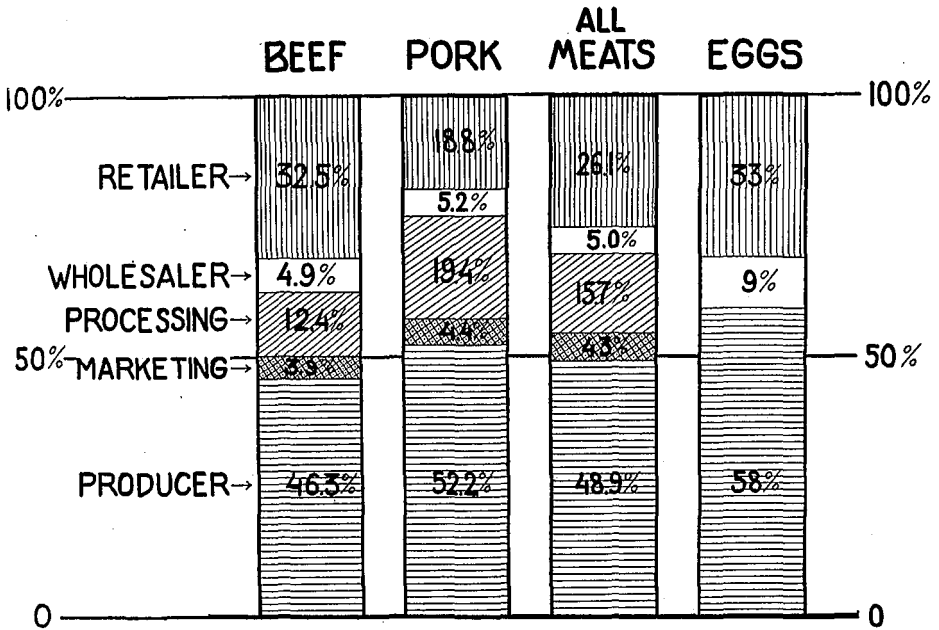


FIG. 5. COSTS OF PROCESSING AND DISTRIBUTION VARY BETWEEN DIFFERENT KINDS OF MEAT

tailers and 9 per cent by the wholesalers. The total margin ranged from one half to one third of consumer's dollar during the eight-year period.

Margins are wider on eggs going to other markets because of more transportation and handling costs, but price data are not adequate to warrant calculations of margins for these markets.

### CHICKENS

Because of lack of information on prices no outside markets were figured into the margins on chickens, only the spread between Minnesota farm price and Minneapolis retail price being used here.

Chickens lose about 10 per cent of weight in dressing and shrink between farm and consumer (blood, feathers, and moisture evaporation). The margins ranged from 10 cents to 15½

cents per pound, while farm prices ranged from 8½ cents to 21 cents. Over the 20-year period, 1920-39, the percentage margin averaged 49 per cent, ranging from 37 per cent to 61 per cent. Data indicate that retailing absorbed a spread of about 35 per cent, leaving 14 per cent for intermediate marketing and processing. Comparing the spread for chickens with the spread for eggs for the years, 1932-39, shows that the percentage margins were somewhat higher for chickens than for eggs, averaging 55 per cent on the Minneapolis calculations for chickens as compared with the 42 per cent shown for eggs.

### POTATOES

Potatoes, like eggs, require no processing to reach the consumer. Yet they are bulky in proportion to value and

involve considerable expense for handling and shipping. Spoilage is also at times an important factor in spreads between producer and consumer.

Quality differences and variations make any close comparisons of prices inaccurate. Price comparisons made between the weighted average annual Minnesota farm price and the Minneapolis retail price for the eight months during which Minnesota potatoes are sold in Minneapolis show that the spread for the period, 1920-38, averaged 52 per cent. Marketing during this period absorbed from 40 per cent to 70 per cent of the consumer's potato expenditure. Storage and handling absorb some of this spread, but the bulk of it represents retailers' margins. The marketing of potatoes has changed in recent years, due largely to the growth of motor trucking. Consequently, little more can be said of marketing costs without further extensive research.

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## *Who Pays Margins*

### **The Farmer or Consumer?**

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**W**HO BEARS the burden of the marketing margins is a question not as easily answered as it might seem. The first answer usually made is that the consumer pays. There is much truth in such an answer for if costs were not covered supplies would not be forthcoming. However, it is not the correct answer in all circumstances.

Two aspects of these margins may be briefly examined. If the quantity or quality of services demanded by the consumer is increased and costs of

marketing are consequently raised, the consumer will in general pay the added cost without any effect on farm prices necessarily resulting. If the change in services and costs is forced on indifferent consumers as a competitive device, they will decline to pay for them, and the producer may be forced to bear at least a part of them in the form of lower prices. Such particularly may be the case with competitive advertising when there is no increase in the demand for goods by consumers.

It is, of course, possible to add services in such a way that part of the costs will be borne by consumers, but to the extent that some consumers drop out of the buying at higher prices the producer's share of expenditures becomes smaller and his prices are lower. It is conceivable for increased services to so enhance the attractiveness of the product to the consumer that demand will increase and producer prices will rise, although the producer's share may relatively decline.

In the second place, changing margins are related to the changes which occur in price levels. When retail prices decline the margins decline, but by relatively smaller amounts and more slowly. This means that producer prices decline more drastically and further than other prices. Consequently, the marketing margins are, in terms of percentage, relatively the largest during the lowest price periods of a depression—a bigger share of a smaller pie—and relatively the smallest during highest price periods.

It is often explained that the reason margins do not decline as much as farm prices is that they are for "fixed" or contractual costs which cannot be reduced. This is partly true, but it is not a good explanation. The farmer

also has fixed costs which cannot be reduced easily, such as taxes and interest, but he is not in a strategic position to recover them.

The real reason is found in the relative independence of distributors, who, by refusing to pare margins below what they consider an irreducible minimum, can even go so far as to decline to buy unless at a low enough price to allow acceptable margins. The out-of-pocket expenses of the distributor and processor are such that they can close down or slow up operations, reduce or lay off their labor forces, store existing stocks, and in short eliminate much of their important out-of-pocket expenses. But the farmer is in a much different position. His out-of-pocket expenses are less important and he cannot shift the burden of maintaining his labor supply, usually his family. He must continue to feed his livestock. Moreover, once having undertaken a crop or livestock venture running over at least a season he cannot stop the process of production to wait for price recovery. He is rather driven to greater labor efforts in an attempt to partially offset the price losses by increasing quantities produced and marketed. Thus, since there is no one to whom he can pass on the price declines and since he is able to make very little reduction in his costs, the farmer has to take what is left and the burden of margins in low price periods falls on him with severity.

In general, it may be said that if the retail price level is unchanged and margins on a specific commodity change due to increased services or increased costs of services most of the burden is borne by the consumer. When the price level changes, the burden of margins falls almost entirely on producers.

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## *Distribution Costs*

### **How Do They Behave?**

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**S**TUDENTS of marketing and distribution are pretty well agreed that, wide as the margins are, they are necessary to cover the costs of the present distribution system. Labor costs constitute a very large share of these margins. The wage rates in most lines are relatively rigid and do not respond quickly to changing prices. Processing costs contain a large element of labor cost. For example, in the processing and packing of meats, wages and salaries account for well over half the total costs and absorb a larger share of processing costs when prices are low than when they are high.

Transportation costs are also largely labor costs. Moreover, transportation rates are among the most fixed of any of the costs of distribution. Changing of freight rates is usually a long drawn out process involving many hearings and lengthy legal proceedings before the Interstate Commerce Commission.

Taxes which must come out of the margins are not subject to easy and quick adjustment but often remain a constant or rising burden during price level changes.

Retailers' costs are perhaps the most important single part of the margins because the retailer absorbs a larger share of the margins than does any other agency in the chain of marketing. Markups of 15 to 35 per cent are the common pattern in retailing foods. This margin must cover store rent, heat and light, clerical labor, and delivery

service if the retailer is to remain in business. Again, these costs are slow to respond to changes in the price level. Retailers do reduce their actual margins under pressure of declining prices, but not in proportion to the decline in farm prices. Other costs, such as storage, brokerage, insurance, selling expense, and advertising are likewise slow to change with the price level, being in most cases established on a long-time conventional basis.

Taken over-all it must be said that a large part of changing relative margins in a fluctuating price level are due to the extreme sluggishness of many costs involved.

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## *Mass Distribution*

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### **Who Distributes Farm Goods?**

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**M**ASS PRODUCTION has for many years been a well-known aspect of the American economy. The economies resulting in lowered prices arising from mass production have become proverbial. Has the country developed any similar structure of mass distribution, and if so does it yield savings of a like character?

The answer must include some discussion of the giant distributive organizations that have been built up. Of the 107 largest nonfinancial corporations in the United States, 45 are either essentially engaged in distribution or combine distribution with manufacturing as major activities. Five of these 45 are essentially engaged in distribution, such for example as the great food store chains. Eleven more are engaged essentially in distribution

of other lines, such as the mail order houses and novelty store chains. Twenty-nine of these 45 combine distribution and manufacture, including 17 oil corporations, 5 food corporations (the packers are included here), 3 tobacco companies, and 4 others. These giants have assets running up into the hundreds of millions of dollars in most cases and conduct the bulk of the business in their lines.

Lowered prices under mass production arise in part from the savings in cost due to large-scale buying, but mostly from the elimination of costly waste motion and material that can be made by employing men and machines especially adapted to specialized tasks. In mass distribution the savings made are also due to large-scale buying and to elimination of waste motion and material. But since the distribution of goods does not lend itself nearly so easily to machine performance the advances in distribution have not been as spectacular as in production. These giant distributors have coordinated supplies with the market, eliminated much wasteful cross-hauling, and bought in large quantities, thus eliminating wasteful unnecessary handling and many other costs of wholesaling. In short they have used the "mass" technique as it should be used, by getting more and more services out of the resources used by them.

Other agencies, less noteworthy as to size, but nonetheless of significant importance in mass distribution, include such organizations as the producer cooperatives and group buying cooperatives.

The large organizations have been able, in spite of their economies and savings to consumers, to earn reason-

ably satisfactory profits on capital. For the period, 1928-36, all food and tobacco corporations averaged 11.9 per cent return on their capital. The highest return, 18.4 per cent for miscellaneous food companies, was followed by five food chains which together averaged a return of 16.3 per cent and by four tobacco companies with 15.2 per cent return. Three large baking companies earned 11.5 per cent, four dairy companies 11.1 per cent, while the average return to three milling companies was 10.1 per cent, to four meat packers was 4.4 per cent, and to three fruit and vegetable canners was 4.1 per cent.

It does not necessarily follow from these figures, however, that elimination of these profits would very greatly reduce prices. Most of these organizations turn over their capital in sales volume many times a year, making a much smaller profit margin per dollar of sales. Data indicate, for example, that the profit margin of the five food chains is between 2 and 3 cents per dollar of sales, while for meat packing it is between 1 and 2 cents. For the four dairy companies the range is approximately from 3 to 7 cents per retail dollar.

Allegations have frequently been heard that food is sold under a "gigantic food trust" at monopoly prices. While the presence of monopoly elements here and there in the structure is not denied, the possibilities of the existence of such a super-trust are remote. Competition is too keen throughout the food lines to permit such a structure. Independents vie with chains, meat battles milk, bread competes with the vegetable salad, and nearly all groups are engaged in a struggle to gain or hold a market.

The trend in distribution in recent years has been toward combining units

into large chains, and, to some extent, also toward combining consecutive steps in marketing under one corporate organization. Indications are that the trend in the immediate future will emphasize the latter feature of consolidation. The development of "supermarkets" will probably continue for some time, with the addition of more lines of merchandise. But materially larger chains, in terms of larger number of stores, do not appear in prospect. Probably the most promising expectation for the immediate future is the development of more efficient technical facilities for distribution such as improved motor trucks, refrigeration, and packaging.

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*Distribution . . . . .*  
*. . . . . Efficiency*  
**Are Middlemen Parasites?**

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**F**REQUENTLY a popular mistake is made in regarding the farmer as the only real "producer" in the economy and other agencies and workers more or less as "parasites." However, processing and distribution are necessary to give complete usefulness to the commodities the farmer raises. The usefulness of goods to the consumer depends upon his having the goods *where* he wants them, *when* he wants them, and in the *form* he most desires. Farmers are largely concerned with giving *form* usefulness to labor and resources, although the processor and retailer also add something here. Having goods at the *place* wanted requires transportation and storage, retail stocks, and retail delivery. Having

the goods *when* they are wanted again calls for storage, financing, convenient retail outlets with adequate stocks, and delivery. All these services cost something. Whether they at present cost too much depends upon an evaluation of the efficiency of the distribution system. Such an evaluation is not easy to make with the system as complicated as it is.

A number of points enter into consideration in such an evaluation. One strong factor in maintaining the present level of efficiency is found in the habits, traditions, and attitudes of men as they are today. Consumer buying habits change slowly. Housewives prefer to purchase at retail in small day-to-day quantities and demand a certain amount of personal service and attention. Consumers have personal habits and preferences with regard to choice between the corner store "independent" and possibly a neighboring "chain store," although there is evidence that in general the chains are able to sell more efficiently and at lower prices. Investors, labor, and management have a vested interest in existing institutions and naturally fight to protect their positions against possibly more efficient institutions. This gives rise to attempts to pass legislative restraints such as anti-chain store or anti-truck legislation.

In spite of these human limitations, great strides have been made in this century in the building up of a more efficient distribution system. It can not wisely be forgotten that the mass production of America would be useless, if not impossible, if we had not the highly developed transportation,

communication, and marketing and merchandising structures we now enjoy.

Some of the impatience with existing methods of distribution springs from a too close comparison of the methods of machine mass production with the more cumbersome methods of distribution. The machine has probably contributed more to progress in production than in distribution, but it has been a very important factor in making modern distribution possible. Yet it has limitations in distribution in so far as it cannot be adapted to making distribution more efficient. The manufacturer who watches costs closely for opportunities to save a small amount on a large volume is quick to appreciate a more efficient machine. He is at almost the opposite end of the scale from the consumer who can at best see only small savings on small volume, and who for the most part does not care to make a carefully organized business of doing the shopping which crowds upon him for time needed for other important aspects of living. Moreover, he lacks adequate standards of judgment for such a business if he cared to practice it.

Unquestionably the present distribution system is inefficient in terms of what it might be. But with human indifference and inertia progress comes slowly against the misunderstanding and lack of knowledge of men. The maximum use of the men and resources at society's disposal is a constructive task for all groups whether they be engaged in production, distribution, or service enterprises, commonly thought to be unproductive.

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