“The times they are a-changin’” in the food industry

One of the themes that has been central to our analysis is consumer preference.

Consumer preference has always been central to functioning markets. But, 30 years ago for farmers selling No. 2 Yellow Corn at one of the town’s elevator or hogs at one of the local buying stations, consumer preference was the furthest thing from their mind.

In the grocery store, customers could indicate their preferences by switching from one brand to another and there were enough different brands that it didn’t make a lot of difference. The specific preferences of small number of consumers could make a big difference for a given food processor, but made little difference on the market as a whole when there were multiple manufacturers offering similar products. No single processor had to respond to any given preference; they just needed to meet the needs of their customers and everything balanced out.

In the intervening years, the number of food processors has declined significantly as repeated mergers and acquisitions have led to a small number of firms controlling a significant portion of the food manufactured in the US. With consolidation and each major brand handling a number of lines that were previously independent, many have complained about the power these firms have over the food market.

We have seen a similar trend in the restaurant industry. Where once mom and pop restaurants dominated the scene and if one wanted to find a good one while traveling, the best option was usually to see where all of the truckers pulled in. Today almost every freeway interchange looks the same, with the same half dozen fast food chains at most of them.

And, it is true that these food processors and fast food chains have significant power when it comes to advertising and lobbying state legislatures and Congress. But at the same time, we have begun to see that they are more vulnerable to a small swing in consumer demand.

Once consolidation of food lines or the number of franchisees gets to a certain point, the resulting firms cannot afford to alienate even a small segment of their customer base. A slowdown in the annual growth rate or a minor loss in market share gets the attention of those at the top. And when that is combined with pressure from a small group of consumers who want their eggs raised a certain way or foods that are non-GMO, changes take place.

We have seen those dynamics at work in the last several years. And when that happens it opens up opportunities for farmers who were feeling the lack of ability to influence the prices they receive for the grain and animals they raise.

It doesn’t really matter whether the farmer thinks it is a big deal or not. It doesn’t even matter if a thousand studies say that a product is safe. If consumer preferences change, those who pay attention to those signals early-on are the ones who can be ahead of the curve.

We sometimes hear from producers and farm groups who wish that we would not talk so much about these issues. They seem to feel if we remain quiet, the problem will go away. Our observation is that it won’t.

When it comes to this issue, we believe that it is part of our responsibility to identify changes in consumer expectations as early as possible so that farmers have adequate time to consider the implications for their operations.

As all economists know and we repeatedly say: consumers rule!

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