



Mission

The Food Marketing Policy Center conducts research on food and agricultural marketing and related policy questions. It facilitates research within the land grant university system by organizing meetings and conferences, by maintaining large scale data bases and by distributing publications. The general intent is to provide information that can contribute to improved performance of the food production and marketing system. Key users include farmer and consumer organizations, agribusiness firms, public agencies, state legislatures, and the U.S. Congress.

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FOOD MARKETING POLICY CENTER

NEWSLETTER

Department of Agricultural and Resource Economics
College of Agriculture and Natural Resources
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Policy Editorial: Food Industry Consolidation: The Uncharted Global Venue *by Ronald W. Cotterill*

Ok, we always have had mergers. Concentration has been increasing in food retailing and food manufacturing markets for most, if not all, of the post World War II era. Gross margins have also increased during this era, with advertising and other nonprice marketing programs capturing a good portion of the increase. Net operating margins have also increased. The perennial questions remain. As the system becomes more concentrated are these changes producing a more efficient system that benefits consumers with better value, i.e. lower prices for a given level of services and quality or is it a cash machine for financial stakeholders? Are farmers and other input suppliers receiving competitive prices? Is the system progressive in an adoption of new techniques and provision of new goods and services?

We can't address all of these questions here, but lets start with retailing. Many supermarket industry leaders and analysts expect that Kroger, Albertson's, Royal Ahold (owner of many east coast chains), Wal-Mart, and Safeway, chains that now control 33 percent of grocery sales will, via merger, increase their share to European levels (over 60 percent) by 2005. Just seven years ago the top five chains controlled only 19 percent of U.S. grocery sales. Consolidations that increase local market concentration now or in the future increase prices. The European model for supply chain management and the Wal-Mart model are often cited as the prime source of cost savings that consolidation offers. These models and their savings are real, but how many studies of economies of scale and scope in vertical channels do we have? And there is little evidence that merger specific efficiencies are passed on to consumers via lower prices. The only study of this issue is by Ashenfelter and Baker for the Staples-Office Depot merger (FTC Working Paper No. 217). They found a meager 15 percent pass through rate.

A subtle often unappreciated issue is that the much touted increase in buying power which results in lower input prices (possibly farm prices) is a pecuniary economy. The new large powerful firms' lower unit costs are not due to real economies of scale or scope that materialize because the firms use less of society's scarce resources. They arise because they pay less for the resources. The Robinson Patman Act with its prohibition against big buyer discounts that are not cost justified may very well rise again, but how does one deal with global sourcing and off shore deals?

From the perspective of food manufacturers the emergence of national chains that are components of global retailers is more than a shift in power to retailers. It is changing the scope and structure of manufacturing. As I wrote in 1995 (*Agribusiness* 12:2) the European retailer-led model for food system organization puts top quality retail brands (not me too, mediocre private labels) in the driver's seat at the expense of heavily advertised manufacturer brands. As retailers brand the store and build brand equity with consumers that spans product categories, these economies of scope in marketing and product differentiation may very well overwhelm heretofore unassailable positions of food manufacturers. Note that this advantage has nothing to do with Wal-Mart type vertical efficiencies whether real or pecuniary. It has a lot to do with retailers using information technologies and detailed consumer purchase information to market products. In this new retailer-led world, manufacturers would grow only if they can renew their brands by improving or redefining them to click with current consumer tastes. And even then they must convince who, the largest retailers of course, to stock and promote them if they are to reach consumers. Slotting fees anyone?

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AGRIBUSINESS: An International Journal update by R. W. Cotterill, Editor

The first issue of the new *Agribusiness*, Vol. 15, No. 1, Winter 1999, is now out, and issue No. 2 is imminent. *Agribusiness*, and more than a dozen other economic journals, are now available on line to subscribers at: www.interscience.wiley.com. The journal is also indexed in Econlit. The response to the new format, and focus on higher quality research has been overwhelmingly positive. If you haven't seen the new journal check it

out. Issue No. 2 has a large forum section dedicated to RTE cereal pricing. Issue No. 3 has a set of papers, whose review was coordinated by associate editor, Bruce Traill, on food safety and international trade. Issue No. 4 will contain a set of papers on commodity advertising, selected under the guest editorship of Henry Kinnucan. All issues also contain other papers and book reviews as well as these special sections. Jeff Royer is our book review editor. Please consider *Agribusiness* when publishing your research. Email manuscript submissions to:

FMPC@CANR1.CAG.UCONN.EDU

Articles appearing in Issues No. 1 and 2, 1999 are as follows:

***Agribusiness* (15:1) Winter 1999**

“Predicting Mergers and Acquisitions in the Food Industry” by Adesoji Adelaja, Rodolfo Nayga, Jr., and Zafar Farooq.

“Vertical Organization of Agribusinesses in Transition Economies: Hungarian Production Systems or Agricultural Franchising?” by Dirk W. Rudolph.

“State Trading and Non-Price Discriminatory Trade: The Case of Japan’s Wheat Imports” by Kevin Chen and Harvey Brooks.

“Mandatory versus Voluntary Approaches to Food Safety” by Kathleen Segerson.

“Predicting Japanese Dairy Consumption Behavior Using Qualitative Survey Data” by Yasuhito Watanabe, Nobuhiro Suzuki, and Harry M. Kaiser.

“Media-Specific Returns to Generic Advertising: The Case of Catfish” by Henry W. Kinnucan and Yuliang Miao.

“Market Power and the Demsetz Quality Critique: An Evaluation for Food Retailing” by Ronald W. Cotterill.

“The Magnitude and Nature of Situational Influence on Japanese Snacking: The Role of Fruit” by Kenneth C. Gehrt and Soyeon Shim.

FORUM

“A Plea for Economic Research to Improve Market Efficiency” by Joseph D. Coffey.

“A Plea for Economic Research to Improve Market Efficiency: Response to Joseph Coffey” by John W. Helmuth.

BOOK REVIEW

by Jeffrey S. Royer

Strategies and Structures in the Agro-food Industries” by Nilsson, Jerker, & van Dijk, Gert (Eds.). (1997).

***Agribusiness* (15:2) Spring 1999**

“Methodologies for *Ex Ante* Projections of Adoption Rates for Agbiotech Products: Lessons Learned From rBST” by William Lesser, John Bernard, and Kaafee Billah.

“Competitiveness in the European Dairy Industries” by Klaus Drescher and Oswin Maurer.

“An Empirical Analysis of State Agricultural Product Promotions: A Case Study on *Arizona Grown*” by Paul M. Patterson, Hans Olofsson, Timothy J. Richards, and Sharon Sass.

FORUM ON CEREAL PRICES

“Jawboning Cereal: The Campaign to Lower Cereal Prices” by Ronald W. Cotterill.

“Consumers in a Box: A Consumer Report on Cereal” by U.S. Representative Samuel Gejdenson and U.S. Senator Charles Schumer.

“Fact Sheet: Facts vs. Myths About Breakfast Cereal Pricing and Promotion” by Grocery Manufacturers of America.

“Statement on the Breakfast Cereals Industry” by Alfred E. Kahn.

“High Cereal Prices and the Prospects for Relief by Expansion of Private Label and Antitrust Enforcement” by Ronald W. Cotterill.

“Breakfast Cereals: The Extreme Food Industry” by John M. Connor.

“Consumers Still in a Box: The High Price of Breakfast Cereal” by U.S. Representative Samuel Gejdenson and U. S. Senator Charles Schumer.

“An Estimation of Consumer Benefits From the Public Campaign to Lower Cereal Prices” by Ronald W. Cotterill and Andrew W. Franklin.

FORUM ON AGRICULTURAL MARKETING

“Response to Joseph Coffey” by Steven Buccola.

BOOK REVIEW by Reynold P. Dahl

Cargill: Going Global by Wayne G. Broehl, Jr. (1998).

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General Announcements

On May 27, 1999 the FMPC will have a one-day research retreat for all cooperating researchers and graduate students. Harry Kaiser and colleagues from the Commodity Promotion Center, Cornell University will be joining us.

Gunter Hitsch, a Ph.D. student in economics at Yale University, is a visiting scholar at the Center. He is using our scanner data base to do his dissertation on new brand introductions in the RTE cereal industry.

Professor Erkan Rehber, Uludag University, Turkey, will be in residence at the Center this fall as a Fulbright Scholar.

Ms. Natalie LaVoie, a Ph.D. student under Richard Sexton, U.C. Davis, has accepted a tenure stream assistant professorship at the University of Massachusetts effective January 1, 2000.

Johanna Chua, a Ph.D. candidate in economics, Harvard University, presented a seminar at UConn, on March 24th titled, “Explaining Tax Overshifting: Lessons from the Beer Industry.” Ms Chua was a visiting scholar at the Center last summer and is using our scanner data base for her doctoral research under Professor Martin Feldstein.

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Food Marketing Policy Center on the Web

Don't forget to check out our ever-expanding Policy Center Home Page at:
<http://vm.uconn.edu/~wwware/FMKTC.html>

Our web site contains an archive of newsletters, and an up to date publications list, which includes copies of recent Research

Reports and Food Policy Issue Papers. These can be downloaded.

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NE-165 Conference Announcements

CONFERENCE ANNOUNCEMENT REGISTRATION MATERIALS

Transitions in Agbiotech: Economics of Strategy and Policy, Washington, DC, June 24-25, 1999, organized by Regional Research Project NE-165: Private Strategies, Public Policies, and Food System Performance. Conference Steering Committee Chair: William Lesser, Cornell University.

Following decades of promises, transgenic crops began to appear in 1995 and have subsequently met with widespread approval from growers as evidenced by year-to-year quadrupling in acreage planted in the U.S. Initial introductions in Argentina, Mexico, Australia, and elsewhere are indicative of the growing worldwide demand. But while the demand curve for these new inputs shifts outward, the number of suppliers continues to shrink as a result of mergers, acquisitions, and strategic alliances. Monsanto, the market leader, listed 16 mergers and agreements for 1997 and two major acquisitions in 1998. At the same time, seed purchase agreements have evolved from simple cash transactions to complex arrangements often involving tie-ins and restrictions on seed saving.

The public sector has been involved in these historical changes as well. Universities now receive a significant amount of research support from the private sector, and from royalties for university inventions. While many argue these revenue sources are needed to maintain a significant university research role, others raise questions regarding the traditional Land Grant roles of supporting small farms, and training. Researchers for

their part are increasingly confused, and concerned, about the rights over their research materials under unclear intellectual property rights and material transfer agreements.

It is too early in the agbiotech transformation to assess the appropriate strategies and potential outcomes, but not too early to identify emerging policy issues while the sector remains in flux. This conference is focused on the roles of economics in projecting and assessing the future structure of the biotech input sector and its effects on farmers and consumers.

For the program and registration materials, please see:

<http://www.umass.edu/ne165/upcoming.html>
#TRANSITIONS_IN_AGBIOTECH.

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Activity Report

Ronald W. Cotterill
(*University of Connecticut*)

Ron attended the American Economic Association meetings in New York City in January. He presented a paper in the session sponsored by the Industrial Organization Society and the AAEA titled, "Forensic Economics in Action: The Lysine Cartel."

Ron was invited to participate at and, in a one-day research planning session, organized by ERS/USDA with the support of Farm Foundation to address the issue of "Slotting Allowances in the Food and Vegetable Industry," February 19, 1999.

Ron is providing economic analysis of the proposed Pathmark Ahold merger for Wakefern Food Corporation, Elizabeth, New Jersey. This has included presentations to the Bureau of Competition at the Federal Trade

Commission and the anti-trust staff of the state attorneys general for New York and New Jersey.

Ron will be one of three speakers at an organized symposium on “Ready to Eat Breakfast Cereal Pricing” at the Nashville, Ag Economics meetings.

Ron is participating as a discussant along with Daniel Sumner, UC Davis, in a session on institutional economics at the upcoming Nashville meeting. The only paper presented in this session will be by James Schaeffer and is titled, “Institutions, Organizations, and Food Systems Performance: Observations from Over the Hill.”

Julie Caswell

(University of Massachusetts)

Julie presented two seminars and consulted with researchers at Michigan State University during March. The seminars were titled “Incorporating the Sciences into the Management of Trade-Related Sanitary and Phytosanitary Issues,” presented at the National Food Safety and toxicology Center and “Choosing Regulatory Approaches to Improving Food Quality: What Do the Economics and Trade Agreements Tell Us?” presented at the Department of Agricultural Economics.

Rigoberto Lopez

(University of Connecticut)

Rigoberto Lopez attended the American Economics Association Meetings in New York City, January 3-5, 1999.

Michael Lubatkin

(University of Connecticut)

“Towards a Meso-Theory of Strategy, Market Structure, and Population Dynamics:

Evidence from Three Empirical Case Studies of Horizontal Merger (Lubatkin, M, Schulze, W., Mainkar, A., and Cotterill, R.) is the revised title of our paper that is under second review at the *Strategic Management Journal*.

Avinash Mainkar

(University of Connecticut)

Avinash is completing his dissertation, which examines whether brand proliferation by itself leads to barriers to entry in the food manufacturing industry.

Avinash has accepted a position as assistant professor in the business school at James Madison University, Virginia.

Aviv Nevo

(University of California-Berkeley)

Aviv continues working on the economics of the breakfast cereal industry. Recently working with Catherine Wolfram, Assistant Professor, Harvard University, he has co-authored an NBER working paper titled, “Prices and Coupons for Breakfast Cereals.” Earlier work is under review.

Everett Peterson

(Virginia Tech)

Everett continues work on demand analysis at the brand level for Bertrand oligopolists.

William Putsis

(London Business School)

Presentations (both upcoming):

1) “Category Expenditure, Promotion and Competitive Market Interaction: Can Promotions Really Expand the Pie?” presented to the Marketing Science Conference (INFORMS), Syracuse, New York, May 1999.

2) “Competitive Interaction and the Effectiveness of Promotions” presented to the Special Conference on Competition, Mainz, Germany, June 1999.

Subhash Ray

(University of Connecticut)

Subhash continues work on his project titled, “Marketing Efficiency in the Carbonated Soft Drink Industry: A Nonparametric Analysis of Scanner Data.”

Richard Rogers

(University of Massachusetts)

Jeff Royer and Richard T. Rogers are pleased to announce their book entitled, *The Industrialization of Agriculture: Vertical Coordination in the U.S. Food System* is now available. Ashgate is the publisher, and you can order a copy of the book directly from them and obtain a 15% discount. To order the book go to Ashgate’s internet site: at <http://ashgate.com> and search by title for the book. Then follow the online instructions.

Richard will be updating our food advertising data set with 1997 information during the summer. Additionally, he plans to update our food and tobacco manufacturing data sets with the soon to be released, Economic Census for 1997. Since the Economic Census will use the new North American Industry Classification System, NAICS, he plans to access the impacts of these changes on our historical data sets.

Kathy Segerson

(University of Connecticut)

Kathy has completed a project on Mandatory vs. Voluntary Approaches to Food Safety Regulation and has an article in *Agribusiness* Vol. 15, No. 1, 1999 on that topic. She is undertaking two new projects:

1) “Incentives for Quality Control in the Food Industry: The Case of Food Safety” with Tom Miceli (Economics, UConn) and John Antle (Montana State University)

2) “Regulation of Food Safety Risks: The Role of Market Based Quality Incentives” with Richard Chisick (Economics, UConn).

Edmond Tomastik

(University of Connecticut)

Ed, a professor in the mathematics department, continues to work on solving complex, non-linear economic models that we are estimating at the brand level.

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Data Corner

Recent acquisitions include:

Progressive Grocer’s Market Scope 1999.

Progressive Grocer’s Market Scope 1999 Desktop Guide to Category Sales.

Progressive Grocer’s Marketing Guidebook 1999.

Progressive Grocer’s Marketing Guidebook 1999. Quarterly update Vol. #1, Dec. 1998.

Progressive Grocer’s Marketing Guidebook. Quarterly update Vol. #2, March 1999.

1998 Cap Crime Index data by zip code, total U.S.

Contact Andrew Franklin (860) 486-2826 for a complete listing of data and reference works available.

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Food Marketing Policy Center Publications Catalog

We have updated the list of the publications that are available through the Center. Call (860) 486-1927, write for a copy, or print it from our Home Page:

<http://vm.uconn.edu/~wwware/FMKTC.html>

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Recent Publications and Papers

Bhuyan, Sanjib and Rigoberto A. Lopez. "Oligopoly Power and Allocative Efficiency in U.S. Food and Tobacco Manufacturing." *Journal of Agricultural Economics*, 49 (December 1998):434-442.

Bhuyan, Sanjib and Rigoberto A. Lopez. "What Determines Welfare Losses from Oligopoly Power in the Food and Tobacco Industries?" *Agricultural and Resource Economics Review* 27 (October 1998):258-265.

Caswell, Julie A. 1998. "Valuing the Benefits and Costs of Improved Food Safety and Nutrition." *The Australian Journal of Agricultural and Resource Economics* 42 (4, December):409-424.

Caswell, Julie A., Maury E. Bredahl, and Neal H. Hooker. 1998. "How Quality Management Metasystems Are Affecting the Food Industry." *Review of Agricultural Economics*, 20 (2):547-557.

Caswell, Julie A. 1999 Discussant's Comments on Papers on Information, Education, and Health Consequences of Labels. In *New Economic Approaches to Consumer Welfare and Nutrition*, ed.

Sarahelen Thompson. Proceedings of Conference organized by the Food and

Agricultural Marketing Consortium, Washington, D.C., January 1999. (<http://ww.ag.uiuc.edu/famc.html>).

Caswell, Julie A. 1998. "How Labeling of Safety and Process Attributes Affects Markets for Food." *Agricultural and Resource Economics Review* 27 (2):151-158.

Cotterill, Ronald W. 1999. "Market Power and the Demsetz Quality Critique in the Retail Food Industry." *Agribusiness: An International Journal*, 15 (1):101-118.

Cotterill, Ronald W. "Jawboning Cereal: The Campaign to Lower Cereal Prices." *Agribusiness: An International Journal*, Vol. 15, No. 2, 1999, forthcoming.

Cotterill, Ronald W. "High Cereal Prices and the prospects for Relief by Expansion of Private Label and Antitrust Enforcement." *Agribusiness: An International Journal*, Vol. 15, No. 2, 1999, forthcoming.

Cotterill, Ronald W. and William Putsis, Jr. "Market Share and Price Setting Behavior for Private Labels and National Brands" *Review of Industrial Organization*, forthcoming.

Cotterill, Ronald W., William Putsis, Jr. and Ravi Dhar. "Assessing the Competitive Interaction Between Private Labels and National Brands." *Journal of Business*, forthcoming.

Cotterill, Ronald W. "Estimation of Cost Pass Through to Michigan Consumers in the ADM Price Fixing Case." University of Connecticut, Food Marketing Policy Research Report No. 39, November 1998.

Cotterill, Ronald W. and Andrew Franklin. "An Estimation of Consumer Benefits from the Public Campaign to Lower Cereal

Prices.” *Agribusiness: An International Journal*, Vol. 15, No. 2, 1999, forthcoming

Cotterill, Ronald W. and William P. Putsis, Jr. "Testing the Theory: Vertical Strategic Interaction and Demand Functional Form." University of Connecticut, Food Marketing Policy Research Report No. 40, November 1998.

Cotterill, Ronald W., Leonard Egan, and William Buckhold. "Beyond Illinois Brick: The Law and Economics of Cost Pass-Through in the ADM Price Fixing Case." *Review of Industrial Organization*, forthcoming. See also University of Connecticut, Food Marketing Policy Research Report No. 42, December 1998.

Lopez, Rigoberto A. and Hugo H. Ramos. "Demand and Supply Elasticity for Basic Grains in El Salvador." *Agribusiness: An International Journal*, 14 (6) (December 1998): 475-481 University of Connecticut, Food Marketing Policy.

Lubatkin, Michael H., William S. Schulze, Avinash Mainkar, and Ronald W. Cotterill. "Towards a Post-Structural View of Competition: Three Cases of Horizontal Merger." University of Connecticut Food Marketing Policy Research Report No. 38, October 1998.

Nevo, Aviv. "Measuring Market Power In the Ready-To-Eat Cereal Industry." University of California, Berkeley. University of Connecticut Food Marketing Policy Research Report No. 37, July 1998.

Nevo, Aviv and Catherine Wolfram. "Prices and Coupons for Breakfast Cereals." NBER Working Paper 6932, February 1999. www.nber.org

Peterson, Everett and Ronald W. Cotterill. "Incorporating Flexible Demand Systems in Empirical Models of Market Power." University of Connecticut Food Marketing Policy Research Report No. 43. December 1998.

Putsis, William P. and Ravi Dhar. "An Empirical Analysis of the Determinants of Category Expenditure." *Journal of Business Research*, 1999, forthcoming.

Putsis, William P. and Ronald W. Cotterill. "Share, Price and Category Expenditure—Geographic Market Effects and Private Labels." *Journal of Managerial and Decision Economics*, 1999, forthcoming.

Putsis, William P. "Empirical Analysis of Competitive Interaction in Food Product Categories." *Agribusiness: An International Journal*. Vol. 15, No. 3, 1999, forthcoming.

Putsis, William P. and B. Bayus. "Product Proliferation: An Empirical Analysis of Product Line Determinants and Market Outcomes." *Marketing Science*, 18 (2), 1999, forthcoming.

Rogers, Richard T. and Robert J. Tokle (Idaho State University). "The Effects of Television Advertising on Concentration: An Update." Accepted by *New York Economic Review* for fall 1999 publication. 15 pages.

Rogers, Richard T. "The U.S. Food Marketing System," prepared as an article for *The Wiley Encyclopedia of Food Science & Technology*, 2nd Edition. 1999.

Royer, Jeffrey S. (University of Nebraska-Lincoln) and Richard T. Rogers. eds, *The Industrialization of Agriculture: Vertical Coordination in the Food System*, Ashgate Publishing Limited, 1998.

Salay, Elisabete and Julie A. Caswell. 1998. "Developments in Brazilian Food Safety Policy." *The International Food and Agribusiness Management Review* 1(2):167-177.

Segerson, Kathleen. 1999. "Mandatory vs. Voluntary Approaches to Food Safety Regulation." *Agribusiness: An International Journal*, 15 (1):53-70.

Wang, Yuan and Julie A. Caswell. 1998. "Comparative Levels of Food Safety Regulations in Three U.S.-Asian Trading Groups," *Journal of Agribusiness* 16 (2):115-128.

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