Lecture outline

◆ Food marketing
◆ Marketing channel
◆ Food marketing bill
◆ Drivers of change in agriculture

Food Marketing

◆ The performance of all business activities involved in the flow of food products and services from the point of initial production until they are in the hands of the consumers.

Two views of marketing

◆ Macro marketing
  ➢ Big picture focus on the agricultural and food marketing system

◆ Micro marketing
  ➢ Decision maker level choices faced by individuals in food production, processing and consumption
Food marketing challenges

- Food distribution to consumers
  - What to produce
  - How to process
  - Where to distribute
- Reasonable returns to farmers
  - Price / profit signals from consumers
  - Profit margins beyond the farm

Marketing functions

- Create utility by transforming a food item along one of the four dimensions
  - Time, Space, Form, and Possession
- For example,
  - Production, storage, transportation, grading, processing, packaging etc.

Marketing Functions

- Facilitating Functions
- Physical Functions
- Financial
- Exchange Functions
- Buying and Selling
- Risk Bearing
- Market Intelligence
- Transportation
### Traditional Marketing Channel

- **Consumer**
- **Retailer**
- **Wholesaler**
- **Processor**
- **First Handler**
- **Producer**
- **Inputs**

### Food market structure

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumers (US households)</td>
<td>101 million</td>
</tr>
<tr>
<td>Retail</td>
<td>1,068,300</td>
</tr>
<tr>
<td>Grocery</td>
<td>224,300</td>
</tr>
<tr>
<td>Restaurants</td>
<td>844,000</td>
</tr>
<tr>
<td>Wholesalers</td>
<td>41,760</td>
</tr>
<tr>
<td>Processors</td>
<td>29,000</td>
</tr>
<tr>
<td>Producers</td>
<td>2.2 million</td>
</tr>
</tbody>
</table>

### Emerging Marketing Channel

- **Customers**
- **Retailers**
- **Wholesaler**
- **Processor**
- **First Handler**
- **Producer**
- **Inputs**
Food Marketing Channel

- Increased complexity
  - International trade
  - Increasing concentration
  - Direct marketing
  - Vertical integration
  - Non-market transactions
  - Grocery and food service

- You can cut out the middle man but not the function he performs

Changing Food and Ag System

- Diverse consumer
- Shift from raw bulk commodities to food products
- Globalization
- Industrialization
- Technologies
- Environment
Drivers of change

◆ Consumers
  ➢ Food and services are normal goods
    » More income - Less time
    » Demand more choice and convenience
    » Food away from home

Changing Demographics

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Households M</td>
<td>63</td>
<td>93</td>
<td>106</td>
</tr>
<tr>
<td>1-2 people %</td>
<td>46</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>Female head M</td>
<td>5.6</td>
<td>10.9</td>
<td>12.8</td>
</tr>
<tr>
<td>Both work %</td>
<td>41</td>
<td>58</td>
<td>58.6</td>
</tr>
<tr>
<td>Pop. &lt;18 years</td>
<td>34</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Pop &gt;64 years</td>
<td>10</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>yrs of college&gt;4</td>
<td>8.2</td>
<td>18.4</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Drivers of change

◆ Shift from raw bulk commodities to food products
  ➢ New products and outlets
    » 12,000 new products/year
    » Process verified, branded, labeled
    » Niche markets
### U.S. Population, Percent by Sector

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US Urban</td>
<td>74</td>
<td>74</td>
<td>75</td>
<td>79</td>
</tr>
<tr>
<td>Rural</td>
<td>26</td>
<td>26</td>
<td>25</td>
<td>21</td>
</tr>
<tr>
<td>Iowa Urban</td>
<td>57</td>
<td>59</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>NFR</td>
<td>25</td>
<td>28</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Farm</td>
<td>18</td>
<td>13</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>

### Ag & food sector, 2001

- **Food & Fiber**
  - 17% of employment
  - 16% of GDP
- **Farming**
  - 1% of workforce
  - <1% of GDP
- 13 off-farm jobs for each on-farm job

### Food expenditures, 2000

- **Consumers spent $661 billion**
  - Excluding imports and seafood
  - 11% of disposable income
  - Farmer's share 18%
  - Off-farm share 81%
Consumer Food Expenditures

Food Expenditures, Home and Away

Drivers of Change

- Globalization
  - Ag trade in 2004 $\text{Billion}
    - Exports $61.3
    - Imports $54.0
US Agricultural Trade as a Percent of Production and Consumption, 2002

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate</td>
<td>17.7</td>
<td>13.0</td>
</tr>
<tr>
<td>Livestock</td>
<td>7.6</td>
<td>5.3</td>
</tr>
<tr>
<td>Crops</td>
<td>27.3</td>
<td>19.1</td>
</tr>
</tbody>
</table>

Includes all Livestock and products, Crops and products
Drivers of Change

◆ Technology
  ➢ Traditionally production tech
    » Lower costs
    » Increased profit to early adopters
    » Lower prices for consumers
  ➢ New technologies
    » Cost reducing and value enhancing (biotech, precision ag)
    » Consumer oriented (food safety, health)
    » Information

Drivers of change

◆ Diversity of producers
  ➢ Structure
  ➢ Enterprise
  ➢ Cost of production
  ➢ Method of production

Farm Group Definitions

◆ Small family farms: Sales less than $250,000
  ➢ Limited-resource, Retirement, and Residential farms
  ➢ Farming occupation farms
    » Low sales: Sales less than $100,000
    » High sales: Sales $100,000-250,000
◆ Large family farms: Sales $250,000-499,999
◆ Very large family farms: Sales $500,000 and up
### Farm Size and Definitions

<table>
<thead>
<tr>
<th>Farming Occupation</th>
<th>Very Large Family Farms</th>
<th>Large Family Farms</th>
<th>Very Large Family Farms</th>
<th>All Family Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Family Farms</td>
<td>1,278,740</td>
<td>501,192</td>
<td>165,485</td>
<td>85,155</td>
</tr>
<tr>
<td>Mean household income ($ per household)</td>
<td>69,423</td>
<td>35,866</td>
<td>53,617</td>
<td>70,194</td>
</tr>
<tr>
<td>Farm earnings ($ per household)</td>
<td>-4,625</td>
<td>-2,552</td>
<td>26,497</td>
<td>37,182</td>
</tr>
<tr>
<td>Off-farm income ($ per household)</td>
<td>76,254</td>
<td>38,417</td>
<td>27,120</td>
<td>33,011</td>
</tr>
</tbody>
</table>

### Farm Size and Definitions

Acres of crops and head sold of livestock to equal sales amounts

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<th>All Family Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybeans</td>
<td>5.58 &amp; 43</td>
<td>417</td>
<td>1,042</td>
<td>2,084</td>
</tr>
<tr>
<td>Corn</td>
<td>2.06 &amp; 152</td>
<td>319</td>
<td>798</td>
<td>1,597</td>
</tr>
<tr>
<td>Cattle</td>
<td>75.49 &amp; 1250</td>
<td>106</td>
<td>265</td>
<td>530</td>
</tr>
<tr>
<td>Hogs</td>
<td>42.30 &amp; 260</td>
<td>909</td>
<td>2273</td>
<td>4546</td>
</tr>
</tbody>
</table>

*Large Family Farms have sales between $250,000 and 500,000

5-year average prices and yields. 1250# steers and 260# hogs