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MARKETING MARGINS EXPLAINED

With the growing concern of where our food dollars are going, a lot of terms are tossed around to try to explain changes taking place. Some examples are "farm-retail price spreads", "a market basket of food" and "farm food marketing bill". This newsletter is devoted to clarifying what is meant by these terms.

FARM-RETAIL PRICE SPREADS

These are published monthly by the United States Department of Agriculture for 45 individual foods. Essentially, the farm-retail price spread is just the difference between what the farmer gets per unit and what it sells for at the retail level. It measures charges such as the assembling, processing, transporting, storage, and retailing charges added on to the value of the farm product. It tells the consumer which sectors of the economy got how much of his food dollar.

An example may more fully explain the calculations. Based on 1974 prices, costs and margins, a \$1.00 spent for beef was divided:

\$.62	to the producer
.01	to assembling the product
.06	for processing
.07	for transportation & wholesaling
<u>.24</u>	for retailing
1.00	retail price

There are many pitfalls, however, in assessing these figures. A major one is that there are many averages involved - an average for all beef grades, an average cost for all types of firms handling the product and average prices received at retail. The process of calculation becomes particularly difficult when various products are combined to determine the average farmer's share of the consumer dollar. Some products must undergo much more processing before they reach the consumer than do others. Some require more special handling and

often incur higher costs for refrigeration along the marketing channel.

The example above assumes that a 1000 pound steer has been reduced to its salable products of about 440 pounds and that the farmer's share of 62 cents is of the latter. Head lettuce, however, returns only 15 cents to the farmer while retailing takes the lion's share of 42 cents. The salable product as it reaches the retailer must be trimmed, probably wrapped, allowed an undue amount of display space relative to its sale value, and then before all of the heads are sold will have to be reduced in price or discarded. In general, then, the more highly processed and the greater the distance to the market, the smaller the farmer's share will be and the larger the marketing margin. The farmer's share tends to be highest for animal products.

Another caution should be noted. The farmer's share of the consumer's food dollar does not equal the farmer's income. The farmer's share concept is based on price and a farmer's actual earnings depend on his cost of production and the volume of the product he sells. About 80 percent (on the average) of his cash receipts go to pay his production expenses. Many of these expenses are in themselves products of other firms and could very well be classed under a similar arrangement such as producer-to-farmer spreads. Examples would be fuel, fertilizer, and other purchased inputs.

THE MARKET BASKET

The market basket measures long-term variations in both overall food costs to the consumer, and the farmer's share of the food dollar. A market basket is based on the quantities of food purchased by urban wage earners and clerical workers in 1960-61. The foods in the basket, as well as the quantity weighting scheme, are held constant for long periods of time so that long-run changes in the marketing spread will show up.

The market basket is in fact actually less than what the typical family spends on food because -

1. It doesn't take into account food eaten away from home.
2. It includes food expenditures by single persons as well as those by families.
3. It excludes foods that aren't grown on U.S. farms, such as coffee, bananas and seafoods.
4. Its mix remains constant, not changing with consumer eating trends.

MARKETING BILL

Another measure, known as the mar-

keting bill, does reflect changes in consumer eating habits. When consumers eat out more often, less food is sold through the grocery stores and the character of the marketing bill changes. And when consumers eat more processed food, the bill goes up.

This set of statistics is an annual estimate of charges for processing, transporting, wholesaling, and retailing foods produced on U.S. farms, whether they are sold in grocery stores or consumed in restaurants or other eating places. It is sometimes broken down into "agency shares" which shows the proportions going to processors, wholesalers, food stores and eating places.

Often it is broken down by individual cost factors, such as labor, packaging, transportation, profits, taxes, interest, repairs, depreciation, rent, and advertising. Labor, packaging and transportation take the biggest bite.

Farm-produced items such as tobacco, lumber and Christmas trees, and flowers are, incidentally, not reflected in any of these series.

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Marketing

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