October 2, 2002

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Changes in the U.S. Food Marketing System

Market Report	Yr Ago	4 Wks Ago	9/27/02
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$66.47	$63.15	$65.14
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	*	83.25	84.50
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	97.68	89.36	87.89
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	106.67	99.16	102.15
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	43.63	21.00	31.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	43.50	10.00	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	114.90	82.67	91.29
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	46.42	*	74.25
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	123.22	161.95	155.63
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	2.88	4.39	4.95
Corn, No. 2, Yellow Omaha, bu	1.83	2.62	2.34
Soybeans, No. 1, Yellow Omaha, bu	4.20	5.37	5.22
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.47	4.90	4.50
Oats, No. 2, Heavy Minneapolis, MN , bu	1.88	2.08	2.27
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	110.00	142.50	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	75.00	92.50	82.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	105.00	120.00	117.50

* No market.

The U.S. food marketing system is characterized by improved efficiency, increased concentration and fundamental changes in the relationships between buyers and sellers in a recent report by the Economic Research Service of the U.S. Department of Agriculture. The 95-page report, *The U.S. Food Marketing System, 2002: Competition, Coordination and Technological Innovations into the 21st Century* (Agricultural Economic Report No. 811), can be downloaded from the ERS website at *www.ers.usda.gov*. It was written by J. Michael Harris, Phil R. Kaufman, Steve W. Martinez and Charlene Price.

According to the report, the food marketing system is an important component of the U.S. economy, accounting for 7.7 percent of U.S. gross domestic product and employing over 12 percent of the U.S. labor force. An increasing share of consumer expenditures on food is attributable to marketing services added after food products leave the farm. In 2000, over 80 percent of U.S. food expenditures paid for value-added services and materials, including transportation, processing, distribution, labor, packaging and energy.

Continuing increases in the efficiency of the U.S. food marketing system "result in abundant supplies of a variety of affordable food products," according to the report's authors. Real value added to gross domestic product per worker (including farmers, processors and distributors) increased from $28,019 to $30,413 between 1996 and 2000, an increase of 8.5 percent. Increases in consumer income have exceeded increases in food expenditures, resulting in a continuing reduction in the proportion of income spent on food. Consumers currently spend about 10 percent of their income on food, compared to almost 18 percent in 1960.

The report observes that there is increased concentration in the food marketing system because of continuing mergers and acquisitions. Sales of the four largest food retailers increased from 16.6 percent to 27.4 percent of total food retail sales between 1996 and 2000. Similar consolidation occurred in food service distribution. The authors note, however, that changes in concentration vary by the stage in the food supply chain and the type of products processed or handled. Concentration also differs among segments within particular stages.

The authors offer several reasons for mergers and consolidations in the food marketing system. Firms may seek to consolidate horizontally or vertically to maintain their bargaining power with other firms in the food supply chain that also are consolidating, to ensure a market outlet in an increasingly consolidated downstream stage or to assure themselves a consistent source of quality raw products. Firms also may consolidate to capture efficiency gains, to procure raw materials at a lower cost or to improve their ability to compete with the fast food industry or nontraditional retailers such as Wal-Mart.

Fundamental changes are occurring in the relationships between buyers and sellers throughout the food marketing system as the stages of the food supply chain become increasingly interdependent. In some sectors, farmers are increasingly involved in contracts and vertical integration. Meanwhile, traditional food wholesalers that buy food products from manufacturers and sell them to retail food stores are losing market share. Increasingly, manufacturers are delivering their products directly to retail stores while self-distributing retailers operate their own distribution centers and purchase directly from manufacturers.

The food marketing system continues to adopt new technologies that improve the flow of information and aids managers in scheduling and inventory decisions, thereby lowering costs, reducing instances when products are out of stock and allowing firms to target specific groups of consumers. According to the section of the report on the food service sector, there has been a substantial increase in the productivity of labor in eating and drinking establishments, due in part to improvements in technology.

In 2000, 56 percent of all restaurants maintained websites designed to attract new customers, compared to 30 percent only a year earlier. The internet has allowed both restaurants and supermarkets to offer new services such as electronic ordering and home delivery. Meanwhile, vending machines are being equipped with sensors and modems that can instantly relay sales and inventory information over computer networks, enabling vending machine companies to more accurately target the customers of specific machines. One food service company even lets students order custom school lunches for the next day over the internet.

The U.S. food marketing system has become increasingly international in scope according to the report. The United States is both the largest importer and exporter of processed food in the world, and American food firms have continued to expand their overseas operations while foreign investment in domestic food retailing has been increasing due to the acquisition of U.S. food retailing firms. The authors of the report argue that investment in foreign operations provides U.S. food firms an alternative to the slowly growing domestic food market but leaves the U.S. food marketing system increasingly vulnerable to foreign economic developments, government policies and changing consumer preferences.

The authors also argue that the changes in the U.S. food marketing system have important implications for the farm and ranch sector. Farmers are under increasing competitive pressure to produce specific types of products and to deliver them at particular times. Food retailers are demanding a broader variety of quality products such as exceptionally lean pork and organic produce, increasing the importance of product differentiation and information on production methods. According to the report, most recent new product introductions have been in the areas of convenience food products, organic and natural foods and functional foods. In addition, food retailers have been experimenting with new marketing strategies, such as super- market-sized natural food stores and ethnic-oriented formats, to meet the growing demands of health-conscious consumers and the increasing population of immigrant households.

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