### TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS

**• Major trends in agricultural market organization:**
- Specialization/Diversification
- Decentralization
- Integration

### TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS

**• SPECIALIZATION**
- Issues:
  - Economies of scale from greater operational efficiency
  - Market power

### TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS

**• SPECIALIZATION**
- Implications:
  - Increased interdependency of producers, marketing firms, and consumers
  - Increased volume exchanged and thereby increased importance of marketing activity
  - Fewer firms in each industry
### TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS

**DIVERSIFICATION**

- **Advantages:**
  - Economies of scope
  - Avoid antitrust regulations
  - Continue growth after exhausting economies of scale
  - Risk reduction

**DECENTRALIZATION:**

- **Movement of commodities directly from farms to processors and wholesalers, skipping central/terminal markets**

- **Implications:**
  - **Operational efficiency:** Decentralized markets are cheaper to operate (reduced handling, transportation, shrinkage, congestion)
**TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS**

**DECENTRALIZATION**
- **Implications**
  - **Pricing efficiency**:
    - Centralized markets are closer to perfect competition (large number of buyers and sellers, great amount of public information generated, homogeneous graded products)
    - Problems when using quotations from thin terminal markets to price decentralized sales (e.g., terminal markets have “residual” supply and few buyers)

**INTEGRATION:**
Expansion of firms by consolidating additional marketing functions and activities under a single management

**Vertical integration**:
A firm combines activities unlike those it currently performs but that are related to them in the sequence of marketing activities (e.g., meat packer deciding to operate meat wholesaling establishment)
**Vertical Integration**

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

Example: HyVee owns PDI, a wholesaler

Example: Smithfield is largest pork processor and largest hog producer in the US

Example: Cargill is grain processor, has country elevators, and owns controlling interest in fertilizer manufacturer

**TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS**

- **Horizontal integration:**
  A firm performs similar activities at the same level in the marketing sequence (e.g., retail chains)

**Horizontal Integration**

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

John Morrell
- Farmland
TRENDS IN ORGANIZATION OF AGRICULTURAL MARKETS

• Conglomerate integration:
  Activities that do not have direct relation to the activity of the individual firm are brought under a unified management (e.g., addition of nonfood lines by food retailer)
• Walmart enters retail grocery market

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• Ownership integration (M&A):
  All the decisions and assets of one firm are completely assumed by another

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• Contract integration:
  Agreement between two firms on certain decisions, with each firm retaining its separate identity
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• INTEGRATION:
  – Advantages:
    • Vertical integration: substitutes administered coordination for market coordination (prices may not coordinate markets well)
    • Horizontal integration: market power, reduce competition, economies of size/scope.
    • Conglomeration: risk reduction, empire-building, cross subsidization?

• INTEGRATION:
  – Implications:
    • Operational Efficiency
    • Pricing Efficiency: Price discovery becomes more difficult.
    • Disadvantage to customers and competitors that must deal with a firm with greater market power and economies of scale