

The U.S. Food Marketing System, 2002

Competition, Coordination, and Technological Innovations Into the 21st Century

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Introduction

The food marketing system is an important part of the U.S. economy. In 2000, the food and fiber marketing system accounted for 7.7 percent of U.S. GDP (table 1) and employed over 12 percent of the U.S. labor force. An increasing share of what consumers spend on food goes to marketing services added after the product leaves the farm. In 2000, over 80 percent of the U.S. food dollar went toward value-added services and materials—transportation, processing, distribution, labor, packaging, and energy (fig. 1).

Efficiency gains in the food marketing system continue to result in abundant supplies of a variety of affordable food products. From 1996 to 2000, real value added to GDP per worker in the food and fiber system, including farmers, processors, and distributors, rose by 8.5 percent from \$28,019 to \$30,413. Income growth has outpaced increases in food expenditures, leading to continuous reductions in the share of income spent on food. Today, consumers spend just 10 percent of their income on food, compared with almost 18 percent in 1960 (fig. 2).

Table 1—Value added by the food and fiber system, 2000

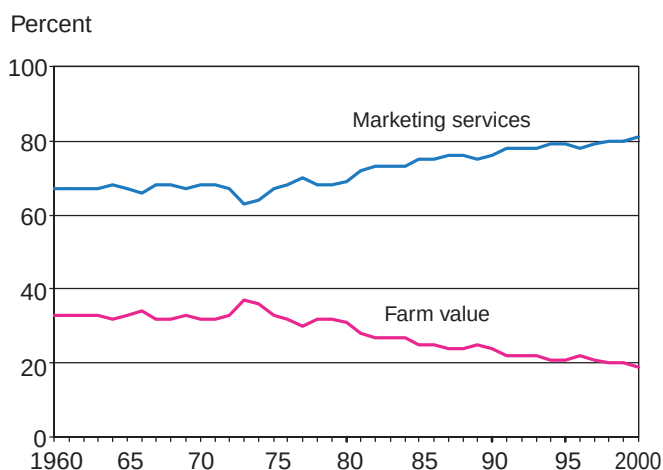
	Value added to GDP \$ billion	Share of GDP Percent
Farming	82.0	0.8
Input industries	426.0	4.3
Manufacturing		
Food processing	165.2	1.7
Nonfoods	54.3	0.5
Distribution		
Transportation	42.9	0.4
Wholesaling and retailing	337.7	3.4
Food service	156.4	1.6
Food and fiber manufacturing and distribution	757.0	7.7
Total food and fiber system	1,264.5	12.8

Source: ERS, Edmondson.

<http://www.ers.usda.gov/briefing/foodmarketstructures/foodandfiber.htm>

Figure 1

Percent of U.S. food dollar going to the farm sector versus marketing services, 1960-2000

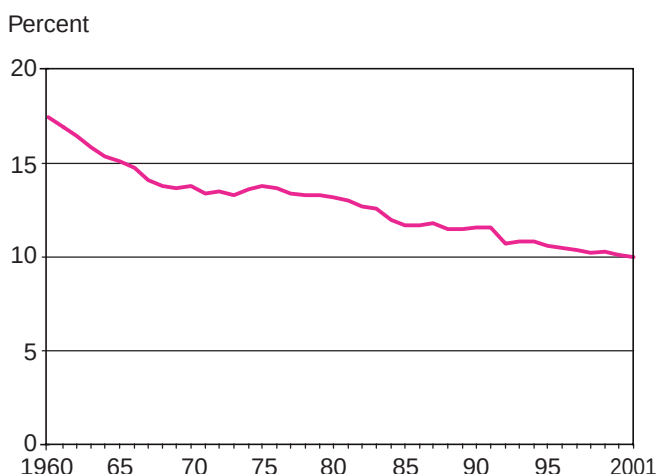


Source: ERS, Elitzak.

<http://www.ers.usda.gov/briefing/foodpricespreads/bill/index.htm>

Figure 2

Total U.S. food expenditures as a share of disposable personal income, 1960-2001



Source: ERS, USDA.

<http://www.ers.usda.gov/briefing/CPIFoodAndExpenditures/Data/table7.htm>

There are several notable trends occurring throughout the U.S. food marketing system. First, merger and acquisition activity continues to result in increased concentration. Recent concentration in the retail sector has seen the share of U.S. grocery store sales by the top four food retailers increase from 16.6 percent in 1996 to 27.4 percent in 2000 (see “Food Retailing” chapter).¹ By contrast, this four-firm sales share had declined from 17.1 percent in 1987 to 16.6 percent in 1996. Merger and acquisition activity has also accelerated in food service distribution. In 1995, sales by Sysco, the leading U.S. food service distributor, outpaced its nearest competitor by 84 percent. With U.S. Foodservice’s purchase of Alliant in 2001, this gap closed to 28 percent (see “Food Wholesaling” chapter).

Changes in concentration vary by food marketing stage, segments within a particular stage, and types of products processed and handled. Commonly cited reasons by companies for mergers and acquisitions, horizontal or vertical, include (1) to maintain bargaining power with other stages of the supply chain undergoing consolidation, (2) to ensure a market outlet in an increasingly consolidated downstream segment, (3) to ensure a consistent, high-quality source of raw materials, (4) to capture efficiency gains and lower procurement costs, and (5) to improve ability to compete with alternative formats, such as nontraditional retailers (for example, Wal-Mart and Costco) and the food-away-from-home sector. Commonly cited reasons for companies divesting include (1) to resolve bankruptcy cases by reorganizing, (2) to focus on alternative formats (for example, high-volume price impact supermarkets), (3) to focus limited resources in particular geographic areas, and (4) to adhere to antitrust requirements regarding a proposed merger.

Buyer-seller relationships are changing throughout the food supply chain as stages become increasingly interdependent. For example, farmers are increasingly engaged in contracts and vertical integration in some agricultural sectors. Also, traditional food wholesalers that buy food from manufacturers and resell to retail food stores are losing ground (Kinsey). Today, manufacturers increasingly deliver their products directly to retail stores, while self-distributing retailers own their own distribution centers and buy directly from manufacturers.

The food marketing system continues to embrace new technology that improves the flow of information and

assists with scheduling and inventory. This reduces costs, reduces instances of empty grocery shelves or out-of-stocks, and enables firms to better target alternative consumer segments. Internet services are even being tailored to the food-away-from home market (see “Food Service” chapter).

Developments in the food marketing system also have important implications for the agricultural sector. Competitive pressures are mounting for farmers to deliver the right types of products at the right time. Retailers are demanding a variety of high-quality products (for example, organic produce or exceptionally lean pork) delivered in a timely fashion. This increases the importance of agricultural product differentiation and precise information. For example, leading new product introductions were convenience foods, organic and natural foods, and functional foods (see “Food Manufacturing” chapter). In addition, grocery retailers are experimenting with new formats (for example, supermarket-sized natural food stores) to meet the growing needs of natural food and ethnic consumers (see “Food Retailing” chapter).

International trends in trade and foreign direct investment offer U.S. food marketers an alternative to the slowly growing domestic food market. It also leaves the U.S. food marketing system increasingly exposed to foreign economic developments, policies, and changing consumer preferences. The United States is the world’s largest importer and exporter of processed food, and U.S. food companies continue to expand operations overseas. Investment by foreign-owned food retailers in U.S. food retailing is on the rise through acquisitions.

The remainder of this report describes important developments in the food marketing system (manufacturing, wholesaling, retailing, and food service) with regard to structure, organization, productivity, technology, and trade.

References

- Edmondson, William. U.S. Department of Agriculture, Economic Research Service. Food Market Structures: The U.S. Food and Fiber System Briefing Room: Accessed 12 July 2002, <http://www.ers.usda.gov/briefing/foodmarketstructures/foodandfiber.htm>.
- Kinsey, Jean D. “The Big Shift From a Food Supply to a Food Demand Chain,” *Minnesota Agricultural Economist*, No. 698. University of Minnesota, St. Paul, MN, Fall 1999.

¹Includes sales of Wal-Mart’s food and nonfood grocery items.