WHAT MARKETING COSTS AND MARGINS MEAN TO THE AMERICAN FARMER

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Agricultural production providing the food for our country determines to a great deal our standard of living. Only a small part, about 6 percent, of our agricultural food production finds its way into international trade, also, with the exception of a few carry-overs and stock-piles, we consume all the food produced in a year.

Before the consumer will purchase these food products there is a certain amount of processing and distribution necessary. This varies from no processing for commodities such as eggs to considerable processing for cereal grains. Marketing covers this broad field from the time agricultural products leave the farm until they are in the possession of the consumers and included is manufacturing and processing (when necessary), transportation, distribution, such as wholesaling and retailing, and profits. On the basis of cost items, approximately one half of the marketing cost is for labor.

As an average about fifty-four cents of the consumer's dollar goes to cover the costs of marketing and is termed in this writing as the marketing margin. The residual forty-six cents is the farmers' share or the price paid to the farmer for each dollar spent for retail food commodities. The marketing margin varies to some degree from year to year as shown by Figure 1, ranging from sixty-eight percent in 1933 to forty-nine percent in 1918. When this is compared to the prices received by farmers we find an inverse relationship, that is, when farm prices are high the marketing margin is low and vice versa. This is due to the relative inflexibility of marketing costs and as the retail prices of foods vary with the fluctuating farm prices the percentage change in the marketing margins will vary. During the past three to four years the marketing margin has been fifty percent and farm prices have been relatively high.

In the event that farm prices should decline, we can expect the marketing margin to increase as it has in all the previous years from 1913. When this occurs farmers will become more concerned with marketing costs, furthermore, farmers will be doing more of the marketing themselves. At the present time it is more profitable for them to concentrate on production, leaving the marketing for the marketing agencies.

Figure 1 shows what an inverse relationship we have to farm prices and the marketing margin. This illustration does not mean that marketing costs rise when farm prices fall and fall when farm prices rise but does mean that the marketing agencies receive a greater share of the consumer's dollar when farm prices are low and vice versa.

Regardless of the level of farm prices the reduction of marketing costs is important since the farm price is determined by the terminal market prices less the marketing costs from the farm to this market. But this concern over marketing costs and the marketing margin is not always apparent. At the present time we can see why the farmers are not too concerned with marketing their own products and are making best use of their labor by concentrating on the production of farm crops. However, in the event that prices fall we can expect the farmers to be taking a greater interest in marketing functions themselves. Those persons acting as advisers and providing research services for the farmers should foresee this and subsequently be prepared to aid in the reduction of marketing costs.

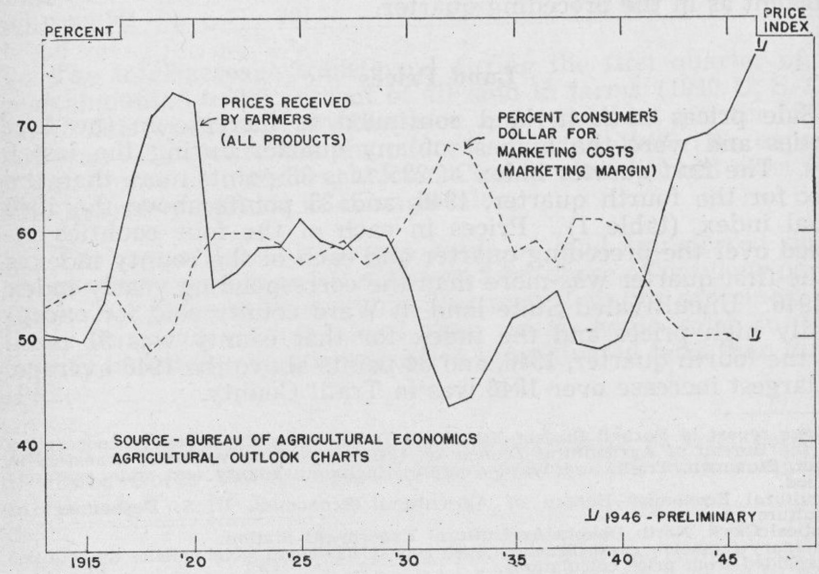

Figure 1.—Relationship of Marketing Margin and Prices Received by Farmers in the United States 1913-46.

There is an inverse relationship between farm prices and the marketing margin.