

HOW WILL PRODUCTION, MARKETING, AND CONSUMPTION BE COORDINATED?

From a Farm Organization Viewpoint

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Many influences in the future will affect the coordination of production, marketing, and consumption of agricultural products. Market prices will continue to function as a guide to producers who are trying to relate output to consumer demand. Government control programs, state and federal marketing orders, and similar devices will have more or less influence, depending upon the direction of agricultural legislation. International commodity agreements may have some effect on commodities entering the foreign market. But the biggest influence of all will be in the institution of specification production and marketing for about half of our farm output within the next ten years.

A startling technological revolution in production, marketing, and consumer demands is moving us swiftly toward a new kind of world in American agriculture, where coordination of production, marketing, and consumption will be achieved in large part by some kind of formal or informal production and marketing contracts.

We are all aware of the far-reaching changes that have taken place in American agriculture since the end of World War I. During this period, we have moved from a world of horses, steam threshing machines, setting hens, country butter, family orchards, and general farming to a streamlined, mechanized, commercialized, specialized type of farming. In marketing, we have progressed from a quaint system of peddling and bartering a miscellaneous array of farm products to the complex distribution system we know today. Specialization in agricultural production and rapid urbanization of our population have vastly increased the distance that food travels from the fields to the consumers' tables. Changes also have been brought about by brands, grades, quality standards, trading stamps, precooked foods, bulk milk tanks, and filter-tipped cigarettes. And even bigger changes have been brought about by shifts in consumer demand, concentration of buying power in the hands of fewer but larger firms, supermarkets, vertical integration, contracts, specification production, and specification buying.

Perhaps we can better visualize the phenomenal change that has

taken place in agriculture if we compare conditions in 1964 with those that existed at the end of World War I and the situation as we project it for 1975. All that is required to compare today with the past is good 20-20 hindsight. To look ahead—even for ten short years—is a much more difficult task. The best I can do here is to look at the past, observe the present, and project existing trends into the next few years.

Item	CHANGES IN PRODUCTION		
	1919	1964	1975
Number of farms (millions)	6.5	3.5	2+
Number of commercial farms (millions) producing 95 percent of output	—	2.0	1+
Farm population:			
Millions	31.2	13.3	10.0
Percent of total	29.7	7.7	5.0
Average size of farms:			
Acres	148	303	450
Capital	\$12,000 (est.)*	\$51,000	\$75,000
Number of farm workers (millions)	13.2	6.7	5.0
Farm workers required to supply consumers	1 for 7	1 for 28	1 for 35
Mechanization	Mostly horse-drawn equipment	Electrified and highly mechanized	Will increase
Managerial skills	Some—mostly physical	Skilled management necessary	More highly skilled and specialized
Use of records	Very little	Some	Urgently needed—tax purposes, business analysis, bargaining
Specialization			
On farms	Mostly general farms	Most farms—one or two specialties	Further specialization—unless farm programs prevent change

* \$10,300 value of land and buildings.

Item	1919	1964	1975
By areas	Some—dictated by climate and markets	Big shift taking place	More shifts coming
Commodity interest	Varied	One or two main interests	More specialized
Purchased inputs	Very little	More than one-half	Two-thirds
Contract production	Unknown	Growing	One-half of production geared to market needs

A REVOLUTION IN MARKETING

Miles food products travel to set average consumer's table	Distribution mostly local	1,000	1,200
Fresh fruits and vegetables	Seasonal	Many available throughout year	Year round
Direct marketing	Deliver to consumers and local stores, curb markets, city markets	Less direct consumer marketing. More large-scale buying. Trend away from terminal markets in late years. Fewer jobbers and wholesalers.	Marketing chain will be shortened. Large volume purchases.
Concentrated products and synthetics	Very few	Growing in use	Will increase
Grades, standards, brands	Just starting	Much in use	Will increase, with fewer processor brands and more private label brands
Customer preferences	Not well defined	Leading to specification buying by handlers	Well defined. Most handlers will buy on specification
Size and number of buyers	Numerous, small, local	Chain stores***—51% in 1947, 84% in 1957	Fewer and larger

***Chains and voluntary associations.

Item	1919	1964	1975
Contract marketing	Almost unknown	Growing—processed fruits and vegetables, sugar, handlers buying on specification, etc.	One-half of total sales—mostly on specification

One of the most significant changes under way in agriculture is the trend toward contract farming, involving specifications on what is produced and what is offered for market. Practically all of our processing fruit and vegetable crops are grown on contract. This is also true for sugar beets, hatching eggs, certified seed, and many other products. Vertical integration, a form of contract production, involves 95 percent of the broilers produced in this country—and about 85 percent of the turkeys, 35 percent of the table eggs, 25 percent of the lamb and mutton, 25 percent of the beef cattle, and 10 percent of the hogs.

A large part of the contract farming operations to date has been production oriented. This has been particularly true in most vertical integration contracts where the supplier usually furnishes capital and management and the producer furnishes labor and facilities. The big push on contracts from now on is going to be on those that start with the retailer or the processor and reach back to the production areas. There will be a marked increase in contracts calling for tight specifications on volume, grade, uniformity, variety, time of delivery, and other requirements that will assist the trade in meeting the discriminating demands of consumers.

WHAT MUST PRODUCERS DO?

If farmers are to make profitable adjustments to the many changes arising from the increased use of specifications in production and marketing, they must:

1. Recognize the changing nature of consumer demand. Some say that Mrs. Consumer does not know what she wants and she will not be satisfied until she gets it. But she does know what she wants, and she is becoming increasingly conscious of grade, quality, degree of fat, and price differentials. She can be counted upon to respond in increasing numbers to the “meat-type” hog, the “consumer-preferred lamb carcass,” less wasteful beef cuts, and other products that cater to her demands.

2. Relate production decisions to marketing needs. Those who do will be rewarded. Those who do not will be penalized.

3. Work for a marketing system where prices translate consumers' wants to producers. This cannot be accomplished in a government controlled environment that fixes prices, piles up surpluses, and prevents the pricing mechanism from signaling the desire of consumers for products. Nor can it be accomplished in the absence of grade and quality premiums that carry through from the feed lot to the consumer's table.

4. Be willing to contract if necessary to produce and sell on rigid specifications. Buyers who are in need of volume, uniformity, quality, continuous supply, and definite delivery dates will pay for what is needed, and farmers will be rewarded for helping the buyer meet his requirements.

Some of these contracts will run between an individual producer and his retailer, packer, or other purchaser. Others will be between a farmers' marketing organization and the buyer. In cases where the contract is with a large chain store buyer, or other large purchaser, farmers may need to arrange for custom processing or go into the processing business themselves.

Contracts may also be made between the producer and the packer or buyer with the producer's bargaining association approving the terms of the contract before it can be consummated.

A contract embodying specifications poses a problem for cooperatives that have been accustomed to selling what farmers offer. One solution—and a very hard one for many to accept—is iron-bound contracts between the farmer and his association to deliver what is needed for the market with agreements to produce according to minute instructions concerning breed, feed, time of purchase, time of sale, and prescribed management practices.

5. Help develop a system of intelligent pricing for the many sales that by-pass the auctions and terminal markets. Many are concerned that the large volume of direct buying has dissipated the price-making power of some central markets and are asking what effective structure can be substituted to provide more reliable price quotations.

A frequently suggested solution is the establishment of bargaining associations which would assist members in arriving at proper prices based upon supply and demand conditions and involving contracts covering prices, volume, premium differentials, and many other related items. Some envision that these bargaining associations would involve central market sales as well as direct sales.

If farmers do get involved in bargaining associations, they must realize that contracts must be advantageous to both the buyer and

the seller, that there is a market price which balances supplies and sales, that withholding from market after a product is produced is self-defeating, as quality deteriorates, consumption falls, and the market gluts when the product is finally offered for sale.

6. Revamp programs of existing cooperatives where necessary. For some commodities, the trend may be toward more large-scale marketing associations that handle the product or act as sales agencies.

7. Study the producer's role in distribution. Increased attention is being devoted to an appraisal of the advantages and disadvantages of farmer ownership of some large retail establishments as a means of achieving greater coordination through the operation of completely vertically integrated units.

OPPORTUNITY FOR FARM MANAGEMENT AND MARKETING SPECIALISTS

In the early part of this statement, I predicted that over half of all the farm commodities produced and sold in the United States in 1975 would involve specification production and marketing contracts. If this happens, it will create new opportunities for college people to render helpful services to producers who are striving to cope with the problems arising out of this changing marketing picture.

May I suggest a few points for your consideration when giving production, marketing, or financial advice.

1. Is your farmer "just producing" or producing for a known market?
2. Is he a member of a successful marketing association with preferred market outlets?
3. Does his product command a market premium—i.e., meat-type hog, quality eggs, preferred lamb carcass, etc.?
4. Is his product headed for a good market? Does he analyze seasonal and cyclical trends, also special market demands for specific areas?
5. How do his production and marketing costs compare with those of others? Good farm records will help here.
6. Is he producing and marketing under a vertical integration contract? He may profit by borrowing from the bank or other credit institution and buying his own feed and feeders for cash instead of tying himself to a contract with a feed dealer or a processor.

CONCLUSION

There will be a greater degree of coordination of production, marketing, and consumption in the years ahead. Contracts will play a much greater role. Here the farmer can provide his own "supply management" by wiser use of markets and outlook information, quicker adjustments to changing market needs, and more production for a market. A greater use of contracts in production and marketing will make it possible for a farmer to know where the market is before the acre is planted or the animal produced. This will help gear production to market needs and avoid the accumulation of huge surpluses of unwanted products.

Producing for specification certainly is not as easy as talking about it and writing about it. But hard or easy, it is going to be a way of life for more and more producers in the future, and we must find a way to do it well enough to succeed—and soon enough to avoid the adoption of programs that will limit opportunity, retard change, and inhibit growth.