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## **SOME FACTS AND MYTHS ABOUT “ELIMINATING THE MIDDLEMAN”**

by

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In agricultural producer circles one often hears the comment “If we could just eliminate the middleman” we could lay claim to all the profits being extracted by them from producer’s pockets. In some cases there may, indeed, be opportunities to operate further up the supply chain and reap financial rewards. But in many cases, the so-called middleman (or woman) may be performing valuable services on behalf of producers that are essential to successful marketing.

On the factual side, in production agriculture we typically have to assemble an adequate volume of raw product and convert it into a more marketable form. These assembly costs can include transportation of farm products from the farm to an assembly point where products may be stored, graded, or converted into a more marketable form. From that or other assembly points additional marketing and distribution functions may need to be accomplished such as managing inventory, filling orders, transporting products to customers, or providing other related customer services. In many cases, middlemen or intermediaries accomplish these assembly and distribution functions.

Some of the myths associated with “eliminating the middleman” can include:

- *Myth:* There are “too many” middlemen operating in the food and agriculture system.

*Fact:* The number of middlemen or intermediaries is shrinking dramatically as the structure of the food and agriculture system changes. Major customers are requiring their producer-suppliers to perform many of the services previously accomplished by middlemen. This fact may be detrimental to small- to mid-sized producers in maintaining their access to important customers.

- *Myth:* If we simply eliminated the middlemen, we would automatically make more money.

*Fact:* Producers attempting to accomplish all of the assembly and distribution functions otherwise performed by intermediaries will need to bear that cost themselves. In some cases, producers may be able to perform those functions profitably but in many cases the actual costs of assembly and distribution are underestimated by producers, resulting in losses.

- *Myth:* A confrontational or adversarial relationship is the only way to effectively deal with middlemen.

*Fact:* More producers are figuring out ways to build fair, working relations with intermediaries for their mutual benefit. Doing business with a middleman who effectively adds value to your product ensuring what your mutual customers want can result in a “win-win” outcome.

Smart marketers strive to understand all of the costs associated with putting their product in a form the customer wants, as well as distributing it to the locations where and when their product is needed. This is easier said than done in today’s changing economy but essential for profitable operations.

Some producers may be in a position to accomplish all of the necessary assembly and distribution functions themselves or as a group. However, for others not in that position, eliminating “middlemen” may not be as desirable at first glance as producers might think, unless they can accomplish all of those functions at a lower cost than those individuals or firms who performed those assembly and distribution activities on their behalf.

**Smart Marketing** is a monthly marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

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