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The structure of food marketing is changing rapidly in ways that affect the welfare of producers and consumers. Food manufacturing and retailing are becoming more concentrated. The top six supermarkets now control over 50% of supermarket sales, compared to 32% in 1992. The top 20 food manufacturers now account for over 50% of value added in processing, more than double their corresponding share in 1954. Likewise, the beef processing industry has experienced dramatic structural changes since the late 1970s. The

confluence of declining demand for red meats and new, scale-intensive packing technology led to rapid consolidation in the packing sector, which today is dominated by four firms with a combined market share in excess of 80%. This market revolution has had serious implications for California ranchers (see p. 152). Today, a significant percentage of cattle leave the state for feeding and slaughter.

Food marketing is also becoming more streamlined. Traditional roles of wholesalers and brokers have declined in importance or been eliminated through vertical integration. Much of fresh produce, for example, now is sold directly from grower-shippers (marketers) to grocery retailers. Finally, traditional exchange mechanisms, such as central auctions and terminal markets, have declined in favor of contractual arrangements that commit producers to sell to a particular processor or retailer.

In many cases consolidation has been driven by efficiency considerations. In beef packing, UC Davis research has demonstrated that larger processing plants are indeed more efficient. Such efficiency gains in food marketing can produce benefits at both ends of the spectrum — lower prices for consumers and higher prices for producers. U.S. consumer prices for food and beverages have in fact risen more slowly than prices in general. From a 1982–1984 base period through 2001, food and beverage prices paid by U.S. urban consumers rose 73.6% compared to a 77.1% escalation in overall prices.

However, the share of the U.S. food dollar going to the farmer is actually decreasing in favor of the marketing sector. Although the farm share of USDA's "market basket" (a standardized set of food products bought in grocery stores) remained stable at about 40% from 1960 to 1980, it has declined rapidly since then, to about 20% today.

One inevitable effect of consolidation is fewer selling opportunities for farmers and ranchers. Two immediate challenges follow as a consequence: How to "discover" a fair market price, and how to ensure that fair value is paid. As the number of marketers declines and contract selling in-

creases, centralized spot or auction markets decline or disappear. Spot markets that lack substantial competition on either the buying or selling side are vulnerable to manipulation. If confidence in a market is eroded, use of it will decline, exacerbating these problems.

Food consumers are increasingly quality conscious, and contracts between retailers or processors and producers are a good way to increase coordination and transmit information about consumer preferences. However, many observers also point to problems associated with the increasing use of contracts.

Because contracts are normally not negotiated in an open-market environment, how should price terms be set? A common method in California (such as for processing tomatoes, canning peaches, dried plums and pears) is to set contract terms through bargaining between processors and a grower association. In other instances, such as cattle and hogs, contract terms are tied to a corresponding spot-market price. As a result, any problems in the spot market immediately transmit to contracts as well. Recent UC Davis research has shown that opportunities for manipulation are created when contract prices are linked to a spot price, and some buyers operate in both markets. Another possibility is to link contract prices to "downstream" prices that the processor receives from retailers. However, retailers are increasingly requesting that processors perform services or pay various off-invoice fees. The very concept of a "price" received by the food manufacturer is no longer clear.

The second major concern about contracts is that they erode producers' traditional freedom to make decisions. The most extreme case is broiler contracts in the southern and eastern United States. Processors own the chicks and also provide feed, medicine and detailed growing instructions. The producer, who provides chicken houses and labor, has little discretion. Some analysts see the pork and cattle industries heading in the same direction. This issue surfaced in the 2002 Farm Bill, when legislation to ban packer ownership of hogs and cattle and limit packer control of production via contracts passed the Senate, but was not included in the final bill. This debate continues, however.

The revolution in food marketing raises interesting and important public policy issues. It has been driven by the economies of large-scale operations and the need to foster better coordination throughout the production and marketing chain to ensure the quality of production that the market now demands. By some measures the revolution has succeeded. Food in the United States remains relatively cheap and quality and variety have probably never been greater. The challenges lie in ensuring fair prices for producers, preserving farming as an independent occupation, and maintaining the vitality of the rural communities that are supported by U.S. agriculture.