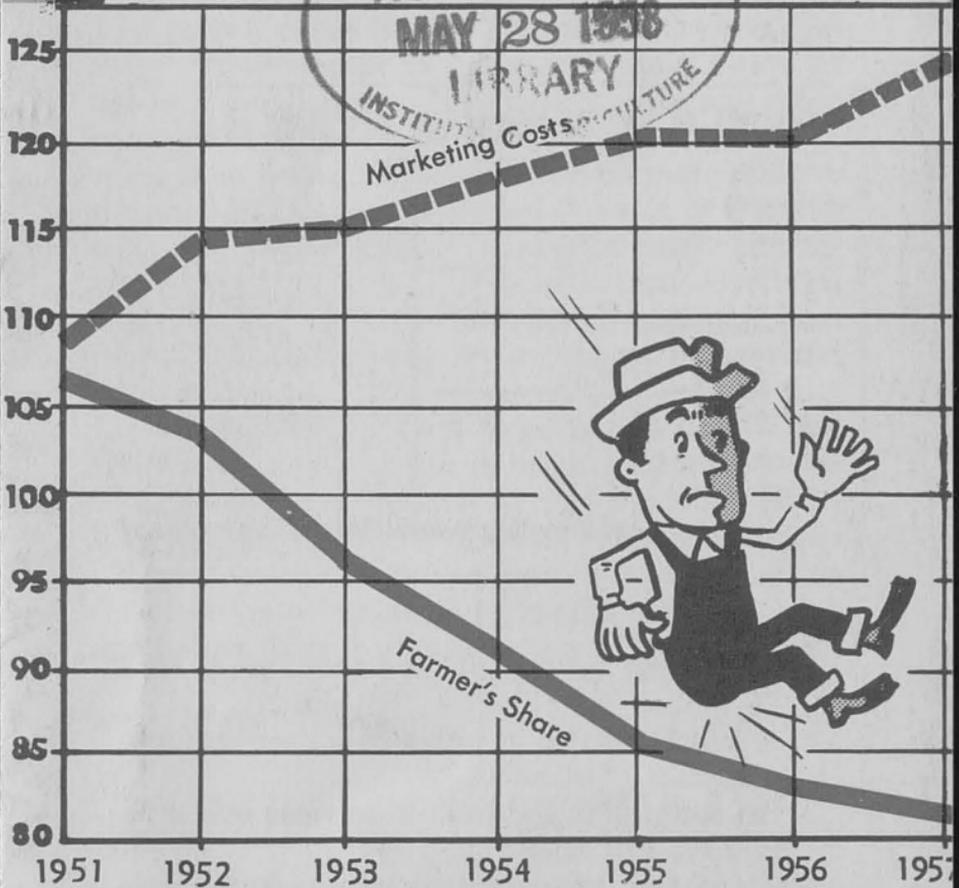
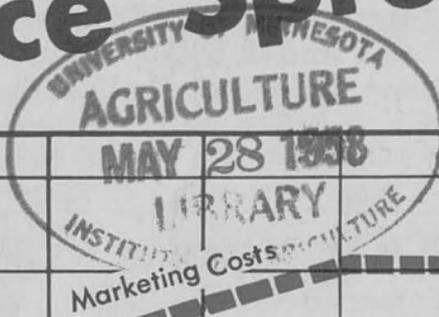


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That Farm Retail Price Spread



Luther J. Pickrel

That Farm-Retail Price Spread

Why does the store take 10 cents profit for selling one dozen eggs when a farmer only gets from 23 to 25 cents per dozen for producing them? Talk with any group of farmers and this question or a similar one will be raised. When farm income is declining and costs rising, farmers are understandably sensitive about marketing charges and their declining share of the food dollar. Why does this situation exist? The answers aren't easy, but the background provided here may help explain the situation.

During the period 1940-57 the total food marketing bill rose from 9 billion dollars to 36 billion dollars. Three factors responsible for the major share of this 27 billion dollar increase are shown in figure 1.

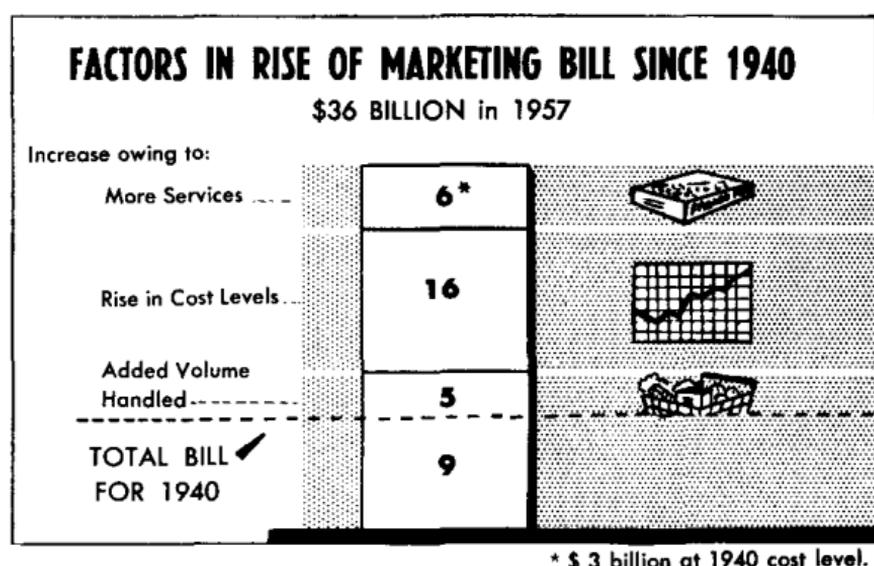


Fig. 1.

They are:

1. The larger volume of food required to feed 39 million more people (\$5 billion).
2. A persistent rise in prices of all services and materials (\$16 billion).
3. An increase in the built-in-services sold with the food (\$6 billion).

Most of this increase took place during two periods of price inflation. The first followed World War II and the second occurred during the early part of the Korean conflict. Today the farmer is getting about 40 cents of the retail food dollar as compared to about 53 cents in 1945 (figure 2).

It may be well at this point to emphasize that the farm-retail spread may be increased in two ways:

1. The spread in dollars and cents. This represents an actual money increase in marketing charges.

CHANGE IN DISTRIBUTION OF THE CONSUMER'S FOOD DOLLAR

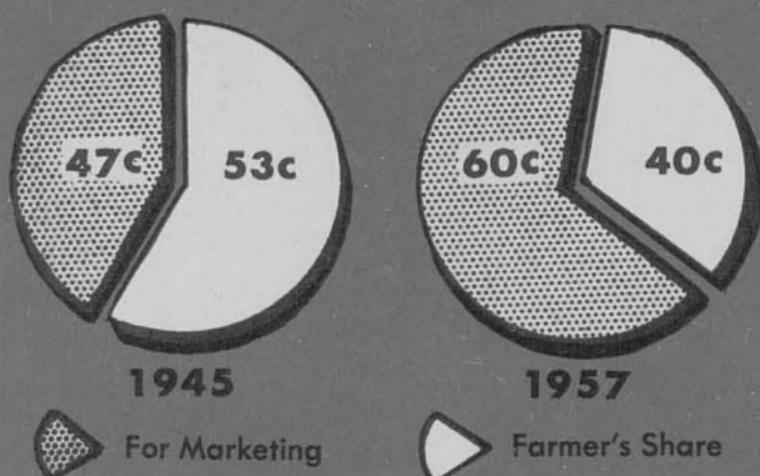


Fig. 2.

2. The spread in the share (percent) of the consumer's dollar going to the farmer. This may represent a drop in farm prices while marketing costs remain the same.

Many farmers and consumers are asking if the spread is warranted and if so why. Because of this interest, Congress in 1955 directed the Department of Agriculture to make a number of special studies to provide the answers. The resulting reports upon which this folder is based help to explain a number of things which have been happening.

Consumers spent a slightly larger share of their income for food in 1957 than they did in 1940. But they are also eating more of the better foods at home and buying more restaurant meals.

Costs Involved in the Spread

Labor cost is one of the most important cost items affecting the prices paid by consumers for food. Since 1939 the hourly earnings of food marketing workers have increased a little over 200 percent. However, the labor cost per unit of food marketed has increased a little less than 150 percent, reflecting an increase in the productivity of the distribution system. All in all average hourly earnings of retail food workers have increased about the same as those for other retail workers and a little less than workers in manufacturing (figure 3).

Transportation costs have also increased. Rates have increased 80 percent since 1945 and more items are now hauled longer distances.

Corporate profits in the food marketing industries before taxes accounted for about 5 percent of the marketing bill in 1940; increased to a peak of 11 percent in 1946; and declined since that time. They stood at 6 percent in 1956 which represented a 15 percent increase from 1954. The industries' profits were about the same in 1957 as in 1956. Profits since 1947 (as a percentage stockholder's equity) of a group of large food handling firms have been consistently lower than "all manufacturing industries."

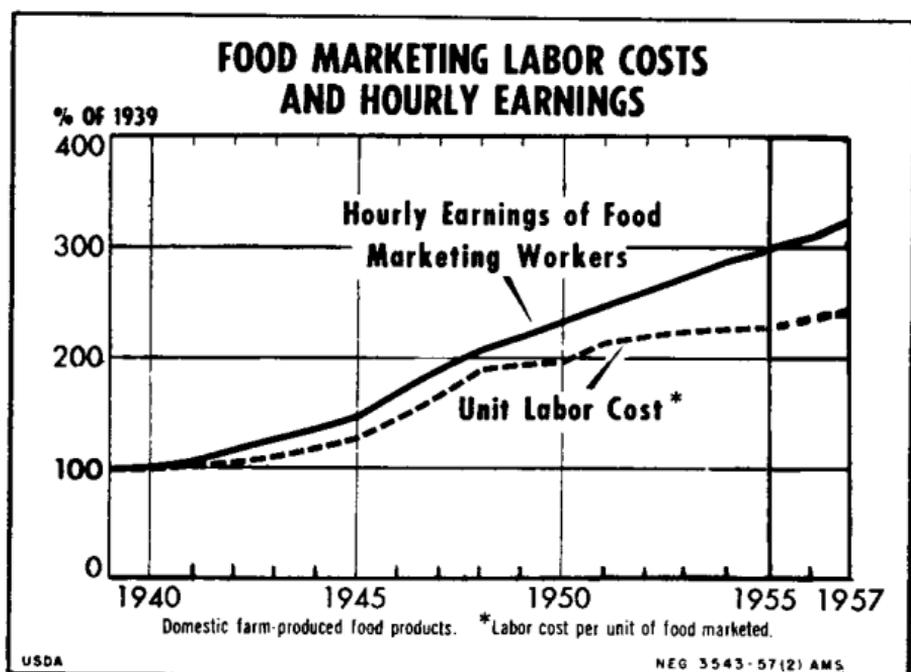


Fig. 3.

The farm-retail price spread for livestock. During the post World War II years 1946 to 1948, retail prices of meat, farm values of livestock, and the spread between the two increased sharply. This spread in the marketing margin increased from 11.2 cents per pound to 21.0 cents per pound. Through slight but steady subsequent increases these margins amounted to about 26 cents per pound in 1955 and 1956 and 28 cents in 1957. Marketing charges do not fluctuate as rapidly as market prices for meat and the costs of providing these services are not closely related to livestock and meat prices in the short run.

An example of the distribution of the consumer's meat dollar can be shown in the case of pork (figure 4). The specific example shows returns to the farmer and the various middlemen from an Iowa farm to consumers in New York City, March 1955.

Marketing margins on eggs were lower in 1957 than in most years since 1949. In major cities the farm-retail spread fell from 19.1 cents a dozen to

WHERE THE CONSUMER'S PORK DOLLAR GOES

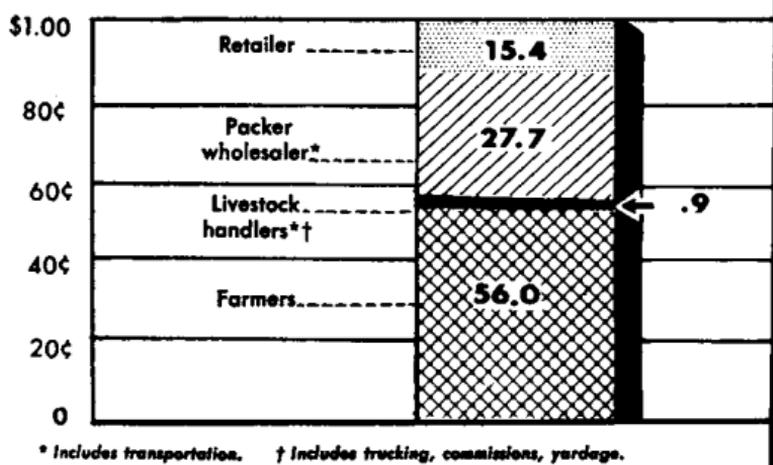


Fig. 4.

18.0 cents a dozen in 1957. In spite of the fact that many farmers seem to be more acutely aware of the farm-retail spread for eggs than for any other commodity, eggs are the only major farm product other than frying chickens on which margins have dropped in this 9-year period. This is due partly to improvements in handling and distribution methods which reduce quality deterioration. However, margins for eggs remain relatively steady from month to month despite wide changes in farm and retail prices.

In a 1957 study, farm to retail margins ranged from 20.5 cents a dozen on eggs produced in the East to 34.5 cents a dozen on eggs produced in the Midwest and sold by small independent retail stores.

Another study shows marketing costs of an "efficient" large firm assembling eggs in the Midwest and selling them in a large eastern city. This spread was 21.5 cents per dozen with almost one-half the total (10 cents) accounted for by retailing costs and

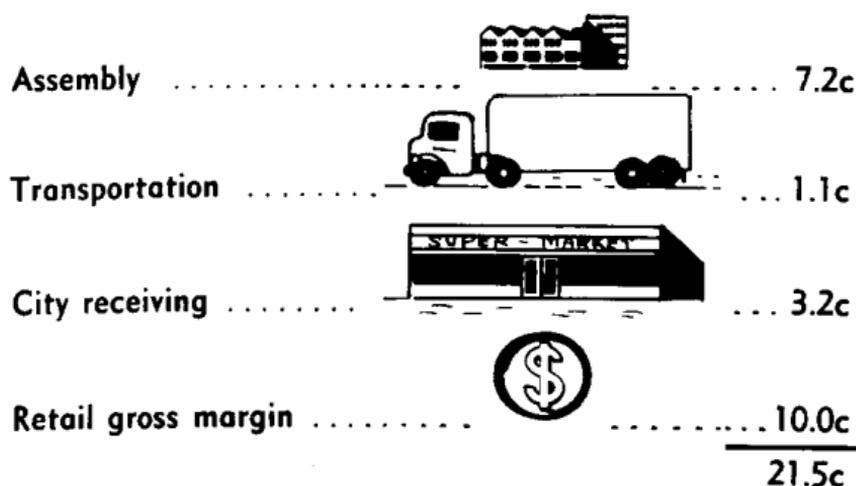


Fig. 5.

11.5 cents by the combined cost of assembling, transportation, and receiving (figure 5).

Marketing fresh milk includes three major functions—assembly, processing, and distribution. For the country as a whole the average price paid by consumers for a quart of fresh whole milk increased 27 percent from 1947 to 1957. But the farm price was only 6 percent higher in 1957 than it was eight years earlier.

The average consumer milk dollar is accounted for in about the fashion shown in figure 6.

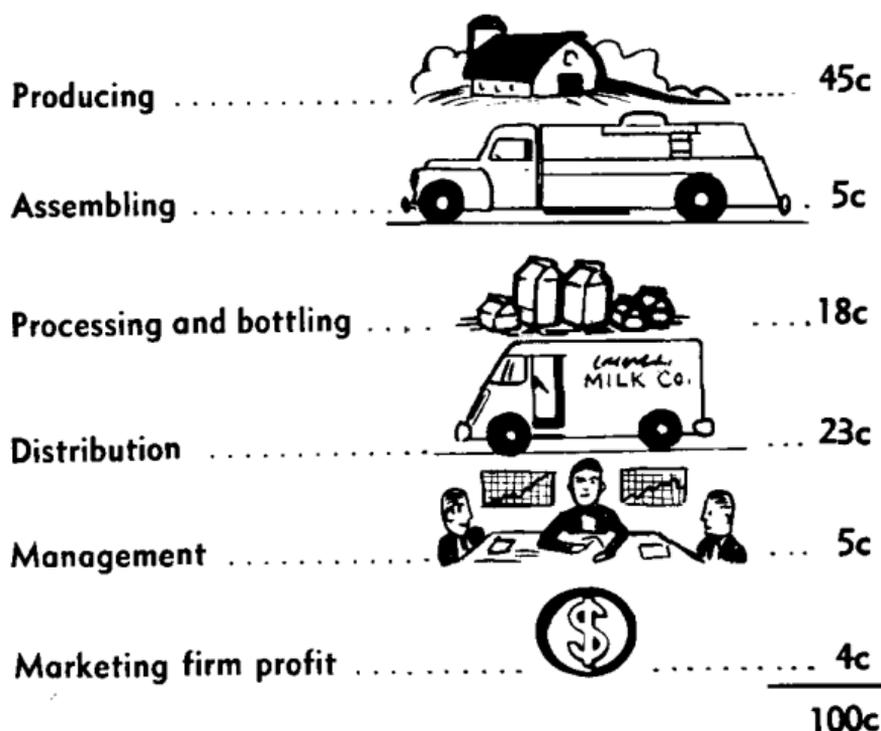


Fig. 6.

The farmer's share of the consumer's dollar for a given product may vary a great deal depending on the form in which the commodity is marketed. Using wheat for example we see that for flour sold in 100 lb. bags the farmer gets about 50 percent or 50 cents of each retail food dollar spent in this way. For wheat marketed in the form of cereal in small-sized boxes, he gets only about 5 percent or 5 cents of the consumer's dollar. In either case the amount he received for his wheat would be the same (figure 7).

Summary and Conclusions

In appraising the significance of shifts in the farmer's share of the consumer's food dollar, several points should be kept in mind:

1. This share does not necessarily reflect farmer's welfare. The farmer is concerned with net returns. These are influenced by volume of

sales and the prices received, less costs of production. This does not mean that under existing conditions increased efficiencies and economies in the system would not result in decreased marketing costs and improved farm income. Evidence available indicates they will.

2. Profits of food processing firms average about the same or a little less than similar industries. Profits now amount to about 8 percent of the price spread between the farm price and the retail price. Since this is only about 5 cents out of each marketing dollar, it is unlikely to be reduced sufficiently to reduce the marketing margins.
3. Retailing is the costliest service now performed in the marketing system. More than half the workers in the system are employed at the retail end and there are now more workers employed in processing and dis-

THE FARMER'S SHARE OF THE CONSUMER'S WHEAT DOLLAR DECLINES AS SERVICES INCREASE

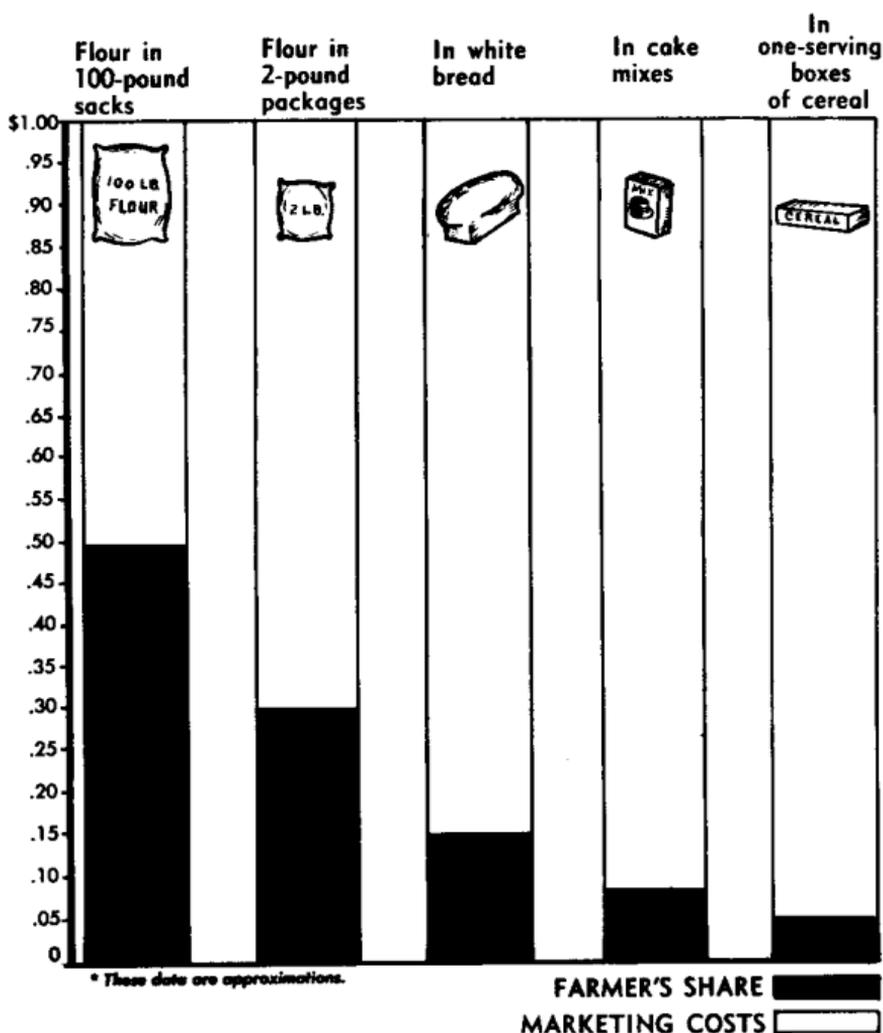


Fig. 7.

tribution (marketing) than in production (farming).

Increased marketing costs arise from two sources:

1. One involves costs as an outgrowth of increased wage rates and costs of materials.
2. The second involves costs arising from more specialized agricultural production and additional marketing services.

These are associated with an advancing and developing economy. A primitive society, in which each person produces the things he consumes, does not know marketing costs and problems as we face them today. It is therefore unlikely that we will see any magic "cure-all" develop to eliminate high marketing costs.

We may observe that marketing practices and costs are going through some major changes as a result of the concentration of ownership and control in the food and fibre processing industries. The large volume, multiple unit enterprise came into existence because of opportunities to reduce costs and to improve and increase services. As the demand for additional services increases we can expect marketing costs to increase as well. These enterprises have had additional influences such as the increase in the use of Federal grades. It is also quite likely that they have contributed to the increase in demand for some products by providing better quality products and more widespread outlets.

Technological developments, while almost impossible to predict in detail, are bound to have profound effects on both agricultural production and consumer demand. Some of these are automation, improved work handling methods, radiation, sterilization, and freezing. Although some of them may appear rather remote at this time, their perfection along with as yet unannounced discoveries will have far-reaching effects on marketing practices and costs. Many of these will no doubt also influence farm production and necessitate additional adjustments at the farm.

This report is based on research done under the direction of Dr. Kenneth E. Ogren, head, Marketing Information and Statistics Section, AMS, USDA.

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