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vertical integration
and the south dakota farmer

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AGRICULTURAL EXTENSION SERVICE
SOUTH DAKOTA STATE COLLEGE
U. S. DEPARTMENT OF AGRICULTURE
Vertical Integration

and

the South Dakota Farmer

by

Lyle M. Bender, Arthur W. Anderson, and Leonard Benning*

Agriculture is undergoing some vast structural changes. Sometimes these changes are referred to as both a technical and an organizational revolution. These changes can be most readily seen in the way our methods of production and marketing are being organized, and in the tools with which we work.

The technical revolution has been in process for many years, but in recent years its pace has increased. Technology has given us new or improved machines and equipment, improved crop varieties and livestock, and new or improved feeds and other farm production items. Most of this new technology in agriculture has increased production, saved labor, and increased the use of capital.

The organizational revolution, which is now receiving most attention, involves farms as production and marketing units, and non-farm business units supplying production items and marketing services. These changes are best described by the term “Integration.” Integration not only affects the marketing methods of farmers and ranchers, but also affects the organization of the farm business.

Integration links the farm more closely with non-farm businesses. It is the result of fundamental economic changes occurring in agriculture and related industries today. It is not the cause of these changes.

The major objectives of this circular are to describe the nature of integration, indicate the extent of current developments, show how it may affect the management of farms, and set forth some of the economic consequences associated with integration.

WHAT IS INTEGRATION?

Integration is simply the combining or tying together of two or more links in the chain of production, processing, and distribution. Generally, there are six links in this chain. These are: supplier, producer, assembler, processor, distributor, and retailer. To

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have complete integration, all of these functions are under one management. This is done either through contracts, complete ownership or by some other formal arrangement. There can also be partial integration where only two links of the chain are controlled by one firm.

Integration in agriculture is not new, and the recent integrating activities should not be too surprising. However, the business activities of firms that finance and sell supplies to farmers, as well as the functions of processors and distributors of agricultural products, are becoming more closely related with each other and with agricultural production. The combining of two or more of the functions in the production-marketing chain has been encouraged by business firms in an effort to obtain economies of scale in both production and marketing, in obtaining quality control, assurance of supply, and to shift or reduce risk.

Integration may be described as either vertical or horizontal. Vertical integration is the combining of two or more of the steps in the production, processing, and distribution of a product from the farm to the consumer under the control of one management.

Horizontal integration is the combination of businesses that are alike into one large business. For example, if one farmer buys out his neighboring farmer, and puts both farms under one management, this is horizontal integration. Another example: in a Grade A milk shed, all milk producers are required to meet certain standards of production. Decisions relative to price and quantity are made on a group basis.

Such a group may also vertically integrate. For instance, they might jointly acquire and operate a milk processing and distributing firm. In similar ways, non-farm businesses through contract arrangements may vertically integrate farming and processing or distributing. Also, in many cases, they expand (horizontally integrate) the activities of the producers with whom they contract.

The integrator in vertical integration is the firm where the management is centralized. The integrator contracts with others or assumes some degree of control over other businesses. Any firm within the chain of production, processing, and distributing can be the integrator.

Vertical integration centralizes management. Instead of a number of separate farmers, processors, and other agencies, each making separate and often unrelated decisions as the product passes through their hands, integration coordinates all decisions toward getting a low-cost, uniform-quality product to the consumer at the right time. Vertical integration concentrates control.

Integration does not deal with the farm and the farmer as a whole (unless it is a specialized one-product farm), but rather with one or more commodities or enterprises of the farm. For the most part, the individual farmer is the one who still performs the four economic functions of owner, manager or decision maker, risk-taker, and laborer.
FORMS OF INTEGRATION

Integration between agriculture and business may take any of three general forms. (1) One form is by direct ownership and operation by one firm of two or more businesses engaged in the same or successive stages of the production, processing, and distribution of farm products.

(2) The more common form of vertical integration is contractual arrangements between farms and non-farm firms. This is often referred to as "contract farming." Here the various functions associated with the different business firms and farms are brought under unified control or management by means of a contract.

(3) The third form of vertical integration is through cooperatives where (a) farmers buy and frequently manufacture their farm supplies and production materials, (b) where they market and frequently process their products, and (c) where farmers may bargain with suppliers of production items or with buyers of their products. The combination of firms in this manner results in varying degrees of market concentration or market power. Market concentration refers to the extent that certain number of firms in a market have expanded horizontally. The extreme case is monopoly where one firm has integrated horizontally until it is the only firm in the market.

INTEGRATION INCENTIVES

The history of the development of our progressive economy has been one of change. This includes both the farm and non-farm occupations. In an economic system such as our own, there are constant pressures to do things better. Some of the incentives favoring the development of integration are:

1. Modern mechanized farm production has encouraged large-scale, specialized operations or enterprises. These involve heavy investments and high cash expenses. This is a product of advancing technology. Such operations with high capital investments are highly vulnerable to price and production risks. Contracts to farmers, which provide for financing and also guarantee a minimum price or premium above market price, are attractive to this type of producer.

The size and efficiency of a farm operation of this kind often will permit the farmer to specialize and to produce a stable supply of a uniformly high-quality product. It may also enable him to secure more adequate credit on more desirable terms.

The larger farm enables the farmer to specialize in a few large enterprises. This opens the way for the application of more efficient practices and specialized management.

2. On the buyer side of the market, the super-market system of food distribution has caused food processors to place increased emphasis upon uniformly high-quality product, and upon volume purchases of farm products.

Buyers for food distributors seek large, stable supplies of food products. They want products which are uniform in size, weight, and appearance, and which possess the characteristics sought by the housewife. They are usually willing to pay a premium to assure such a supply. The demands of these buyers are met
more easily under a coordinated system in which products are produced under specified conditions and assembled in large quantities for frequent and regular delivery.

3. Many of the forces which have encouraged vertical integration in farming have come from the non-farm industries. Processing firms such as packers on the processing side and formula-feed manufacturers on the supply side are interested in large volume operations. They are also interested in the precise timing of livestock deliveries to packing plants and feed deliveries to producers. These non-farm businesses are under competitive pressure to reduce costs through a combination of volume production and efficient operations. If contract arrangements with producers can level out the seasonal peaks and troughs of processing plants and feed manufacturers, these agencies can cut costs and increase their profits.

4. Integration may develop where there is a special market opportunity for a new or different product. The risks are many if a farmer attempts on his own to market a large output of products new to the area. He may be willing to produce a product new to him or his area if a guaranteed market exists. To guarantee that market, the marketing firm would want to see a profit opportunity in the venture.

5. Integration will tend to develop in areas where there is a chance to increase control over a large share of the supply and improve prices or bargaining power. The closer control of a large portion of the supply may result in price advantages to the controller. This may occur because of the ability either to secure the supply cheaper from farmer-producers or to sell it at higher prices to consumers. However, if marked advantages were realized because of such control, the integrator might be in violation of anti-monopoly laws.

Current Developments in Integration

The task of coordinating the activities of farm and non-farm firms, in our present competitive economy, is not simple nor is it perfect. Many modifications in our competitive economy in the form of coordinate action have taken place and new innovations are most likely to appear. This job is becoming more difficult because of the changing role of agriculture, the developing technology of production, the increasing emphasis on quality of agricultural products, and the increasing attention on gaining bargaining power.

A brief description of current integration efforts in several enterprises will serve to illustrate the main types of integration.
POULTRY AND EGGS

At one time, a farmer who produced eggs and poultry meat performed every activity necessary in production and marketing. He produced and hatched eggs for his replacement flock, raised grain to feed replacement flock and layers. He delivered eggs and dressed poultry direct to consumers. He operated a completely integrated business!

Through the years, he has become more specialized as a result of many technological developments. He has become dependent upon other specialized firms that furnish him factors of production, such as chicks, formula feeds, credit, and management services, and that perform marketing services for his products which are designed to improve their quality and to even their flow to market.

Integration or contract production has developed more rapidly in the poultry industry than in any other area of agricultural production. About 95 per cent of the commercial broiler production is on some type of integrated basis. In the case of turkeys, the percentage is probably up to 50 per cent, while about 5 per cent of the eggs are produced under integrated systems.

In the broiler industry, the feed dealer is usually the integrator. Some contracting is done by processing plants. Very few of the contracting firms are completely integrated from production to processing to retailing.

The contractor (integrator) usually furnishes the feed, medicine, vaccine, and other supplies he carries in stock. He also arranges for delivery to the grower of chicks, fuel, litter, and other items he does not handle, and assumes the responsibility of paying for them. He may also supply certain management supervision to the producer. Under most contracts, the grower furnishes the broiler house, equipment, and labor to raise the flock. The contracting agency usually maintains title to the birds; thus, in a sense, provides outside credit for the broiler enterprise.

The returns to the grower vary widely. Some typical plans include: a flat guarantee per 1,000 birds started, specific guarantee per bird or pound sold, a guarantee of ½ cent per week per bird delivered, a guaranteed selling price, a guaranteed price with loss shared between feed dealer, hatchery, and processor, and a specific guarantee plus profit sharing or bonus for efficient operation.

Some contracting of market eggs is presently under way. A number of different contracts are being tried. One system is the flat fee. Here, the contracting agency agrees to pay the producer a set amount per dozen eggs or per 1,000 layers. This agency stands all the loss or retains any profit after paying the producer a flat fee specified in the contract. The contracting agency usually supplies the pullets, feed, and drugs. Here, again, outside credit is made available to the poultry enterprise. Usually these contracts provide for a set of production practices that will tend to result in a uniform quality of product. This will minimize the amount of sorting or grading at the producer or first buyer level. The producer supplies the labor, housing, equipment, and electricity.
Another system is the guaranteed price. In this case, the contracting agency agrees to pay the producer a minimum price for Grade A or better quality eggs, or a specified amount over a particular market quotation, whichever is higher. The producer must pay all costs, including feed, pullets, drugs, labor, building, and equipment.

LIVESTOCK

Vertical integration in the livestock industry has developed chiefly in cattle and lamb feeding. It appears to be spreading to hog production and feeding. Some estimates indicate that about 25 per cent of lamb feeding is on a contract basis. For cattle feeding, the percentage may be 10 to 15 per cent, and for hogs probably between 2 and 5 per cent.

Contract sales have characterized the selling of feeder cattle and lambs for some time. This type of forward selling contract more nearly resembles the futures contract of the commodity exchange than it does “contract farming.” It may or may not be associated with the vertical integration process.

In the case of beef cattle, the contracting agency (integrator) may be a custom feed lot operator, a packing house, a chain store, or a combination of the latter two. Packing houses and chain stores may operate their own feeding yards.

Custom feed lot operations may be of two forms—custom feeding for ranchers and other cattle producers, and custom feeding for packers or chain stores. In the first case, the cattle are owned by the rancher or farmer and in the latter, by the packing house or chain store. Rates for feeding cattle under these contracts are based on costs of feeds, mixing costs, and usually a per head daily charge of 1 to 7 cents for handling and fixed costs. Time of sale, place, and grade is determined by the owner of the cattle.

In lamb feeding, contracting is done much the same as in beef feeding. Several large packers own their own feed lots and secure part of the slaughter volume from this source. Packers often contract with feeders for the feeding of lambs which they buy, on either a weight-gain or daily-charge basis.

Contract farming or integration of hog production is relatively new. Two general types have developed. One is the feeder-pig contract. Here, the integrator, frequently a feed dealer, supplies the pigs, feed, specialized management and veterinary expense, and takes the hogs when they are ready for market. The farmer supplies the land, buildings, equipment, and labor. A common rate paid to the farmer is two cents per pound of gain.

The sow and pig contract is more complicated. In one form of contract, a feed company and a meat packer act as joint integrators. The integrators require the grower to adopt the multiple farrowing system and to use the feed company’s supplements. They outline the housing, equipment, and general management practices to use. The farmer supplies the labor, sows, land, buildings, and equipment, but
pays for the commercial feeds at selling time. Variations are common, especially as to the use of meat-type hogs. One kind of contract calls for leasing of the bred sows to the farmer with payment being made in market hogs or gilts. Another type of contract spells out the pricing arrangements. It provides for a 50 cent bonus above the high-low average of the Chicago market for No. 1 hogs. The No. 2 and No. 3 hogs are sold at the market price in the area.

DAIRY PRODUCTS

In the dairy field, integration efforts have largely been through cooperatives.

The producer distributor — one who sells his own milk at retail — is an example of vertical integration that is diminishing in importance. In 1957, only 2 per cent of the milk marketed was handled in this way.

In the case of vertical integration in the dairy industry, the current trend is toward a greater degree of integration between establishments beyond the farm. Here the creamery, the wholesaler, the broker, the jobber, and the retailer are among the agencies that may be combined in a complex vertical structure. The integrators may be cooperative or non-cooperative firms.

A clean-cut pattern of vertical integration exists among cooperatives that bottle and distribute fluid milk. These firms provide integration from the pickup of milk at the farm to the display cases of the supermarkets or to the home doorsteps. Also, in this area, the firms that have grown large in fluid milk distribution have also tended to integrate into dairy manufacturing.

While the major vertical integrating efforts have been from the processing plant forward to the consumer, there are other integrating efforts back to the farmers.

One of these is the vertical integration efforts by processing plants to encourage adoption of new dairy technology. These include the financing or leasing of dairy farm equipment and various forms of specialized services. The recent expansion of bulk milk handling is an example. The integrator may be either the dairy processing plant or the equipment supplier. Another such plan is the “cow pool” which is somewhat similar to the large “beef feeding factory.” Here, at one location, a custom operator at a central location would provide housing, feeding, and milking of cows from several farms. The cows would be owned by individual farmers cooperating in the venture. A flat service fee would be charged the farmer.

Another variation of integration is under way. This involves what we called horizontal integration. The integrator is usually a bargaining cooperative which is, to say, cooperating farmers themselves. Very often this form of integration is associated with a federal marketing order. For example, in a Grade A milk shed, all milk producers are required to meet certain uniform standards of production. Decisions relative to prices and quantity are also made on a group basis between the bargaining cooperative, the processors or distributors,
and Federal milk marketing representatives. Hence, the milk-production and marketing activities of all the members of these cooperatives are integrated horizontally. This group may also vertically integrate. For example, they might jointly own and operate a milk processing plant.

Bargaining associations increase the farmer's bargaining power through horizontal integration, by the joining of farmers producing the same product. The full benefits of integration are possible by becoming completely integrated from the producer to the consumer.

CROPS

Various forms of contract farming have been in existence for sugar beets and various seed crops for a long time.

Contract production of sugar beets is a universal feature of the industry. Through this system, the beet grower is assured of a market outlet at an agreed price. The beet processor is assured of an adequate supply of beets.

The integrator is the sugar processor. He furnishes the grower his seeds, aids in securing seasonal labor, and provides management services. The land and equipment is supplied by the beet grower. Payment agreements provide for incentives for producing high-quality high-sucrose beets, and relate the beet price per ton to the price processors receive for sugar.

Hybrid seed corn and grass and legume seed production and marketing are other examples of vertical integration. About 75 per cent of the hybrid corn seed and about 10 per cent of the total output of grass and legume seeds is produced under some form of vertical integration.

The integrator in these areas may be the farmer in the form of a cooperative or the seed processing firms.

The most common arrangement is for hybrid seed corn companies to contract with selected producers. Some seed is produced on company land, but mainly in the development and perpetuation of initial seed stock. Another variation exists where the seed company (cooperative or non-cooperative) may be contracting with a public seed stock foundation for development and perpetuation of initial seed stocks.

Usually, seed corn firms furnish seed stock to their farmer-growers and contract with them for all of the first generation seed produced from the combination of inbred lines. Many production decisions are made by the seed corn firms. The grower provides the land, does the planting and cultivating. The seed corn company does the other production tasks and may do the harvesting.

Provisions of the contract vary widely. Most often, the contracts require the company to furnish foundation seed stock and planter plates, pay half of the cost of fertilizer, do the detasseling or pay for it, harvest seed rows, and buy all the corn that meets certain specifications at an agreed price per bushel. In the case of cooperatives, an agreed price may be specified plus additional returns, if any, at the close of the year.

The hybrid seed corn industry is highly integrated beyond the farm-
er, with the usual processing, storing, and merchandising functions performed by the company. These firms sell to retail outlets and to farmer salesmen.

Grass and legume seed production is becoming more concentrated in specific areas with favorable climate and experienced growers. The contract is usually initiated by the processor-wholesaler which may be a private or corporate stock firm or a cooperative. The processor-wholesaler firm may contract with a non-profit research organization or foundation for seed stock. The processor supplies the seeds and pays the farmer for his seed production minus the seed supplied for original planting. Certain planting, isolation, and harvesting practices may be specified. A time limit for selling and minimum price is established before the contract is signed. In the case of cooperatives, the contract may establish a minimum price and provide for additional returns, if any, at the close of the year.

Farm Management Aspects

An independent farmer is three things: a laborer; a manager who makes the decisions; and an owner of capital who furnishes land, equipment and money for the operation of a farm. Vertical integration means more "outside" capital in a farm business. And the supplier of capital in a business venture generally desires control in decision making.

Vertical integration is, in essence, a "package deal" in which each party surrenders something in return for something else. The farmer surrenders the right to make many of the over-all management decisions. He often surrenders the actual ownership of the product.

In return, he receives some security of market and income, in the form of either outright guarantees on a per unit basis, or price premiums for a given period. The farmer may receive package. The integrator, on the other hand, assumes some management responsibility and market risk in return for some control over volume, timing, and quality of the product. Integration usually deals with a particular commodity or enterprise on a farm, such as turkeys, broilers, hogs, canning crops, etc.

The decision as to whether or not to become involved in vertical integration contracts is an individual management decision. It requires the weighing, by the individual farmer, of his present situation and possibilities against the agreements offered by various integrators.

WHERE INTEGRATION MAY OFFER ADVANTAGES

1. To the farmer who has the labor and some facilities, but lacks operating capital and credit.

2. To the starting farmer or one who needs to expand operations.

3. To secure supervision of operation if the operator is inexperienced and lacks the latest "know-how" in a special enterprise.
4. To transfer some risk to the integrator who may furnish a large part of the cash outlay.

5. To improve efficiency by the use of better equipment, feeds, and methods required by the integrator.

6. To give the farmer more opportunities to market his product to better advantage.

DISADVANTAGES OF INTEGRATION CONTRACTS

1. The farmer must surrender some of his independent actions and decision-making in the enterprise under contract.

2. He restricts his opportunities to take advantage of price rises. His risks may be reduced, but his opportunities for the high profits are also reduced or eliminated.

3. If a farmer has been successful in this particular enterprise, he restricts his opportunities to use his special ability to his own advantage.

4. Rapid increase in integration contracts in an enterprise might result in over-expansion of the product, which could depress prices seriously.

5. In most contracts, a farmer obligates himself for a period of time. This may prevent him from taking advantage of new opportunities or alternatives in other enterprises that arise while the contract is in effect.

6. The contract can be no better than the management, financial structure, and integrity of the integrating agency. The farmer takes the risk of poor performance by the integrator.

EVALUATING CONTRACTS

Before agreeing to a contract, it should be carefully studied and analyzed to see what decisions each party proposes to handle, the risks each one agrees to assume, and the items of production such as livestock, feed, equipment, etc., that each will furnish. Some questions that a farmer considering a contract should ask himself are:

1. How will it affect the risks I am now carrying?

2. How will it affect my control over the enterprise, and who will make which decisions?

3. In what ways will the integrator be better able to make the decisions I turn over to him than I could?

4. Is the procedure for determining the compensation of both parties clearly stated?

5. Will I be permitted to feed my own grain, hay, silage, or other feeds to the animals under contract, and if so, how will I be compensated for them?

6. What liabilities may I be required to assume in case of failure of one or both parties to the contract to carry out their responsibilities?

It is well to keep in mind that integrating agencies are not taking on risks and capital responsibilities "just for the fun of it," but rather because they believe it is good business for them and will increase their profits. They may sincerely believe that they can also increase the net returns of farmers who join with them in enter-
prise contracts. However, their primary interest is naturally in maximizing their own profits.

Before signing an enterprise contract, a farmer should determine for himself how and to what extent he will be better off producing under an integration agreement than producing as an independent operator. This is the basis by which he must make his choice about integration.

**ECONOMICS OF QUALITY CONTROL**

Quality control in agriculture means the production and marketing of commodities according to certain specifications. Time, money, labor, and other factors are required to control the quality of farm products. Because of a number of natural factors, it is difficult to produce farm commodities to meet specified conditions at the time of sale. Fortunately, for farmers, consumers have diversified preferences for farm products.

There are two main ways to get these quality products. One is for marketing firms to assemble and sort mixed quality farm products into groups having uniform characteristics which are designated as grades. The other way is for farmers to produce and market uniform quality products of pre-determined specifications.

Certain quality control activities must be performed by farmers and other marketing firms. Other activities may be performed by either farmers or marketing firms. Here the one that can do the task cheapest will get the job.

How much quality is profitable? The extent to which quality control is carried out in agriculture depends on how much premium consumers are willing to pay for commodities placed in designated quality groups and the costs of controlling quality. When farmers and marketing firms perform quality control activities, the costs of controlling quality will be less if the two firms work together.

Improvements in technology will permit more exact quality control at
all steps through production and marketing activities. Farmers and marketing firms working closely together are more likely to produce and market commodities with the quality desired by consumers and at a lower cost. This opens the way for the producer and processor to enlarge profits, and for consumers to buy at lower costs. It also leads to an integration of production and marketing activities and some agreement between farmers and marketing firms.

ECONOMICS OF PRODUCTION TECHNOLOGY

One of the major problems of any society is the organization of production to achieve the highest level of living possible from given resources. The question of optimum resource allocation must be answered within a farm as an individual business firm and within the nation as a distinct society.

As a manager, the farmer is concerned with the organization, operation, buying and selling, financing, and efficiency of the farm business. His basic goal is to maximize profits from his farm by securing the largest returns possible at the lowest possible costs. This involves choices between alternatives in every part of his business, and whether or not he will farm or do some other job. He, then, is concerned with the allocation of resources (land, labor, capital, and management) as they apply to production practices, to an enterprise, to a whole farm, and with our national economy.

Agricultural technology expresses itself through improved practices, such as new seeds, feeds, fertilizers, machinery, livestock, and business organization methods. Most agricultural technology has been output increasing, capital using, and labor saving. It has contributed to lower unit costs by a larger output per unit of input and by fewer inputs per unit of output. With the low income and price elasticities of agricultural products, this technology will reduce aggregate gross farm income. This results from the fact that the amount of farm products consumed per person is only slightly affected by changes in prices and incomes. Under these conditions, a small increase in production will bring about a large decrease in prices and income.

Therefore, the decrease in market price resulting from output-increasing technology will be greater than the decrease in cost of production. The innovators and first adoptors of the new technologies will stand to gain in income. But for all of agriculture, as more technology is adopted, the per capita farm income must decline unless resources, mainly labor, transfer out of agriculture.

ECONOMICS OF MANAGEMENT SUPERVISION

The typical pattern of farm operation is the owner-manager-operator. The farm management job consists of observing, analyzing, deciding, acting, and accepting responsibility. The farmer, as he goes about the management of his business, is concerned with the “what” and “how much” questions surrounding his business.

Today, management has become the key factor in successful farm operation. Why? Farm units are larger
and more business-like, require more capital, use more science (physical and social), require higher levels of management, and have more specialization of labor. For the most part, when such changes have occurred, opportunities for profit and for higher levels of living have increased for owners, for managers, and for workers. In this adjustment, some individuals are injured, but in the whole, society has gained.

It is obvious from the foregoing analysis that the management function will continue to grow in importance. While the management function, as it applies to the whole farm, will remain with the farmer, certain management functions will be shared with others.

There will continue to develop a professional management group in agriculture. The big growth will be in enterprise "experts" since integration involves single enterprises. It will tend to center around the application of technology. The costs of this type of service will be hidden in the cost of the product or service rendered by the business firm. The type of service the business firm will offer to contracting farmers will largely be in the area of application of technology.

While the management function has remained with the farmer, he has had at his disposal information supplied by public agencies such as extension and research. These sources have supplied both technical and economic information and methods of analysis useful in his business. In recent years, the need for economic counselling has increased and is likely to increase in the future.

**ECONOMICS OF MARKET CONCENTRATION**

Of the many reasons for the increasing interest in integration is a yearning to be “free” of the market place which is characterized by many buyers and sellers, by price and product uncertainty, and competitive hazards. Such protection from the market place is achieved by supplementing the price system in allocation of resources with the more direct process of managerial authority. All integration of farm and non-farm business firms involves a partial departure from the market place in its pure competitive form.

When buyers or sellers are relatively few, they are able to develop certain buying or selling policies of their own. Profit margins may be relatively large depending on the amount and intensity of government restrictions on this form of business arrangement.

Integration offers a means to this end. Two examples, one from industry and one from agriculture, will serve to illustrate the point. Feed and fertilizer suppliers are interested in vertical integration as a means to increase sales without greatly altering prices. Cooperatives have been and are being used to strengthen the bargaining power of farmers by neutralizing the market power of suppliers or processors and by creating market power for themselves. The former is achieved when farmers form a bargaining cooperative to bargain with suppliers or buyers of their products. Market power is created for farmers themselves when they organize a cooperative that performs two or more functions in the supply, production, and marketing process.
Will Integration Take Over?

During the next 10 to 20 years, more integration activities in livestock production can be expected. This seems to be the inevitable result of technical progress and scientific advancement in agriculture. More such technical developments are certain to come. They usually require greater volume and more capital by the adopting farmer. Integration contracts will definitely continue to appeal to the beginning farmer who lacks capital or credit, and to one who desires packaged supervision.

Some expanded hog production can be expected outside the Corn Belt because of integration. But the expansion that does take place in the southern states and elsewhere will be limited to the production of corn and feed grains in those areas. Swine production as a major enterprise will not move from the Midwest to the South and East as readily nor as completely as did broilers. Corn as a principal feed is relatively much more important in both hog raising and cattle feeding than for broilers. It seems very doubtful, therefore, that livestock integration will move either as fast or as far as broiler integration. Nor does it appear that the location of livestock production will shift as drastically as broilers did.

In the future, farmers with integration contracts may choose to turn over or share some of the management control of certain enterprises or production processes on their farms. However, the primary management job of analyzing choices, making overall farm decisions, selecting enterprises, etc., will remain in the hands of the farmer. Instead of farm operators tending to become more like hired men with less management skill required, the successful farmers will have to constantly increase their management ability.

The most successful farm producers in the future will tend to be those most successful at coordinating the quantity and quality of their farm production with the services performed by non-farm agri-business firms. In other words, highest profits will likely come from doing the best job of producing what the market wants and keeping down production costs. Increasing specialization by enterprises is likely in the future. As this occurs, the pressures for greater coordination and closer ties between the various agencies involved in producing, processing, and distributing farm products will also increase.