### MARKETING CHANNEL

**Value added by the food and fiber system, 2001**

<table>
<thead>
<tr>
<th>Value added to GDP ($ billion)</th>
<th>Share of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming</td>
<td>75.8</td>
</tr>
<tr>
<td>Input industries</td>
<td>622.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Food processing</td>
<td>156.3</td>
</tr>
<tr>
<td>Nonfoods</td>
<td>47.1</td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>41.3</td>
</tr>
<tr>
<td>Wholesale and retailing</td>
<td>334.4</td>
</tr>
<tr>
<td>Food service</td>
<td>156.5</td>
</tr>
<tr>
<td><strong>Total food and fiber system</strong></td>
<td><strong>1,244.6</strong></td>
</tr>
</tbody>
</table>

**Marketing Margin:**

- Difference between price paid by final consumer and price received by primary producer
- Also called “farm-retail price spread”
MARKETING CHANNEL

• Marketing Margin:
  – Difference between price paid by final consumer and price received by primary producer
  – Also called “farm-retail price spread”
  – Must be measured in equivalent units:
    • Example:
      • For steers, 2.4 lbs of live weight yield 1 lb of retail beef cuts
      • 2000 retail beef price = $3.06/lb average all cuts
      • 2000 steer price = $0.654/lb live weight
      • 2000 farm-retail price spread = $1.57/lb retail cut
        (= $3.06/lb - 2.4 x $0.654/lb)

MARKETING CHANNEL

• Marketing Bill:
  – Difference between total consumer expenditures and what farmers receive for equivalent farm products

MARKETING CHANNEL

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td></td>
</tr>
</tbody>
</table>

Farmers’ Market

Demand | Supply
Production | Consumption
MARKETING CHANNEL

Components of consumer expenditures for domestically produced farm foods, 2002

19% Farm Value $132.5 billion

Marketing Bill $576.9 billion

81%
MARKETING CHANNEL

Marketing bill and farm value components of consumer expenditures for domestically produced farm foods (Current $ billion)

MARKETING CHANNEL

Marketing bill and farm value components of consumer expenditures for domestically produced farm foods (Constant 2002 $ billion)

MARKETING CHANNEL

Marketing bill and farm value as percentages of consumer expenditures for domestically produced farm foods
MARKETING CHANNEL

• Is a large farm-retail price spread necessarily “bad”?
MARKETING CHANNEL

Is a large farm-retail price spread necessarily “bad”?  

<table>
<thead>
<tr>
<th></th>
<th>Retail Price ($/lb retail)</th>
<th>Marketing Margin ($/lb retail)</th>
<th>Farm Value ($/lb retail)</th>
<th>Farmer’s Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fresh Potatoes</td>
<td>0.37</td>
<td>0.31</td>
<td>0.06</td>
<td>16</td>
</tr>
<tr>
<td>Frozen French Fried Potatoes</td>
<td>1.10</td>
<td>1.02</td>
<td>0.08</td>
<td>8</td>
</tr>
</tbody>
</table>

(Source: USDA, 2002)
MARKETING CHANNEL

Components of the marketing bill for domestically produced farm foods, 2002

- Corporate profits before taxes: 6%
- Intercity rail and truck transportation: 5%
- Net rent: 5%
- Depreciation: 4%
- Taxes: 4%
- Repairs: 3%
- Other: 2%
- Labor: 48%
- Advertising: 48%
- Intercity rail and truck transportation: 5%
- Net rent: 5%
- Depreciation: 4%
- Taxes: 4%
- Repairs: 3%
- Other: 2%
- Labor: 48%

MARKETING CHANNEL

Components of the marketing bill for domestically produced farm foods

- Corporate profits before taxes
- Intercity rail and truck transportation
- Net rent
- Depreciation
- Taxes
- Repairs
- Other
- Labor
- Advertising
- Intercity rail and truck transportation
- Net rent
- Depreciation
- Taxes
- Repairs
- Other
- Labor

MARKETING CHANNEL

- Is U.S. marketing bill “excessive”?
  - Are wages in the marketing sector too high?
MARKETING CHANNEL

• Is U.S. marketing bill “excessive”?
  – Are wages in the marketing sector too high?
  – Do processors, wholesalers, or retailers exercising market power to reap excess profits?
MARKETING CHANNEL

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  – Are wages in the marketing sector too high?
  – Do processors, wholesalers, or retailers exercising market power to reap excess profits?
  – Are regulations too costly (e.g., food safety, food labeling)?

MARKETING CHANNEL

Privately motivated investments supplement PR/HACCP costs
$1,300 per plant, 1997-2001

MARKETING CHANNEL

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  – Are wages in the marketing sector too high?
  – Do processors, wholesalers, or retailers exercising market power to reap excess profits?
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MARKETING CHANNEL

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  – Are input costs too high?

MARKETING CHANNEL

• Approaches to measure farmer’s share of consumer’s food dollar:
  
  1. Marketing Bill  
     • Farm value of all domestically produced farm foods divided by consumers’ food expenditures  
       – Includes foods eaten at home and away from home  
       – Captures changes in price relationships and consumption patterns
MARKETING CHANNEL

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  1. Marketing Bill
     • Farm value of all domestically produced farm foods divided by consumers’ food expenditures
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  2. Market Basket
     • Farm value of a “constant” basket of domestically produced farm foods divided by its retail value
       – Uses only grocery store prices
       – Doesn’t allow substitution

MARKETING CHANNEL

Alternative measures of the farmer’s share of the consumer’s food dollar

MARKETING CHANNEL

• Price spreads differ across goods
  – Degree of processing
  – Perishability
  – Seasonality
  – Transportation
  – “Bulkiness”
MARKETING CHANNEL

Farm value share for selected animal products, 2002

- Eggs, Grade A large
- Beef, choice
- Pork
- Cheese, natural cheddar

MARKETING CHANNEL

Farm value share for selected fresh fruits and vegetables, 2002

- Lemons
- Apples, red delicious
- Potatoes
- Oranges, California
- Grapes, California

MARKETING CHANNEL

Farm value share for selected crop products, 2002

- Rice, long grain
- Barley
- Soybeans
- Flax, whole
- Sugar