The Changing Pacific Northwest Fruit & Vegetable Canning Industry

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Summary and Conclusions

In the decade 1950 to 1960, important changes occurred in the Pacific Northwest canned fruit and vegetable industry. The purpose of this study was to determine what changes have occurred, and to evaluate the impact of these events on canned fruit and vegetable processors.

The number of fruit and vegetable processing firms in the Pacific Northwest has decreased by 42%, while the total packout of these firms increased 29% between 1950 and 1960; hence, a tremendous increase in the average packout per firm. Although the total packout has increased, the increase in packout of vegetables accounts for almost all of the total increase. The fruit pack has remained about the same over the period, while the berry pack declined 58%.

Seven firms attempted to enter the canning business during the period. Six of these firms failed and one converted its operation to freezing. In addition, several of the firms that canned in 1950 converted to freezing before 1960.

Firms that packed over 1,000,000 cases per year, on the average, packed three times as many different product lines as firms that packed less than 100,000 cases. Diversification has spread fixed costs, increased volume, and is important in establishing an effective sales program.

Processors have decreased sales to eastern markets and increased sales to the more nearby markets in the west. Also, several processors are selling to different types of buyers than they did 10 years ago. Sales to corporate chains and affiliated wholesaler-retailer groups have increased, while sales to unaffiliated wholesalers have declined.

Direct selling to chains and wholesaler-retailer groups has increased, as has selling through sales cooperatives. Sales through brokers declined from 79% of the total pack in 1950 to 66% in 1960. Although the larger firms in general increased their direct sales, small processors increased their sales through brokers. It has become increasingly difficult for small processors to find a market for the small volume of products they pack. Buyers want sufficient volume on a year-round basis which small processors generally cannot supply.

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Processors packing over 500,000 cases annually had in general a relatively high percentage of their pack under their own label and tended to increase this percentage over the 10-year period. On the other hand, the smaller firms generally limited sales of their own labeled products to local markets or to some specialty items. Quantities packed by the smaller firms are not sufficient to justify extensive advertising in order to develop and maintain consumer demand.

In recent years processors have emphasized more and more the use of contractual arrangements with growers. From the point of view of processors a contract is helpful in obtaining uniform quality and adequate volume at the right time. From the grower's view, a contract is helpful in determining what to produce with assurance that a market is available.

Analysis of these changes and their causes indicates that firms packing less than 500,000 cases will find it increasingly difficult to remain successful unless they increase their total pack. Most firms in the years ahead will find it necessary to compete vigorously with each other and not all will survive. Processors must recognize that change is normal and be prepared to make adjustments whenever necessary. It is very likely that processors will face increasing dependence on policies and practices of large food buyers. This will be particularly true of the relatively small packers and those packing a high proportion of their products under buyers' labels.

Introduction

Changes are constantly appearing in the organization and structure of the canned fruit and vegetable industry. Much of what has happened has been the result, both direct and indirect, of changes initiated by food retailers to accommodate changes in consumer choices and preferences. Some changes have been initiated by processors of canned fruit and vegetables in an attempt to increase or at least maintain profits. Still other changes which are characteristic of any industry have gradually evolved during the past decade.

Identification and appraisal of important changes in fruit and vegetable processing should be helpful to the industry and growers who feel the impact of many of these events. It is toward the achievement of this objective that this study is directed.

Size and Composition of Pack

During the period 1949 to 1959, the total Pacific Northwest canned fruit and vegetable pack increased from 21.7 million to 28.1 million cases, an increase of 6.4 million cases. The total fruit pack remained about the same but canned berries declined 58%. The canned vegetable pack increased by 48%.

Table 1 shows the trend in importance of Pacific Northwest canned fruits and vegetables in the national market. As a percent of the United States pack, the Pacific Northwest pack of canned apples, pears, plums, boysenberries, and red raspberries declined. The most significant decline occurred in pears. The largest increase in share of national market occurred in green beans.

Table 1. Pacific Northwest canned pack as a percent of total United States canned pack, specified commodities, 1949, 1954 and 1959. /1

Commodity	Percent of total U.S. pack 1949	1954	1959
Apples	8.8	9.9	5.4
Cherries, dark sweet	18.6	31.4	25.0
Cherries, light sweet	34.8	31.2	42.3
Cherries, red tart	3.3	5.7	6.4
Peaches	3.9	3.2	4.1
Pears	57.6	55.3	38.4
Plums, purple	99.8	98.7	90.3
Blackberries	38.9	38.1	40.4
Boysenberries	48.8	54.6	45.3
Gooseberries	74.4	99.9	79.1
Loganberries	99.8	98.4	95.3
Raspberries, red	40.8	/2	20.3
Strawberries	33.7	36.2	73.2
Asparagus	6.4	8.5	8.6
Beans, green and wax	20.1	23.1	28.5
Beets	15.6	15.4	14.4
Carrots	27.8	24.8	24.1
Corn	7.4	10.0	11.2
Peas	20.3	18.6	23.1
Peas and carrots	/2	30.3	32.4

/1 Calculated from data obtained from National Canners Association, Washington D.C.; and Northwest Canners and Freezers Association, Portland, Oregon.
/2 Data unavailable.

Number and Size of Firms

In this study a processing firm is not included as a canning firm unless at least 5% of its total packout is canned products. It is believed that a firm's sales policy is not oriented toward obtaining a steady market for its canned goods unless the packout is at least of some importance. In those instances where only a few thousand cases are canned each year by a particular firm, little attention may be given to sales policy. Recovery of out-of-pocket expenses plus some returns to fixed capital may satisfy management.

Number of firms. The number of canning firms and the number of plants operated by these firms has declined drastically since 1949. In 1949, there were 65 firms and 87 plants in the Pacific Northwest. By 1961, the number of firms decreased to 38, a decrease of 42%, and the number of plants to 57, a decrease of 34%. As may be seen in Table 2, both the number of firms and plants decreased rather regularly each year after 1951.

During the period 1949 to 1961, seven firms entered the canning business, of which five began operations in 1950. Of these seven firms, one converted two years after opening to freezing only, and the remaining six went out of business after one to eleven years of operation. In short, there were no successful entries into the canning business during the 13-year period.

In addition to the 6 firms that began operations after 1949 and later failed, 13 of the 65 firms that were operating in 1949 also went out of business. Major factors contributing to the failure of these 19 firms in order of importance were (1) difficulty of obtaining and maintaining a place in the market for their products; (2) increasing complexity of technology; (3) increasing capital requirements; and (4) lack of continuous and sufficient supply of raw products for efficient operations.

During the same 13-year period, 11 of the original 65 canning firms converted to freezing only. An expanding demand for frozen products has triggered this trend.

Table 2. Number of canning firms and plants in operation in the Pacific Northwest, 1949-61. /1

Year	Number of firms	Number of plants
1949	65	87
1950	68	88
1951	69	89
1952	64	82
1953	59	75
1954	58	74
1955	58	73
1956	56	72
1957	50	65
1958	43	59
1959	42	58
1960	41	58
1961	38	57

/1 Data obtained from Northwest Canners and Freezers Association records.

Three other firms that went out of the canning business during the period were acquired by other canning firms and are still being operated.

Size of firms. Table 3 shows the movement of individual firms from one size class to another during the period from 1950 to 1960. /1 The initial distribution of firms by size (in 1950) is shown in the right hand column, and the final distribution (in 1960) is shown in the bottom row. In 1950, seven firms canned less than 100,000 cases of fruits and vegetables; whereas in 1960, only five remained in the same size classification. One firm increased its annual pack to between 100,000 and 249,999 cases and one firm moved two classifications higher which was between 250,000 and 499,999 cases.

In summarizing the information in this table, it can be seen that 20 firms remained in the same size class; 9 firms increased their annual pack enough to shift them into the next size class. Four firms increased their annual pack to such an extent that they moved two classifications higher. None of the 33 firms decreased their volume of output over the period. It should be mentioned that all of the six firms which canned over 1,000,000 cases in 1950 increased their annual pack, in most instances considerably, over the 10-year period.

Processors gave two major reasons for expanding their annual output. First, increased volume is necessary to meet increased demands of buyers who have become fewer in number and larger in size. Part of the increase in cases packed has come about by increasing the number of products. Large buyers often demand a full line. A full line also is important when a firm is attempting to establish or maintain a label of its own. Second, increased volume is necessary in order to achieve low unit processing costs. High cost specialized pieces of equipment require a large output in order to be economical and efficient. The change to specialized equipment has been accelerated during recent years due to increases in average hourly wages in the canning industry. Between 1950 and February 1962, average hourly earnings of labor in Oregon's canning industry increased by 52%.

Relationship between size and product mix. The 33 firms canned, on the average, slightly over six raw products per firm in 1960 (see Table 4). The smallest firms, below 100,000 annual case packout, averaged three raw products canned per firm, whereas the largest firms, canning over 1,000,000 cases annually, on the average canned over nine raw products. In general, with each increase in size classification there was an increase in the average number of raw products canned per firm.

Between 1950 and 1960 there was little change in the number of items canned by the smallest and the largest firms. There was, however, considerable change in the number of items canned by the firms which packed between 250,000 and 999,999 cases. These firms increased the number of items canned by an average of two items per processor.

Although all 33 firms did not increase the number of items handled, most made some changes in the specific items. Over 50% of the firms located in the green bean producing areas added this item during the past 10 years, and over 60% of the packers located in asparagus producing areas added asparagus.

It is important to keep in mind that the number of items a firm handles is often limited to products grown in the area of the plant. This is why the larger firms have plants located in different areas. By doing this, they are able to diversify their pack and provide buyers with a full line of products under one label.

1/ Most of the remainder of this report is based on data and information obtained by interview with managers of 33 firms operating 45 plants in the Pacific Northwest. Nineteen of these firms were in Oregon, 12 in Washington, and 2 in Idaho.

Table 3. Cross classification of firms by size and by year, 33 firms, Pacific Northwest, 1950 and 1960.

Size of firm 1950	Size of firm (in cases) 1960						
	Below 100,000	100,000 to 249,999	250,000 to 499,999	500,000 to 749,999	750,000 to 999,999	1,000,000 and over	Total 1950
Cases							
Below 100,000	5	1	1				7
100,000-249,999		3	6	1			10
250,000-499,999			3	1			4
500,000-749,999				3	1	2	6
750,000-999,999					0	0	0
1,000,000 and over						6	6
Total 1960	5	4	10	5	1	8	33

Numbers in the body of the table refer to number of firms in the designated size classifications. For example there were five firms with packs below 100,000 cases in 1960.

Table 4. Number of firms canning specified number of raw products by firm size, 33 firms, Pacific Northwest, 1960.

Firm size 1960	Number of raw products canned /1 1	2	3	4	5	7	8	9	12	13	16	17	Average
Cases													
Below 100,000		2	1	2									3.0
100,000-249,999	2			1					1				4.5
250,000-499,999		4	1	2			1	1	1				4.8
500,000-999,999					1	2	2	1					7.3
1,000,000 and over			1	2				2		1	1	1	9.4
Total	2	6	3	7	1	2	3	4	2	1	1	1	6.1

/1 There were no firms canning 6, 10, 11, 14, or 15 commodities.

Seasonality of Plant Operations

Most fruits and vegetables grown for processing in the Pacific Northwest must be harvested and processed as soon as mature. Figure 1 shows approximate processing seasons for selected fruits and vegetables. It is recognized that these processing seasons may vary due to weather conditions. Also, processing seasons for vegetables can be extended through spacing of planting dates and/or use of varieties with varying maturity dates.

Although the processing of individual commodities is highly seasonal, canning firms are able to extend their operating season through diversification. When the 33 firms were classified according to their annual packout, it was found that the 19 which packed less than 500,000 cases operated on an average of 3.9 months each year. The 14 large firms operated an average of 6.8 months. These data show the role diversification of product mix plays in lengthening the processing season.

Lengthening the processing season reduces fixed costs per unit of output. Also, a relatively long processing season increases the possibility of maintaining an adequate and more permanent labor force with the likelihood of increased labor efficiency and lower labor costs per unit of output. However, most of the labor force in the canning industry is still employed on a seasonal basis. Only 10 to 20% of the total labor force is employed year-round.

Figure 1. Approximate Pacific Northwest processing seasons for selected canned fruits, vegetables, and berries.

Raw product	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
	Processing seasons											
Apples									XX	XXXX	XXXX	XXXX
Apricots							XXX	XXXXX	X			
Cherries, dark sweet						X	XXXXX	X				
Cherries, light sweet						XXX	XXXXX	X				
Cherries, RSP						XX	XXXXX					
Peaches, freestone								X	XXXXX			
Pears, bartlett								XX	XXXX	XXXX		
Plums								X	XXXXX			
Blackberries								XXX	XXXX	X		
Gooseberries						XXXX						
Loganberries							XXXX	X				
Raspberries, red						X	XXXXX	X				
Raspberries, black						X	XXXX	X				
Strawberries						XX	XXXXX					
Asparagus				XX	XXXX	XXXX						
Beans, green & wax							XXX	XXXX	XXXX			
Beets							XXX	XXXX	XXXX	XXXX		
Carrots										XXX	XXXX	XXXX
Corn								XXX	XXXX			
Lima beans								XX	XXXX			
Peas						XXX	XXXX	XXXX				
Pumpkins										XXX	XXX	
Squash										XXX	XX	

Sales Policies and Practices

During World War II many canning firms greatly expanded their operation. During these years, the canning industry experienced favorable prices, food was short in supply, and marketing was possible with little or no sales effort and promotion. After the war, sales promotion and marketing know-how once again became important requirements in distributing canned fruits and vegetables.

In addition to the need for increasing sales promotion efforts, processors found it necessary to adjust some sales policies and practices in order to conform to changing retail store and institutional trade requirements. To an important degree, established products and merchandising methods of the late 1940's and early 1950's are no longer acceptable by today's mass merchandising food retailers.

Pacific Northwest processors of canned fruits and vegetables during the past 10 years have made changes in their sales policies and practices with respect to: (1) area of sales; (2) type of buyers; (3) method of sale; (4) selling arrangements with buyers; (5) pricing policies; and (6) labeling policies.

Area of sales. Nineteen of the 33 firms indicated no important changes in area of sales during the past 10 years. Thirteen indicated they were now selling closer to home, while one has expanded its market area.

Two reasons were given for the shift toward selling a larger proportion of their pack to buyers closer to home. /1 First, because mass merchandising food retailers demand more frequent deliveries and deliveries on shorter notice than 10 years ago, processors have had to change from water to rail shipments to eastern markets. Furthermore, a series of freight rate increases were a considerable disadvantage to the Oregon shipper between 1946 and 1958. This disadvantage amounted to as much as one cent per #303 can. /2

Second, processors have experienced a greater expansion in demand in western markets than in other areas during the past 10-15 years. During the past 10 years, the population of Washington, Oregon, and California has increased by over 40% as contrasted with the 18.6% increase in total United States population. Processors expect this trend to continue.

Type of buyers. Table 5 shows the percentage of the total packout of 31 firms which was sold to each type of buyer and the number of firms which sold to each type in 1950 and 1960.

1. Wholesaler. Wholesalers as a group were the most important type of buyers throughout the 10-year period. All 31 firms sold a part of their pack to wholesalers

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/1 Selling closer to home refers to selling on the west coast as opposed to selling in the east.

/2 Ronald E. Young and Gerald E. Korzan, Impact of Transportation Rates on Oregon's Green Bean Industry, Oreg. Agric. Expt. Sta. Cir. of Info. 599, 1959.

Table 5. Percentage of total packout sold to specified type of buyer and number of firms selling to specified type of buyer, 31 firms, Pacific Northwest, 1950 and 1960.

Type of buyer /1	Percent of total packout sold to buyer		Number of firms selling to buyer	
	1950	1960	1950	1960
Wholesaler	61.6	47.1	31	31
National chain	13.9	20.0	21	24
Regional chain	6.4	11.0	17	18
Institutions	9.3	12.1	16	17
Independent retailers	0.8	0.6	4	3
Export buyers	1.5	1.2	8	8
Government agencies	5.8	5.9	17	20
Other canners	0.7	2.1	3	5
Total	100.0	100.0	/2	/2

/1 Wholesaler includes both unaffiliated wholesalers and affiliated wholesalers and affiliated wholesaler groups (cooperative and voluntary retailer - wholesaler groups). National chains are chains with stores throughout the United States. Regional chains are chains with stores confined to one region of the United States, such as the Pacific Northwest.

/2 Total does not equal 31 because all firms sold to more than one buyer.

both in 1950 and 1960. In general the small firms continued to sell almost exclusively to unaffiliated wholesalers while the medium and large firms increased their sales to cooperative and voluntary wholesale groups. Small processors sell to wholesalers because these buyers are more likely to be interested in only a few items, whereas large retail buyers want a full line.

2. National and regional chains. The major portion of the decline in sales to wholesalers over the 10-year period can be attributed to increased sales to national and regional chains. Although increase in sales to both types of chains was about the same, increased sales to national chains came mostly from larger canners, whereas increased sales to regional chains came from all sized firms.

The smaller firms which did not sell to national chains claimed that if they did sell to these buyers, they would commit too large a percentage of their total pack in one place. They did not want to rely on one buyer for the purchase of a major portion of their total pack because of the uncertainty of continued patronage from year to year and also the possibility of cancellation of reservation within a given year.

3. Institutions. Sales to institutions were made indirectly through institutional wholesalers, except for two firms which sold to local institutions which picked up their orders at the plant. Processors sold through institutional wholesalers because most institutions such as restaurants, hotels, and schools require a diversified line of products and some buy in small quantities.

Only firms that packed over 100,000 cases annually sold to institutions; most small firms do not have equipment for packing products in No. 10 cans.

Between 1950 and 1960, sales to institutions increased by 31% which is to be expected when sales of meals and beverage through restaurants increased by about 25% during the same period. /1 This is an example of an adjustment to changing market conditions which face most firms in the marketing system.

4. Other sales. This category includes sales to independent retailers, export buyers, government agencies, and other canners. These total sales amounted to about 9% in 1950 and 10% in 1960. No trend is apparent except that sales to other canners, although minor, more than doubled during the period.

Method of sale. The three methods of sale used by firms in this study were: (1) through brokers; (2) direct to buyers; and (3) through cooperative sales organizations. /2 Table 6 shows the percentage of total packout sold by each method and the number of firms using each method in 1950 and 1960.

1. Brokers. Although overall sales through brokers declined during the period, firms packing less than 250,000 cases per year increased their sales through brokers. In 1960, only one firm in this size class sold less than 70% of its total pack through brokers.

The decline in the use of brokers occurred among those firms that packed over 250,000 cases annually. One firm packing over 1,000,000 cases annually decreased its sales through brokers by 50%, while another firm now sells almost entirely through a sales cooperative. None of the large firms increased their proportion of sales through brokers during the 10-year period.

It should be kept in mind that brokers are by far the most important method of selling canned fruits and vegetables. One of the principal reasons for the popularity of brokers is that the cost of selling is easily defined and readily determined. The broker only receives compensation for products actually sold. The usual form of compensation is a percentage of dollar sales. The brokerage fee charged the firms included in this study ranged from 2 1/2 to 3 1/2% in 1960. Selling through a broker greatly reduces the need for a sales force. In fact, the smaller firms find it more economical to sell through brokers than through their own sales force. Small canners may sell most of their pack in only a few months. This means they do not need a sales force on a year-round basis.

/1 Data obtained from Survey of Current Business, July 1961, and Supplement to Survey of Current Business, 1958, U. S. Department of Commerce.

/2 Sales agencies also employ brokers but method of sales was not analyzed beyond this stage in the market.

Table 6. Percentage of total packout sold by specified method of sales and number of firms involved, 32 firms, Pacific Northwest, 1950 and 1960. /1

Method of sales	Percent of total packout sold by method of sales		Number of firms selling by method of sales	
	1950	1960	1950	1960
Broker	79.2	66.1	26	25
Direct selling	10.7	13.4	18	17
Sales cooperative	10.1	20.5	5	7
Total	100.0	100.0	/2	/2

/1 All 33 firms reported their method of sales, but the annual packout of one firm was not obtained and therefore it is not included in this table. However, it should be noted that this firm sold 100% of its pack directly to buyers and that the firm packs considerably more than 1,000,000 cases per year. Hence, if this firm were included in the above table it is quite likely that the percentage of the total pack of all the firms which sold direct to buyers would increase considerably.

/2 Total does not equal 32 because some firms used more than one method of selling.

Brokers may render still another service. In addition to the usual brokerage fee, the broker may receive a promotional fee of between 1 1/2 to 2% of dollar sales if he contracts to promote the product. About one-third of the firms in this study paid some promotional fees to brokers in 1960. The broker can be very useful in helping a canner establish his brand in a new territory. A well established broker has the confidence of buyers in his area. The results of introducing a new item through a broker may be more immediate and less costly than through the canner's own salesmen.

Brokers are, however, not always an ideal agency. If they were, all sales would be transacted through them. The advantages of using brokers may, in part, be offset by their somewhat impersonal interest in the transaction. To be sure, their fee depends on negotiating a sale, but they do not work under quite the same incentive as the canner's own sales force. Some brokers may have favorite processors and may not always give equal representation to all their clients. However, brokers generally reduce conflict of interest by agreeing to handle items that do not directly compete with each other.

2. Direct selling. In general, direct selling increased in importance among firms packing over 250,000 cases annually and declined among the small processors. Direct selling by firms in this study was almost entirely limited to sales to national and/or regional chains. Processors indicated that, in general, direct sales policies were the result of direct buying practices of chain stores and not the result of an attempt by processors to sell to all of their outlets directly.

The larger processors (over 500,000 cases) that did maintain their own sales department packed a considerable portion of their pack under their own label. These firms believe that direct control over salesmen within the framework of an established sales policy is needed to maintain and increase the market for their own label.

In 1960, the direct selling costs of the firms reporting varied from 2 1/2 to 7% of dollar sales, averaging about 5%. This cost is comparable with the cost of selling through a broker when the broker promotes the product.

3. Sales cooperatives. During the past 10 years sales through sales cooperatives have doubled, increasing from 10.0 to 20.5% of the total packout of the 32 firms which reported their method of sales. In 1960, 6 firms were selling 100% of their pack through sales cooperatives and one firm was selling 90% of its pack in this way. Two of these firms began selling through a sales cooperative between 1950 and 1960.

There were two such cooperative sales organizations in the Pacific Northwest during the 10-year period. Both of these organizations are processor-oriented and were formed to provide a central sales office designed to do the following things.

* Develop sales.
* Promote interest in the products.
* Coordinate the distribution of packs.
* Obtain information regarding market and crop conditions.
* Offer a complete assortment of products.
* Effect more economical sales and distribution.

Both of the sales organizations have developed their own label. This has been successful in that their members pack various commodities between them and each organization has been able to offer a full line of products under its own label. Both organizations have stressed quality standards which has aided in achieving acceptance of their labels.

Selling arrangements with buyers. Table 7 shows the percentage of total pack which was sold under contract, under reservation, and in the open market as well as the number of firms utilizing each of these arrangements in 1950 and 1960. Selling under contract declined by two-thirds during the period, while reservation selling nearly tripled.

Selling under contract means both the processor and buyer are legally bound to carry out the terms as stated. Under a reservation neither the processor nor buyer is legally bound by any of the terms. A reservation simply reserves a specified quantity to be delivered until a specified time. For example, a buyer may reserve 8,000 cases of canned corn. The reservation may state that 2,000 cases will be taken during each of four two-month periods. If shipping instructions are received during the period for only part of the 2,000 cases, the processor may feel free to sell the remainder elsewhere.

The terms of a contract are about the same as the terms of a reservation and both perform about the same function. In both cases, the price at which the product changes hands is usually the prevailing price at the time of shipment. In the case of both contracts and reservations, buyer and sellers get together prior to the packing season, usually one to three months before packing begins.

Most reservations made by buyers are taken during the course of the year. Of the 31 firms, 8 reported 95% or more of the pack under reservation was taken, 16 reported

Table 7. Percentage of total packout which was sold under specified type of selling arrangement and number of firms involved, 31 firms, Pacific Northwest, 1950 and 1960.

Type of selling arrangement	Percent of total pack sold by type of selling arrangement		Number of firms selling by type of selling arrangement	
	1950	1960	1950	1960
Contract	60.4	21.0	26	17
Reservation	23.7	59.7	16	30
No arrangement	15.9	19.3	18	17
Total	100.0	100.0	/1	/1

/1 Total does not equal 31 firms because some firms utilized more than one type of selling arrangement.

over 90% was taken, and 28 said 80% or more actually moved according to the terms of the reservation. Reputable buyers try to honor their reservations because processors are reluctant to make reservations in a subsequent year if other sales possibilities prevail.

Reservations have become increasingly popular with buyers because this method provides flexibility. If retail sales of canned fruits and vegetables do not measure up to expectations, some of the reservation need not be taken. From the point of view of processors, reservation selling introduces a measure of uncertainty because some of the pack may not be taken. This uncertainty has increased the costs of some processors. When this uncertainty exists, processors may not label all of the cans for the buyer at time of pack. Rather, they will wait until the shipment is called for and then attach the labels. This procedure entails double handling of cans which, of course, increases costs. The majority of processors do, however, label at time of pack for their major buyers who are regular customers year after year. These buyers account for most of the packout as indicated by the fact that 20 out of 31 firms reported they sold over 90% of their pack to the same buyers year after year.

In 1960, nearly 20% of the pack was sold on the open market after the packing season was completed. All of the increase between 1950 and 1960 in proportion of pack sold in the open market occurred among firms selling over 500,000 cases annually.

Pricing policies. In general, two types of pricing policies were followed. Both types depended on the inventory policy which the processor attempted to follow. First, the processor who had an inventory policy designed to supply his customers with a year-round supply followed a pricing policy that would maintain a fairly constant price throughout the year. Of course, processors must follow market prices, but the larger firms, particularly, play a role in determining price level. Second, the processor who attempted to sell as fast as he could move the pack, followed a pricing policy designed to obtain as high a price as possible at the beginning of each period.

The trend toward supplying customers on a year-round basis is being followed in order to accommodate buyers' rapid stock turnover policies. In short, large food buyers expect the processor to carry most of the inventory.

Because most processors attempted to supply their buyers on a year-round basis, emphasis was placed on setting opening prices that would result in minimum price changes during the year. To illustrate the stability of prices during the year, Figure 2 shows the average monthly prices per case of #303 containers of cut fancy, 3-sieve Blue Lake beans. As may be seen, average monthly prices do not vary to any appreciable extent./1

Processors in this study considered the following four factors in setting opening prices.

* General market conditions at time of pack and outlook during the year with respect to supply and demand.
* Competitive pricing.
* Raw product procurement costs.
* Processing costs.

In 1950, processors generally ranked raw product procurement costs and processing costs as first and second in importance in determining opening prices. General market conditions at pack time and future outlook of the market were ranked third, with competitor pricing practices as least important. In 1960, processors ranked general market conditions at pack time and outlook of the market as most important followed, in order, by competitor pricing policies, processing costs, and raw product procurement costs. In short, consideration of general market conditions and outlook and competitor pricing policies have become increasingly important factors in determining the firms' opening prices. Of course, costs of raw product procurement and processing costs are always important, but there appears to be some change in emphasis.

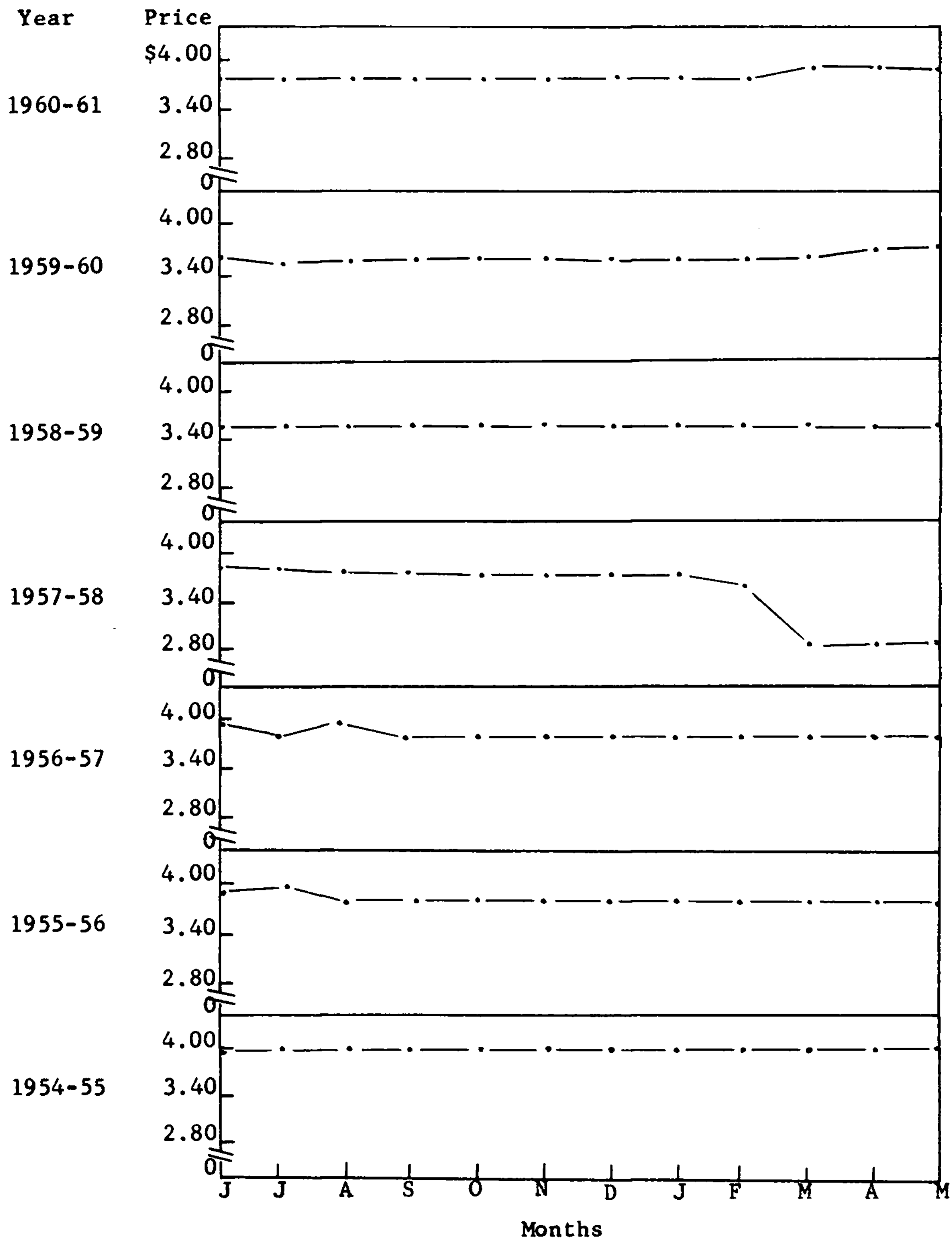
The most apparent reason for the change in relative importance in factors affecting pricing policies is the increased importance of specification buying by corporate chains and wholesaler-retailer buying groups. Today, processors must compete for the buyer (private) label market, in most cases entirely, on the basis of price because they are selling undifferentiated products to these buyers. Buyers, of course, make their procurements of products at the lowest possible price.

Labeling policies. Each of the 32 processors included in this phase of the study packed some of their total pack under their own label. In 1950, 34% of the total packout of the 32 firms was sold under processor labels and 66% under buyer (private) labels. By 1960, these percentages had changed to 37% sold under processor label and 63% under buyer labels.

Firms packing over 500,000 cases annually generally had a relatively high percentage of their pack under their own label and tended to increase this percentage over the 10-year period. On the other hand, the smaller firms generally limited sales of their own labeled products to local markets or to some specialty items. Quantities packed by the smaller firms are not sufficient to justify extensive advertising and promotion programs required to develop and maintain consumer demand. Local advertising is inexpensive compared to regional or national advertising. Also, some local acceptance is obtained because the products are local.

/1 There was no significant variation in monthly prices of cut, fancy, 3-sieve Blue Lake beans.

Figure 2. Average monthly prices of twenty-four 303 containers cut, fancy, 3-sieve Blue Lake beans, 1954-61. /1



/1 Prices obtained from Canning Trade, weekly issues, 1954-1961.

In view of the emphasis being placed on increasing sales under processor labels, processors were asked to indicate the important requirements in establishing and maintaining their own labels. Eighteen firms indicated the necessity of packing high, uniform-quality products. Another important requirement listed was the offering of a diversified line of products. Several processors indicated that until they offered a full line, they were quite unsuccessful in establishing their own label in the market.

Virtually all buyers insist on a year-round supply. Processors realize that it is essential to maintain a continuity of supply in order to keep buyers' shelves stocked at all times and to capitalize on promotional efforts. Failure to do this means that the impact of the promotional effort may be temporarily lost and the job of promotion will have to be initiated all over again.

If processors can satisfy these requirements, then an effective merchandising program must include close coordination with retailers in order to keep up-to-date concerning consumer shopping habits, appropriate advertising media, promotion and display techniques, and the need for attractive labeling.

Procurement Policies and Practices

Price alone has not, in general, satisfactorily insured that the desired quality and quantity of raw products will be available at the proper time. Therefore, processors have emphasized the use of contractual arrangements with growers, as well as producing some raw products themselves. Less than 5% of processors' raw products were procured in the open market by 1960 and then, this method was used by the smaller packers and in fruit and berry procurement.

The use of contracts was by far the most predominant method of procurement, accounting for over 92% of the raw products bought throughout the 10-year period. Contracts have been an effective aid in solving procurement problems of processors such as obtaining (1) adequate volume of raw products; (2) desired quality; and (3) delivery of raw products to coincide with production schedules of the processing plants.

In addition, contracts have aided in the solution of some related production and marketing problems of growers such as (1) what products should they produce; and (2) how much should they produce. Through contractual agreements with processors, growers are assured of a market for their products and in addition, for vegetable products, price uncertainty is resolved by agreeing on a price before planting. This practice allows the producer to more accurately evaluate production alternatives, because the price of the product is known and does not need to be estimated.