WHAT’S SPECIAL ABOUT AG MARKETING?

• Why “Agricultural Marketing” and not just “Marketing”?

WHAT’S SPECIAL ABOUT AG MARKETING?

• “Raw” ag product:
  – Bulky
  – Perishable
  – Heterogeneous

• “Final” ag product:
  – Often essential for human life
The Nature of the Farm

- Why agricultural production isn’t organized like automobile industry?
- Why do we mostly observe family farms in wheat or corn production rather big factory farm?

An influential paper (“The Nature of the Farm” by Douglas Allen and Dean Lueck-JLE 1998) answer this question.

They focus on the technical aspects of agriculture:
- **Random shocks** to farm output.
- **Length of production stages.**
- **Frequency** of crop cycles.

They want to predict the ownership structure (endogenous variable: family farm, partnership, factory farm) using exogenous variable like:
- **C**: Number of times per year the entire production cycle can be completed (e.g. C=1 for wheat or corn, C=5 irrigated vegetables in southern California, C=365 for continuously harvested crop).

- **S**: Number of stages (e.g. planting and harvesting).

- **T**: total number of tasks in a given stage (e.g operating a combine or a grain truck during wheat harvest).

- **L**: Length of stages.

Can we get an intuition of the prevailing ownership structure as a function of these exogenous variables?
• If C=1 (long production cycle like wheat): Expect a lot of random shocks during a cycle like heavy rain, hail storm, drought, etc. can affect production.

• A large factory would pay workers for their output, but is farm output due to bad natural conditions or slack? For instance, a small crop can be explained by a lack of care in planting but also by hail storms: need for supervision seems high in this case!

• Farm factory would involve high supervision costs when C=1 whereas...

• Family farm (where the farmer is his own boss) do not have to bear this kind of cost!

• L large and T small

• Long stage makes supervision and routinization easier! This is the case cotton or bananas who are harvested all year round

• On the contrary a few tasks within short stages imply low gain from specialization and high needs for coordination.

Results:

• When C small, family farm should prevail: this is true, only .025% of all wheat farms were non family corporations in 1997!

• When C high (continuous year-round harvest) large plantation crop should prevail: true, banana or coffee production is dominated huge scale plantation.

• Historical observations
• Between 1870 and 1890, a number of extremely large farms were established (some were other 50,000 acres!): they were called “bonanza farms.”

• Most of them focused on wheat.

• They were organized like factories with high labor division and strong hierarchical structure with payment being a mix of salary and profit dependent bonuses.

• Bonanzas began to disappear as earlier as 1890, and by 1910, none of them survived!
WHAT’S SPECIAL ABOUT AG MARKETING?

• Ag production process:
  – Many small firms over wide area
  – “Low” control over quality
  – “Low” control over productivity
  – Seasonal
  – Geographic specialization
  – “Long” production period
Def: Food marketing refers to all the decisions made by the actors in the food marketing chain (Somewhat vague)

Complexity (see Fig 1-1)

TWO MAJOR TYPES OF ACTIVITIES IN THE FOOD MARKETING SYSTEM:

- Physical handling, storage, processing, transfer
- Exchange and price setting

Description: some numbers to fix idea

- Initial production takes place on 2 mil US farms – average size 470 acres
- 730,000 food marketing establishments in 1998

\[
\begin{align*}
&\text{10,000 raw farm product assemblers} \\
&\text{21,000 food marketing plants} \\
&\text{41,000 food wholesaling facilities} \\
&\text{96,000 grocery stores} \\
&\text{485,000 retail eating and drinking places}
\end{align*}
\]
Some numbers (continued)

US Consumers: $691 bil for food in 1999: 10.4% of D.I.

$79% off-farm marketing activities
$21% farmers

See Table 1-1.

Marketing Definition:
Food marketing is defined as the performance of all business activities involved in the flow of food products and services from the point of initial agricultural production until they are in the hands of consumers.

- Does not limit marketing to all the non-farm activities: no product should ever be produced unless it has a market.

Actors in the food marketing system

Food producers
Food marketing firms
Food consumers

But also
- government,
- media,
- transportation,
- communication
- industries...
Definition of a Market

Defined as an arena for organizing and facilitating business activities and for answering the basic economic questions:

- What to produce?
- How much to produce?
- How to produce?
- How to distribute production?

It may be defined by

1) location
2) a product
3) a time
4) an institution level grain market-raw product

Marketing as a value-added process

1) Production is defined as the creation of utility – the process of making useful goods and services.
Form Utility: raw milk → cheese, butter

Place Utility: moving products from one place to another

Time Utility: storage is important when \( P^o \) is seasonal

Possession Utility: when you assist the consumer in acquiring products:

- advertising
- choice and diversity of products
- availability

2) Valuing the creation of utility

See Fig 1.2
SOME HISTORICAL BENCHMARKS IN FOOD MARKETING

- Up to 1850: All markets and the PBs related to these markets are local
  - If an adverse shock affects a locality: famine can develop easily.
  - The own consumption part of the farmer and its family is important.

- Some important changes after 1850
  - New western land \(\{294 \text{ M acres in 1850, 536 \text{ M acres in 1880}\}
  
  - New farms \(\{1.5 \text{ M in 1850, 4 \text{ M in 1880}\}
  
  - Land Grant University \(\{\text{Morrill Act, ISU}\}
  
  - CBOT was created in 1848
  
  - Refrigerated railroad cars: Mass production was possible
  
  - Introduction of tin cans around 1880: Large scale canning of fruit and vegetables
- Middlemen start to abuse their monopoly power
  - Railroad companies in particular.
  - Need for “antimonopoly” regulation: Sherman Act (1890)
  - Development of chain stores: Need to increase bargaining power against wholesaling.

- During and after World War I
  - Overproduction with price depression.
  - Laws like Commodity Exchange Act: Prevent abusive practices (dumping)
    or Clayton Act (1914) (fair vs. unfair competition)
  - Development of the Co-op Movement (Capper-Volstead Act 1922)

- During WWII and after
  - Overproduction was absorbed momentarily during and shortly after the war.
  - Research and Marketing Act (1946): Funds should be directed toward research into all phases or marketing