

YOUNG FARMER AND HOMEMAKER SERIES

MN 2000 YMWC 5

Y M W Circular 5

September 1956



# What You Should Know About Marketing

Harold C. Pederson  
Fred L. Olson



UNIVERSITY  
OF MINNESOTA

Agricultural Extension Service

U. S. DEPARTMENT  
OF AGRICULTURE

This archival publication may not reflect current scientific knowledge or recommendations.  
Current information available from University of Minnesota Extension: <http://www.extension.umn.edu>

# Markets Affect Farm Income

You'll want a good farm income. You'll want enough income to (1) pay for necessary farm and home expenses, (2) make desired improvements, and (3) add to your savings. This income will come from sales of farm products. That brings up the question: "What factors affect farm receipts?" The following are certain to have an influence:

- \* **The amount you sell.** The more units you produce and sell at a certain price, the larger the total sales.

- \* **The price you receive.** Price and the amount you sell will determine the size of your income. Prices paid at markets vary by years, seasons, months, days, and even by minutes. There are usually variations in prices by kinds and grades, too. Price supports are also a factor for some products.

- \* **The location of your farm.** The location of your farm may influence the kind of commodities you produce, the quantity you sell, and the price you get. If consumers are far away the cost of transportation reduces the price to you.

- \* **The size and type of farm.** It's the income left after expenses that counts. You will want to choose the combination of farm resources which will assure you the largest net income.

- \* **The costs of production.** You will have an influence on the various phases of production on your farm, so don't overlook or underestimate the importance of low operating costs in increasing your net farm income.

Your farm resources and your farm location may make direct selling to the consumer practical. Or, perhaps your product will need to be processed and packaged. You'll probably perform some of the marketing services yourself or you may become a patron of a cooperative. To that extent you may increase your gross income from sales. Some processing and marketing jobs can be performed cooperatively with other producers on an informal or formal basis. Savings in marketing usually increase the net farm income.

As one of several million farmers, the amount you produce and sell will be small compared with total farm production. As an individual farmer your influence in the market will not be great.

# How Are Farm Sales Made?

The first link in what is usually a long "marketing chain" is the sale of products from your farm. You usually have a choice of several outlets and you can sell in a variety of ways. If you are a good salesman you will seek the method of sale which will provide you the largest net return.

**1. Selling directly to a consumer.** This method of selling assures you the largest share of the consumer's dollar. In case you wanted to have a roadside stand, a delivery route, or a mail order service—or merely wanted to use a farmer's market the following problems and questions immediately confront you.

- Do you have sufficient help? Labor is usually the most problematical and costliest item in the direct-to-consumer marketing system.
- Can your farm production be geared to the existing outlets? Or will shortages and surpluses plague you?
- If your product needs processing can you do it? If you can do it can you do it efficiently?
- Are you in a position to handle the credit problems which usually arise with this method of sale?
- Above all, will it pay? That is, will it provide you with a higher net income compared with other ways of marketing?

**2. Selling to a local buyer.** There is a wide variety of local buyers depending on whether the final market for your product is nearby or in distant consuming centers. If your final market is nearby, the local buyers may be hucksters or retail merchants. If your final market is far away the local buyers may be local assemblers, truck and carlot assemblers, processors, order buyers, or others.

More commonly known local market outlets include the creamery and milk plant, the egg and poultry buying station, and the local elevator. Any local buyer is a middleman because he operates between the producer and the consumer.

**3. Selling to processors.** Perishable products like strawberries and canning crops or bulky products like sugar beets are frequently sold on contract. The price is arranged in advance of planting or harvesting. Other processors include dairy plants where milk and dairy products are processed and packaged, poultry and meat packers, oil seed crushers, mills, and others.

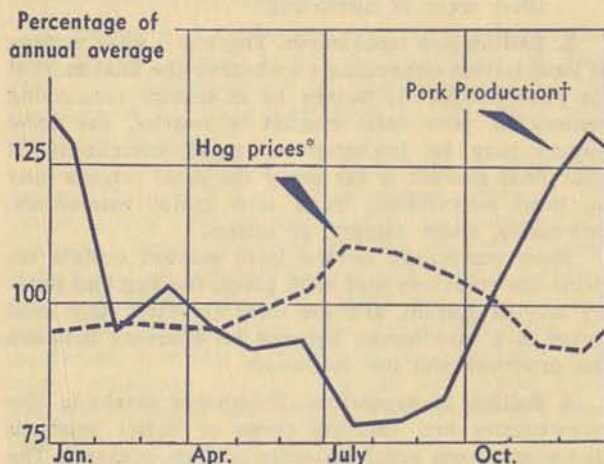
The number, kind, and size of processing plants will depend upon the type of farming, the transportation, the supplies of fuel, the availability of labor, and the location of the final markets in the area. Processors reduce the bulk of a product, increase the keeping qualities, and transform it into the kind of a product or products that consumers want.

4. **Selling through a terminal market.** Terminal market shipments are usually made in large lots and by large operators or assemblers, who protect themselves against losses through insurance and hedging. Terminal markets are usually located at railroad or truck headquarters in large centers of population long distances from the major production areas. Terminal markets have developed in the United States for many agricultural products because of specialization in production.

Risks naturally are involved when farm products are shipped long distances. Losses may occur from shrinkage, deterioration in quality, spoilage, and price changes. Terminal markets attract larger numbers of buyers and sellers. To the extent that the forces of supply and demand are maximized in the terminal markets, market conditions and market prices are stabilized.

## *Farm Prices Are Seasonal*

Prices follow a seasonal pattern for practically all farm products. Consumers usually want (demand)



\* Prices of barrows and gilts at Chicago.

† Total United States commercial pork production excluding lard and excluding pork produced from farm slaughter.

Fig. 1. Seasonality in hog prices and pork production. This is the normal seasonal fluctuation for postwar years of 1947-1953.

about the same amount of meat, milk, eggs, and other foods each month of the year. But farmers supply a different number and amount of hogs, milk, eggs, and other farm products in the different seasons. For instance, there are more hogs in fall and more eggs and milk during winter and spring. The seasonal changes in production (supply) with no marked change in demand causes the price to change. Figure 1 shows the changes in production and prices for hogs.

The seasonal change in price is less for some products than others because some are more easily stored. However, storing or "holding over" farm products costs money. It costs even more if the commodity is perishable and bulky. Because of storage costs and some loss in quantity and quality, prices are lower in seasons of high production when a portion of the production goes into storage. They are higher in seasons of low production when storage supplies have to be drawn upon to meet consumer demands.

If you study the marketing pattern of each product you produce you may be able to arrange your farm production and sales so as to avoid the seasonally low price periods.

## *What is Competition in the Market?*

Competition makes its appearance in many ways. You compete with your farmer neighbors in production. Usually the farmers in your community sell in the same market and so they compete for markets. If you sell a certain commodity, you may also have competition from farmers who produce substitute commodities. For example, red meat, chicken meat, cheese, and eggs all compete for the consumer's dollar as high protein foods; margarine competes with butter, etc.

The marketing system in the United States has largely developed because of competition and free enterprise. The efficient and well managed markets survive. It has been assumed that this has benefited both producers and consumers. Each business unit has to make its own way.

Although competition has been a dominant force in the development of our marketing system, government has played a more active role in recent years. Regulation of transportation rates, establishment and enforcement of marketing orders, and governmental price supports are examples. In some states it is illegal to sell certain trade-marked goods at retail prices below those established by the manufacturer.

As our marketing system becomes more complex, it is likely that the government may be called upon for more services. With government services will come more government regulations. Such a course will have to be pursued with caution. We must protect and encourage competition where it will generate new ideas, speed up improvements, and promote efficiency in the marketing system.

## *Marketing Costs and Services*

As a farmer, your share of the consumer's food dollar will be that part left after all marketing costs are paid. Consequently, you should have a keen interest in increasing marketing efficiency and reducing marketing costs.

Marketing costs have gone up at a faster rate than retail food prices since 1947. This means a smaller share is left for you as a producer. Marketing costs usually change slowly. This is why some folks refer to them as being "sticky."

Why do marketing costs change slowly? Marketing costs, like wages, freight rates, rent, utilities, and taxes, do not change rapidly. In fact, some of them are fixed for specific periods by individual contracts or by governmental regulations. However, marketing costs not only decline slowly but also rise slowly. For example, in periods of inflation marketing costs tend to go up more slowly than farm prices—such as during the period from 1940 to 1945.

The share of the consumer's dollar which goes for marketing covers a variety of services. These include: (1) assembling products from farms, (2) standardizing and grading to improve uniformity

Distribution of Retail Price of Bread, by Recipients,  
1946 and 1955

| Recipient   | 1946          |            | 1955*         |            |
|---|---------------|------------|---------------|------------|
|   | Actual amount | Percentage | Actual amount | Percentage |
|   | cents         | percent    | cents         | percent    |
| Farmers .....   | 2.6           | 25         | 3.1           | 18         |
| Grain elevators, transportation agencies, flour mills, and processors of nonflour ingredients ..... | 1.0           | 10         | 1.9           | 11         |
| Bakeries .....  | 4.6           | 44         | 9.8           | 55         |
| Grocers .....   | 2.2           | 21         | 2.9           | 16         |
| <b>Total</b> .....  | <b>10.4</b>   | <b>100</b> | <b>17.7</b>   | <b>100</b> |

\* Based on preliminary data.

and quality, (3) storing, (4) processing materials into products the consumer wants, (5) packaging for protection and convenient handling, (6) transporting from farm or the local assembly and processing point to distant consumers, (7) gathering market information so as to get the right products to the right place, in the right amounts, at the right time, (8) financing processing plants, equipment, storage facilities, and general operations, (9) carrying risk due to price changes or shrinkage and quality loss, and (10) merchandising, involving expenses in bringing buyers and sellers together.

As additional marketing services are performed marketing costs will increase. If the additional services are demanded by consumers the increase in cost may be covered in a higher retail price without affecting the price you receive. However, you will receive a smaller proportion of the retail price paid by consumers.

The table will help you to appreciate what all this means in dollars and cents. It shows the kind of services performed and their approximate cost in marketing and processing wheat into flour and flour into bread.

The marketing costs of getting other farm products to consumers may differ vastly from bread. This merely emphasizes that you should consider each farm product separately before reaching any definite conclusions on whether marketing costs are reasonable. Bulky products such as potatoes have high transportation costs when they're sold in distant markets. As a result, farmers receive a relatively small share of the consumer's dollar.

Marketing services and consequently marketing costs have changed. Fifty years ago your grandfather used a team of horses and a wagon to haul his farm products, such as cream, eggs, and grain, to a nearby market. When the cattle were ready for market he drove them to the local railroad stockyards where they were loaded and shipped. A horsedrawn wagon usually supplied the transportation for hogs to the nearest railroad shipping point. When the town or shipping center was too far away, creameries and cheese plants were constructed and operated at the crossroads of strictly rural communities.

The horseless carriage and truck, new and improved all-weather roads, improved technology, demand for more processing and packaging, and new products that appealed to consumers all created new situations and new opportunities. They also required new techniques and different methods of marketing. For example, a large, modern, diversified dairy plant with a large volume operation and a wider market outlet may net a producer higher returns than a



small single-purpose plant. When an area changes from a cash grain to a more diversified livestock agriculture, then the business of a local elevator changes from marketing grain for its farmer-patrons to purchasing commercially mixed feeds, fertilizers, farm supplies, and numerous other items for them.

Or, take a local market for live poultry. If there is substantial volume, which is a definite requirement, it may change into a local processing operation. With this change in marketing the poultry is dressed, eviscerated, cut up, and refrigerated. It is then moved to distant markets with less shrinkage and at less cost. The producer benefits because of the lower marketing cost. Since you are interested in good returns for your grain and livestock, it will pay you to watch for opportunities to reduce marketing costs right in your local community where your influence will be most effective.

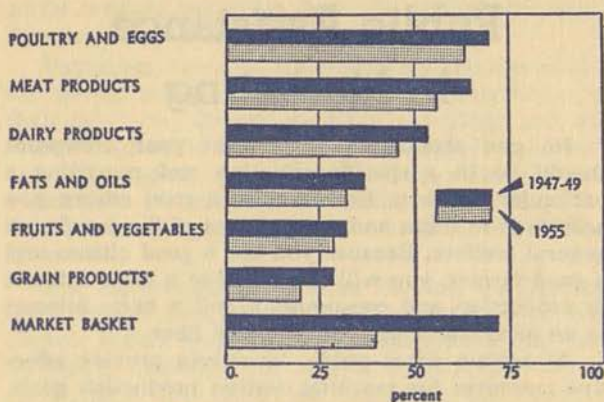
Can marketing margins be reduced? There can be inefficiencies in marketing just as in farm production or anything else. Efforts to find and correct them should go on continually. Lower marketing costs will result in higher income to producers or lower prices to consumers or both.

If retail prices remain the same and marketing costs are reduced, then you receive a higher price. If lowering marketing costs result in lower retail prices then you are also better off because consumers will buy more units at the lower price.

New ideas and new marketing methods are being applied and put into use at a rapid rate, sometimes at the expense of traditional methods. Improvements in marketing include (1) improved methods of transportation, which often prevent shrinkage losses; (2) improved methods of processing and packaging, which may also help to avoid shrinkage losses; (3) improved storage facilities and less loss in quality; and (4) new merchandising techniques.

## *Farmer's Share Varies*

As a farmer, your share of the consumer's food dollar will vary by years (figure 2). In 1947, for instance, the farmer received 49 percent of the retail cost of a typical "market basket" of farm foods bought by a city workingman's family. In 1955 the farmer's share was 41 percent. A typical market basket contains the farm-produced food products



\* Bakery and cereal products.

Fig. 2. Farmer's share of the consumer's dollar varies by food groups and by years.

bought for consumption in the average urban home in 1955. To merely recover a large share of the consumer's dollar will not guarantee you a satisfactory farm income.

Your share as a producer will vary from one group of food products to another because of differences in the amount of processing and other marketing services. The farmer's share of the consumer's dollar is smallest for bakery and cereal products. These require extensive processing. The farmer's share was largest for poultry and eggs in 1955. These products need comparatively little processing.

If you are a dairyman you will be interested in the variety of ways your milk can be marketed. It may be sold and consumed as fluid milk or it may be processed into a wide range of manufactured dairy products. Your share of the consumer's food dollar for the different products varies a good deal (figure 3).

Trends are expected. There is a trend toward more commercial preparation of food. As incomes increase, consumers are willing to pay for extra services including food variety, convenience in preparation, attractiveness, and quality maintenance. This trend is nearly universal for all food products and is expected to continue. Some farm products lend themselves somewhat better to this trend than others.

There is competition between foods. It is important to remember that consumers usually have a number of choices when they buy their food. Price always influences their choice but it is a more important influence with some foods than with others. Improvements in marketing which reduce marketing costs and lower the price of a food will make that food more competitive in the over-all food market.

## Public Assistance in Marketing

No one should tell you what your viewpoint should be in a specific situation and regarding a particular problem. However, as a good citizen you will want to think and act in terms of the maximum general welfare. Because you are a good citizen and a good farmer, you will always have a basic interest in production and consumption and a basic interest in an adequate supply of food and fiber.

At certain times public incentives provide effective measures for reaching desired production goals. Likewise some public standards and regulations are sometimes necessary to provide an adequate supply of wholesome and high quality food and fibers. As a producer of some products and a consumer of other

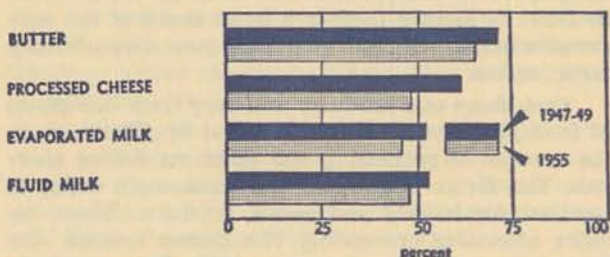


Fig. 3. Farmer's share of the consumer's food dollar varies for different dairy products.

products, you gain materially from some of the established marketing patterns and procedures and from some of the market and marketing standards and regulations.

Farmers have sought and obtained governmental assistance in supervised weighing and grading of their products in many markets. They have sought government help to strengthen their position in the market. Examples include licensing, a variety of municipal, state, and federal standards and regulations for products, special federal orders like milk orders, and farm price support programs for a variety of farm products.

Some of these programs appear to be solely in the interest of producers. Some, however, definitely benefit consumers by providing an acceptable product and by standardizing and unifying the products which pass through the marketing channels. The extent to which some of the public provisions and requirements have benefited producers and enhanced

social welfare has often been the subject for much discussion and debate.

Producers, however, have not been alone in asking for public assistance in the orderly marketing of their products. Consumers have requested and obtained regulations for consumer grades on eggs, butter, milk, apples, and a variety of other foods. These regulations include detailed standards for food and food products and provisions for correct weights and measures.

The Agricultural Marketing Service, the Foreign Agricultural Service, and other branches of the United States Department of Agriculture and the university institutes of agriculture in the various states have also played an important and effective role in providing marketing assistance. Their main job is to help speed up the marketing processes and to make them more efficient and effective through the dissemination of helpful, up-to-date information. Through research they help discover new processing techniques. Through education, these new merchandising and marketing methods are put into practice.

## *For More Information on Marketing*

One thing is certain: you will want to be well informed about the basic principles of marketing. You will want to keep up with new techniques, new methods, and new developments in marketing. It is equally essential that a majority of citizens share in that understanding and keep up-to-date. Only then can you decide which markets and marketing services will best serve the interests of both producers and consumers.

There are many interesting books on marketing. Your county agricultural extension agent has other reference material which will be helpful. You can also visit and study your own nearby markets. These markets include grain elevators, produce companies, dairy plants, and local or terminal stockyards. Owners and managers of marketing agencies usually welcome educational tours if they are arranged in advance.

Those are only a few examples of the opportunities you may have in your community for studying marketing. Marketing tours and special marketing studies will help you to become more familiar with your local markets—how they operate, some of the services performed, the costs involved, some of the

problems encountered, and how they are being solved.

Remember that what you produce on the farm has reached its full value only when it has reached Mr. and Mrs. Consumer. Therefore, the processing, assembling, grading, transporting, handling, refrigerating, packaging, and distributing are all important services which cost money and must be efficiently done. That is why you and other producers need to be keenly interested in **marketing**.

*Consult Your*  
**County Extension  
Agents . . .**

. . . They will be glad to work with you on problems like those discussed in this brief circular. Visit them in the county Extension office or invite them to stop at your home or farm when in the vicinity. If you know of a few other couples in your community with similar interests, suggest that they, too, get in touch with your county Extension office.

---

UNIVERSITY OF MINNESOTA, INSTITUTE OF  
AGRICULTURE, ST. PAUL 1, MINNESOTA

Cooperative Extension Work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Service and United States Department of Agriculture Cooperating, Skuli Rutford, Director. Published in furtherance of Agricultural Extension Acts of May 8 and June 30, 1914.

10M-6-56