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Farmers Can Get Bigger Share of Food Dollar

by

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Farm prices of food commodities in 1989, boosted by higher poultry, egg, and milk prices, rose as much as retail food prices for only the second time in the 1980s. Prices received by farmers for a market basket of foodstuffs rose 6.7 percent, reflecting price strength brought on primarily by the drought of 1988. This 1989 increase in the farm value of the market basket was the largest since 1984.

The 1989 farm share of the food dollar averaged 30 cents for every dollar spent in the retail food store. This is the same as 1988 but down 7 cents from 1980, a considerable drop. Even while this farm value has remained fairly constant, the farm-to-retail price spread has risen throughout the 1980s.

Table 1. Farm Value Share for Selected Foods, 1989

	Retail Food Price	Farm Value	Farm Share of Retail Price
	\$	\$	%
Eggs, Grade A Large, 1 doz	1.00	0.65	65
Milk, ½ gal	1.27	0.59	46
Cheese, natural cheddar, 1 lb	3.20	1.20	38
Peanut Butter, 1 lb	1.81	0.46	26
Potatoes, Northeast, 10 lb	3.06	0.44	25
Lettuce, 1 lb	0.61	0.10	17.0
Corn Flakes, 18 oz box	1.56	0.10	6.0

Table 1 shows the farm-to-retail price spread, the difference between farm value and retail price, for a small sample of foods. This spread, or marketing margin, represents payments for all assembling, processing, transporting, and retailing charges added to the value of farm products after they leave the farm. These intermediate activities represent a larger and larger part of the overall food dollar. In fact, they have grown from 67 percent of the retail value in 1979 to 76 percent a decade later. This jump can be attributed to the greater use and cost of marketing inputs, particularly labor, to prepare food as it moves through the distribution system. Much of this labor is required to "add value" to food in the ways consumers now demand.

Changing lifestyles have resulted in consumers seeking out more healthful, convenient, and time-saving foods. These foods generally require greater levels of preparation, special handling, and packaging. Such activities are most often performed by marketing firms--processors, wholesalers, and retailers--and contribute to overall retail price increases without raising the farm share. These lifestyles are expected to continue; thus, we can expect to see value-added food products in greater demand and a continuing erosion in the farm share of retail price.

Farmers, however, have many opportunities to take advantage of consumers' new demands for convenience and fresh food products. Local and regional producers often possess a comparative advantage over large grower-manufacturers in their ability to supply fresher foods in a timely and flexible manner. The first step in shifting some of the value-adding activities back to the farm is understanding the increasingly important set of marketing activities. On-farm innovations, new technologies, and a customer orientation are essential.