Concentration and Consolidation in the U.S. Food Supply Chain:

The Latest Evidence and Implications for Consumers, Farmers, and Cooperatives

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Introduction and Overview

- Food demand worldwide projected to grow 70 or more 2010-2050
- Challenge of feeding 11.2 billion people by 2100
- Consumers demand an increasingly diverse suite of products—quality differentiation in many forms
- Ag asked to contribute to energy production and environmental quality
- Efficiency gains from rising consolidation, concentration, and vertical coordination, but concerns about market power
Food Manufacturer Concentration

- How do we measure – HHI, CR4
- 2012 Averages – CR4 = 48.3%, HHI = 1,108
- Five-year Increase – CR4 1.8%, HHI 11.8%
Public Statistics and Relevant Markets

- Animal (except poultry) slaughter CR4 increases 2% from 2007 to 2012
  - 2012 = 60.7
  - 2007 = 59.4
Food Retail Concentration

- Supermarket revolution worldwide
- What are the relevant geographic markets for food retailing?
- Role of Walmart and supercenters
- Implications of online food retailing
- Do we care about food prices in the U.S. anymore?

Source: USDA, ERS calculations using data from U.S. Census Bureau, Monthly Retail Trade
Role of Contracts and Vertical Coordination in Modern Agriculture

- Growth from 11 – 35 % between 1969 and 2013
- Contract dominate exchange for most commodities except grains, oilseeds
- Why the increasing role of contracts/coordination?
- What are the policy concerns surrounding agricultural contracts?
  * GIPSA and related regulations
Buyer Power in Farm-Product Procurement Markets

• Predominant policy concern today regarding ag concentration is processors’ and retailers’ power over farmers

• High concentration and few selling options in local procurement markets

• Lock-in through contracts between buyers and sellers

• Ability of small farms to compete in this environment

• Implications for vitality of rural America
Concentration, Coordination, and the Challenges Facing Agriculture

• Evidence is strong that consolidation is efficiency enhancing
• Similarly strong evidence that vertical coordination is efficiency enhancing
• Evidence of market-power abuses and efficiency losses from market power is weak
• We should not impose policies that diminish U.S. Ag’s ability to compete and contribute to 70% or more growth in production required by 2050
Challenges/Opportunities for Cooperatives

- Historic rationale for cooperative action has been homogeneity—farmers share substantial similarities in products produced, inputs demanded and will benefit from acting collectively
  - Marketing cooperatives’ pooling practices
- Modern agriculture is predicated on heterogeneity and differentiation
- Cooperatives must evolve to embrace the heterogeneity of modern agricultural markets
Conclusions

• Food manufacturing and retailing concentration is increasing, albeit slowly, but published statistics don’t define relevant markets

• Implications of agricultural consolidation for consumers are positive on balance

• Implications for farmers are more complex and small farms are harmed

• Policy challenge is to support small farms and rural America without destroying the efficiency benefits of consolidation and vertical coordination
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