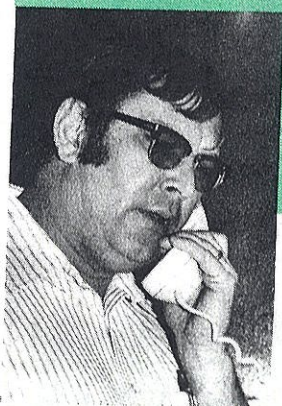


"Please Pass the Potato Chips!"



Jerry Brace



Bob

What would a party or picnic be without a bowl of potato chips?

It is just this kind of table philosophy that two young Pennsylvania farmers have depended on since they were in high school. Their business is growing and hauling potatoes, and they sell their Kennebec Katahdins to the potato chip industry.

Gerald and Robert Brace contract most of their 250-acre annual harvest to the nearby Dan-Dee Potato Chip plant. Located in Erie county, about 10

miles from Lake Erie, the Brace brothers utilize that area's gravel-loam soil to best advantage in producing top yields.

"We rented all our land until 1965," explained Jerry. "Then we bought our 300 acres."

Bob pointed out that he and his brother first became involved in cash crops through a high school agricultural project. Their father was in the dairy business but their uncle had a produce operation. The brothers each received an acre or two of cabbage for helping harvest that crop.

Today, they still plant about 70 acres of cabbage, though this is a minor part of their total operation. "Cabbage is a price gamble for us so we depend more on potato contracts," Bob said.

Because of the large capital investment in trucks required for hauling their perishable crops, the Brace brothers also custom haul during the summer. "We have four full-time drivers," noted Jerry. "There are lots of headaches with trucking, but we really need our own equipment to reach markets without spoilage."

Counting their inventory, the two brothers have seven field tractors and four trucking rigs in addition to much other equipment.

The cost of producing potatoes adds up, too. Bob estimates the cost at about \$900 per acre, including their investment, labor, and other operational costs. "With these large capital needs, our toughest obstacle over the years has been financing," according to Bob.

He said they first borrowed from Farm Credit Service in 1967. "We wanted to build a storage area for potatoes. The local bank told us to wait a year, but we didn't want to wait that year," Bob recalled.

The result of that first Production Credit Association loan was a greatly enlarged barn-warehouse for storing their perishable crop. "Since that first meeting with Farm Credit Manager Tom Crawford," Bob said, "we have maintained an excellent relationship with the PCA of Meadville. Before that, it seems we spent half our time at banks."

But growing and selling potatoes



Farming

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- In 1971, while farm prices were up 1.8 percent, food prices increased 3.0 percent.
- In 1973 farm prices rose 41 percent above 1972. Retail prices for food climbed 15 percent.
- During the first quarter of last year, farm prices dropped 3.0 percent while the prices consumers paid for food in the supermarket rose 4.0 percent.

Early this year, the price of a market basket of food increased at a 7.2-percent annual rate while the prices for many farm products were dropping.

Food Dollar Split Many Ways

"The problem is that while the prices we pay for farm commodities do go down, nearly all of our costs continue increasing," explains William Shewman, vice president in charge of marketing, Grocery Products Division of Pet Incorporated.

"For example, while the price we pay for milk may go down," Shewman says, "the price we pay for cans may go up at the same time. So, there is no gain left for the consumer or farmer.

"Also, the cost of borrowing money, as most farmers know, has increased greatly. This means that it costs us a lot more to carry our inventory."

Net earnings for Pet Incorporated during a recent nine-month period were 2.4 percent of sales. According to Shewman, this earnings level will not attract enough stockholder capital for expansion and growth.

Another Pet executive, Lila Spencer, notes that a recent government report shows the average net earnings for the food processing industry is 2.6 cents per dollar of sales.

"For all industries, the average net earnings are 6.0 cents per dollar of sales," she points out.

Del Monte Corporation Board Chairman Alfred Eames Jr. echoed the comment on profit margins for the middleman.

"People are apt to believe that the difference between what a retailer pays for a can of peas and what he sells it for represents profit, when, in fact, the greatest portion of that markup is consumed by operating expenses," he said.

Figures supplied by Del Monte show 1974 earnings as 3.75 percent of sales. Return on shareholders' equity was 15.75 percent.

Clearly, the farm-retail spread does consist of many costs, including transportation, sales commissions, waste, loss, insurance, labor, taxes, profits, processing, packaging and retailing. These middleman costs, like most things during present inflationary times, continue increasing. And, these costs pass to the consumer as higher food costs.

Here's the rub.

The middleman can pass increased costs to the consumer, but farmers can't

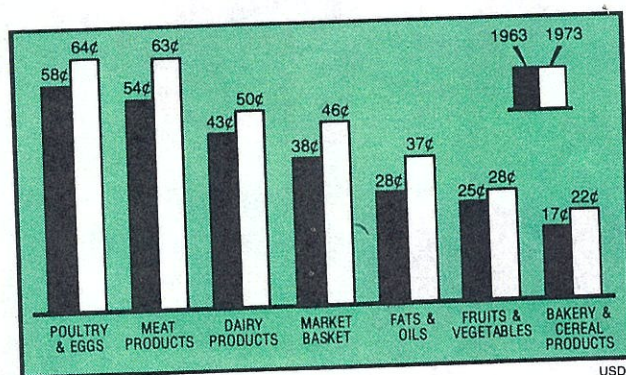
easily pass their increased costs to the middleman.

However, there are some marketing methods that can help farmers get a larger share of the food dollar. For example, farmer-owned marketing cooperatives, roadside fruit and vegetable stands, milk bottling and retail stores on farms transfer all or part of the middleman's marketing bill to the farmer.

Of course, these marketing alternatives won't work for every farmer, but exploring new opportunities for increasing marketing efficiencies should give each farmer a bigger share of the food dollar and increase his net returns.

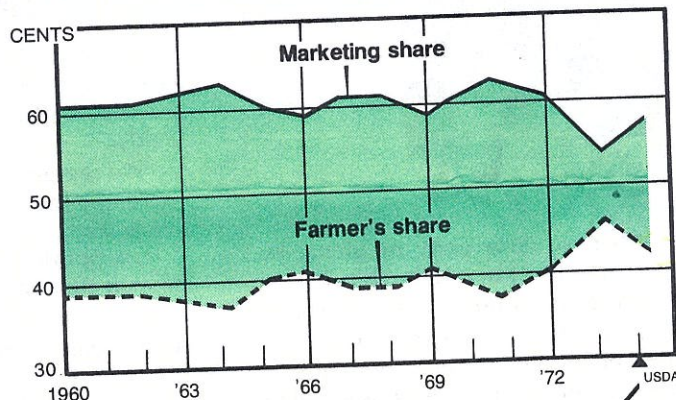
FARMER'S SHARE OF THE MARKET-BASKET DOLLAR

By Food Group



SHARES OF THE MARKET-BASKET DOLLAR

SHARE OF DOLLAR CONSUMERS SPENT IN RETAIL FOOD STORES FOR DOMESTIC FARM-ORIGINATED PRODUCTS. ▲PRELIMINARY.



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