

# ERS Releases New Electronic Report on the U.S. Food Marketing System

A new report released by USDA's Economic Research Service (ERS), *The U.S. Food Marketing System, 2002: Competition, Coordination, and Technological Innovations Into the 21st Century*, analyzes recent trends and developments by the firms that process, distribute, prepare, and sell food in the United States. Separate chapters on food manufacturing, food wholesaling, food retailing, and food service look at important developments with regard to structure, organization, productivity, technology, and trade. The new report is an electronic version of the former *Food Marketing Review*.

Notable trends occurring throughout the U.S. food marketing system include an increase in mergers and acquisitions, leading to fewer and larger firms. Changes in concentration among sectors vary by food marketing stage, seg-

ments within a particular stage, and types of products processed and handled. 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 (fig. 1). By contrast, this four-firm sales share declined from 17.1 percent in 1987 to 16.6 percent in 1996. Mergers and acquisitions have also accelerated in foodservice distribution. In 1995, sales by Sysco, the leading U.S. foodservice distributor, outpaced its nearest competitor by 84 percent. With U.S. Foodservice's purchase of Alliant in 2001, this gap closed to 28 percent.

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 integra-

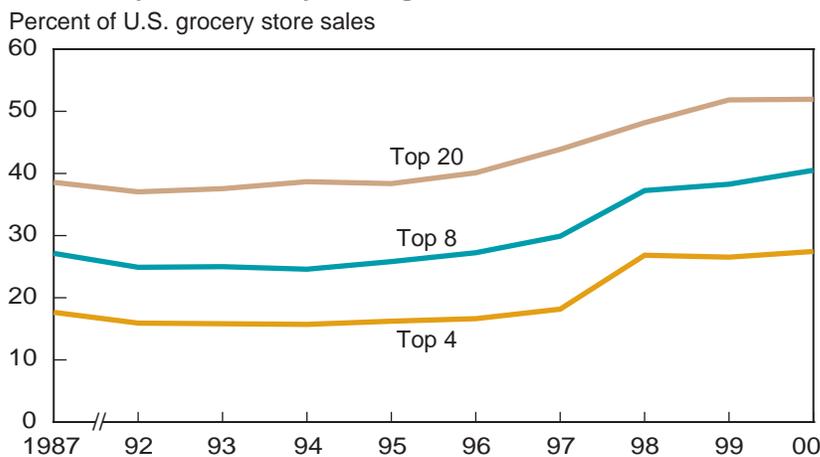
tion in some agricultural sectors. In 1996, 30 percent of hogs were sold under production contracts, up from 2 percent in 1980. Also, traditional food wholesalers that buy food from manufacturers and resell to retail food stores are losing ground. Today, manufacturers increasingly deliver their products directly to retail stores, while self-distributing retailers own their own distribution centers and buy directly from manufacturers.

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, exceptionally lean pork) delivered in a timely fashion. These demands increase the need for agricultural product differentiation and precise information regarding prices, product quality, and scheduling. The

**The significant increase in hogs produced under contract from 1980 to 1996 typifies the changing nature of buyer-seller relationships in the Nation's food marketing system.**

**Credit: PhotoDisc.**

**Figure 1—Consolidation Has Contributed to Increased Shares of U.S. Grocery Store Sales by the Largest 4, 8, and 20 Retailers**

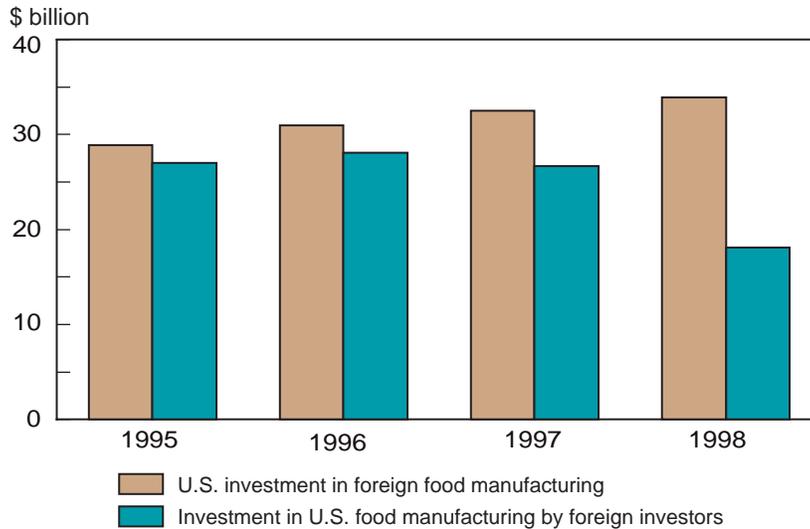


Note: Data not presented for 1988-91.

Sources: *Monthly Retail Trade Survey*, Census Bureau; Company annual reports.



**Figure 2—Investment Abroad in Food Manufacturing by U.S. Companies Continues To Rise**



Source: *U.S. Direct Investment Abroad*, Bureau of Economic Analysis.

food marketing system has responded by embracing new technology that improves the flow of information and assists with scheduling and inventory. Improved information enables firms to reduce costs and instances of empty grocery shelves or out-of-stocks and better

target alternative consumer segments. 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.

International trends in trade and foreign direct investment offer U.S. food marketers an alternative to the slowly growing domestic food market. Such trends leave 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. In 2000, the United States exported \$30 billion worth of processed food and imported processed foods worth \$36.8 billion. U.S. food processors continue to expand operations overseas (fig. 2). Foreign-owned food retailers have used acquisitions to increase investments in U.S. food retailing.

The full report, *The U.S. Food Marketing System, 2002: Competition, Coordination, and Technological Innovations Into the 21st Century*, by Steve Martinez (coordinator), J. Michael Harris, Phil R. Kaufman, and Charlene Price, Agricultural Economic Report No. 811, can be accessed through ERS's Web site at <http://www.ers.usda.gov/publications/aer811/> **FR**