

**Proceedings of the First International Tropical Fruit Short Course: The Avocado.**

J.W. Sauls, R.L. Phillips and L.K. Jackson (eds.). Gainesville: Fruit Crops Dept., Florida Cooperative Extension Service. Institute of Food and Agricultural Sciences, University of Florida, 1976. Pages 119-122.

## **MARKETING ORDERS**

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According to Shebazian (3), a marketing order is an industry-oriented program, under government surveillance and control, designed to help the production and marketing situation of a given agricultural commodity. Ideally, the program is tailored to meet the particular needs of the industry in its group efforts—efforts which can be performed more effectively on a collective basis than on an individual basis. The Agricultural Marketing Service (1) points out that marketing orders "are designed to improve returns to growers through orderly marketing". It provides growers an opportunity to work out their marketing problems together, problems which they cannot solve individually.

Attempts by growers to solve their problems through voluntary collective efforts prior to the 1930's usually failed. Failures occurred because there was usually a small percentage of individuals who would not live up to the voluntary agreement. Also, depending upon the supply and demand situation for a particular commodity, a small lack of cooperation with respect to marketing techniques can be devastating to the price received and, thereby, to the returns to growers from their marketing efforts.

The Federal Government came to the rescue of fresh fruit and vegetable growers in the late 1930's at the request of growers through its acting into law the present Agricultural Marketing Agreement Act. Since that time, when a commodity group institutes a Federal Marketing Order for its particular product, and when it regulates its particular commodity under the authority granted through the marketing order, the rules and regulations implemented under the marketing order become binding on all individuals who market the commodity within the specified production area. The rules and regulations are binding since a marketing order is a legal entity and gets its legal authority under the Agricultural Marketing Agreement Act of 1937. As the Agricultural Marketing Service points out "This act specifies the commodities which may be covered, types of regulations which may be issued, guidelines for administering the program and privileges and limitations granted by Congress."

### **Benefits to Growers**

Usually, a marketing order authorizes a commodity group to regulate grade, size, pack and container, some type of flow to market and also authorizes the producer group to collectively fund research and development projects (both production and market research) and promotion and advertising. All marketing orders, of course, do not have each of these authorities. The authority granted under a particular marketing order usually depends on the needs and desires of the producer group involved. For example, some marketing orders (peanuts) only regulate grade and size.

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### *Grade and Size*

Grade and size regulations are of significant benefit to growers as they enable growers, through the authority granted under the marketing order, to keep substandard fruits and vegetables from the marketplace and to identify the various degrees of quality to allow for more efficient utilization of the fruit than could otherwise be made (3). The reputation of the fresh fruit and vegetable grower would probably be diminished considerably without grade and size regulations. The consumer may be led to believe that only very small quantities of fresh fruits and vegetables are suitable enough for consumption due to the poor quality that would become available in the absence of grade and size regulations. The consistent delivery of desirable grades and sizes of commodities, on the other hand, is more appealing to the consumer and probably motivates him to purchase more often than if there were no quality regulations. This tends to expand the consumption of product over time.

Moreover, even when there are grade and size regulations, there is always a consistent pressure by growers and shippers to harvest and market all available product regardless of quality. A market glut usually occurs when this is done, prices plummet and returns to growers are below the break-even point. Obviously, some growers are hurt more than others and some may be forced out of business. There is no doubt that resources will be diverted to endeavors other than agricultural production when this situation occurs.

Another major benefit of grade and size regulation is that it encourages fuller utilization of production, as the fruit of lower grades and sizes are diverted to processed products, where such factors as size and appearance are not critical factors. A good example of this situation prevails in the Florida lime and avocado industries.

The implementation of grade and size regulation also increases production per hectare, as such a restriction forces growers to delay harvest and, as a result, volume of product brought to market is increased.

### *Container Regulations*

The existence of container regulations obviously reduces the cost of containers. The number, sizes and design of containers would proliferate in the absence of such a regulation, and the cost of containers to the grower would escalate. There must be some standardization in the containers used if cost, efficiency and productivity is to be effected for fully integrated handling systems.

Another benefit of container regulation is to stabilize the expectations by the trade. One can image the chaos created if a retail chain warehouse purchased avocados from several different shippers and received them in several different types of containers.

### *Research Projects*

There would probably be no need for production research projects if consumers were willing to buy poor quality, defective, molded and decayed, smashed, immature and over-ripe fruits and vegetables. However, consumers are "choosy"—at least American consumers are—and they will not buy such produce. Most likely, it would remain untouched by the consumer if placed on the produce shelves.

Of even greater importance is the fact that the ability to collectively fund production research projects has enabled the producer to become more productive and to decrease his cost. For example, the Florida lime industry has recently spent \$22,000 to solve a problem—stylar end breakdown—which traditionally causes as much as 70% of its products to be unfit for the fresh market during certain periods of the production season. Shebazian (3) points out that research on pear decline helped prevent what might have been total devastation of that industry. Marketing order research on the Blue Moth Eradication Program in artichokes was designed to recover 25-37% of the annual artichoke crop that was being lost to this pest. An even bigger success story is the marketing order research carried on by the California strawberry industry to find new varieties, eliminate diseases and develop better cultural practices in strawberry production. This research has resulted in California being able to increase yields of fresh strawberries from less than 13.5 tons/ha in 1957 to approximately 45 tons/ha in 1973. This level of production is several times greater than the production per hectare for the U.S. as a whole.

Thus, there is no doubt that the ability and the authority under Marketing Orders to collectively fund research projects is a significant grower benefit. Even the largest growers in the largest agricultural industries would be hard pressed individually, to raise sufficient capital to perform the research needed to solve many of the problems that have confronted the industry in the past or that might confront it in the future.

As for the collective funding of marketing research projects, the benefits are again obvious. The cost of such projects accrue to the industry and the benefits of such projects accrue to the industry. By collectively funding such projects, the grower's knowledge as to how the consumer perceives his product is increased, thus allowing him to market his product more efficiently while raising the level of consumer satisfaction.

### *Advertising and Promotion*

Advertising and promotion are essential to the effective marketing of any product and, in essence, are used to keep the consumer and the trade apprised of the status of a product. Advertising is considered to be the communications link in the marketing chain which informs the consumer of the availability of goods and services (3). Advertising has been described as that force which moves consumers towards good, while promotion is considered to be that force which moves goods towards consumers.

The per unit cost of production is reduced to the extent that advertising and sales promotion activities successfully increase sales of a particular commodity. It is possible that the product price could also go down, depending on the supply and demand relationship.

### **Benefits to the Consumer**

The establishment of cause and effect relationships with a high degree of certainty is very difficult, particularly in the field of economics. However, some very logical arguments that marketing orders have been beneficial to the consumer can be made.

Walker and McGuire (4) have shown that marketing orders, through their grade and size

regulations, increase supply of product and decrease price. They also showed that grade and size regulations help keep defective and undesirable fruit off the market and out of the hands of consumers. Walker and McGuire (4) and Shebazian (3) have shown that grade and size regulations have helped prevent market gluts and enhance the stability of prices and returns received by growers. As a result, this has prevented capital from being diverted away from agriculture. Capital would be diverted away from agriculture in the absence of such regulations, agricultural production would take on a more monopolistic character and prices to the consumer would tend to increase in the long run.

Total food prices have risen on an absolute basis, but not nearly as fast as other prices. Retail food prices climbed 70% from 1953 to 1973, while average wages increased by 142%. Stated another way, food expenditures in 1973 were \$312 per year more than food expenditures in 1953, while disposable income increased by \$2,612 per year during the same period.

The index of total farm production clearly indicates that U.S. farmers are more productive than ever before. In 1953, 1 farm worker supplied 16 people with food, while in 1974, he supplied 55 people. Output per man hour on farms is 3.4 times higher now than 20 years ago, while manufacturing output per man hour is only 1.8 times higher.

The relative percentage of disposable income spent on food has steadily decreased over the years from 22% in 1953 to 15.7% in 1973. During the period 1947-1972, rising farm prices have accounted for only about 15% of the increase in the U.S.D.A. "Market Basket" of foods, while the other 85% was due to increases in the cost of processing, wholesaling and retailing of food (3).

How about advertising? Who pays its cost? According to Feebler (2), California avocado advertising in 1973 cost each consumer 4 cents per year. For the 4 cents, the consumer was given a chance to see 8-10 ads per year, to store up a lot of new recipes, nutritional advice and product information. He points out that it would cost 3 times that 4 cents just to mail her one postcard a year. Therefore, you could say that avocado advertising cost the consumer 4 cents per year.

A nationally promoted and nationally known item may become a demand item in the supermarkets and subsequently become store specials, locally advertised and frequently sold at low markup to attract customers. Avocados cost the consumer an average of 30 cents each in the summer of 1974 when avocados were not being advertised. They were placed on special at 21-22 cents apiece when advertising picked up, a savings of 8-9 cents. Therefore, the consumer who purchased 1 single avocado on special, got back the 4 cents paid for advertising.

## **Summary**

The production and marketing of fresh fruits and vegetables was, at best, a perilous endeavor prior to the implementation of marketing orders. The long-run welfare of the industry, as well as the consumer, was sacrificed at the expense of quick and short-run profits. There was no real concern for the consumer since there were no industry standards or enforcement authority. Small, immature fruit reached the market, reducing

quality and supply, ultimately causing higher prices to the consumer.

Through implementation of Federal Marketing Orders, there is greater concern for the consumer as industry standards for size, quality *etc.* are developed and maintained under the enforcement authority granted under marketing orders.

This paper has demonstrated that marketing orders are beneficial to both growers and consumers and that without them, the welfare of agriculture would suffer and the cost of food to the consumer would escalate at a dramatic rate.

Significant benefits to both the grower and the consumer are derived from the authority to collectively fund research projects under marketing orders. Without such collective authority, many research problems could not be solved, as the cost to individual producers would be prohibitive. This would result in lower productivity, lower quality products and significantly higher food prices to consumers.

There is no attempt here to show that marketing orders are the only means for achieving the same levels of social and economic benefits. It is contended, however, that between the 2 available alternatives—implementation of marketing orders or the absence of marketing orders—the former is superior (4).

#### **Literature Cited**

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