

California Fresh Tomatoes

marketing channels and gross margins from farm to consumer studied in statewide project

Walter D. Fisher

The consumer's dollar spent for California summer and fall tomatoes is divided two ways: 32% going to production costs, and 68% to marketing charges.

A detailed study of marketing channels and gross margins was undertaken to determine the sources of supply of California-grown tomatoes sold in independent and local chain retail stores within the state; and to obtain the estimated prices paid, prices received, and gross margins taken by retailers and dealers. The study also compared the gross margins found for different areas, types of dealers, and types of services performed.

The report covers fresh tomatoes of good merchantable quality produced and sold in bulk within California.

Channels of Distribution

In northern and central California 39% of the volume went directly from producing areas to local retailers; the balance moved through city wholesale markets. In southern California 27% of the volume moved directly to retail outlets, and the rest through wholesale markets. The average for the state as a whole was 32% for direct sale by local retailers, and 68% through wholesalers.

Of this 68% more than half, or 35%, went through metropolitan Los Angeles, 20% through metropolitan San Francisco, and the remainder through all other city markets combined.

Summer and fall tomatoes are grown in almost every agricultural area of the state. The most important source of supply for northern and central California is the San Joaquin Valley. Southern California is supplied almost entirely from its own coastal area.

The most important producing areas, expressed as per cent of total California volume, are: southern California, 49; San Joaquin Valley, 21; Central Coast, 12; San Francisco Bay area, 10; Sacramento Valley, 5; North Coast, 3.

In northern California 10% of the volume moves through truck-jobbers who usually follow a regular truck route of delivery to retail stores. In southern California truck-jobbers handle 15% of the volume.

Grower-shippers—large producers operating permanent packing sheds and growing more than half of the produce

packed in their own shed—are more important in southern California than in the rest of the state. In southern California they supply 37% of the volume, in northern and central California only 8%.

In the state as a whole, growers handle 78%; grower-shippers 22%; packers 5%; wholesalers 67%; and truck-jobbers 13%. The sum of these percentages exceeds 100% because most of the tomatoes pass through the hands of more than one dealer.

Cost of Marketing

During the period of the study the average retail price to consumers was 11.2¢ per pound. Approximately 12% of the tomatoes received by retailers were lost through waste and spoilage. That means that out of a 32-pound lug bought by a retailer, four pounds—12% of 32—are lost through spoilage, the remaining 28 pounds being sold to consumers and returning \$3.14 to the retailer. Although consumers paid \$3.57 for 32 pounds at retail, the retailer received only \$3.14 for each lug handled by him.

Of this \$3.14—representing all consumers' dollars spent—farm production accounted for 32% while marketing charges took the remaining 68%. Of this, the retail margin alone accounted for 42%; the rest went for wholesaling, transportation, packing and container.

Gross Margin

The gross retail margin can be computed as the difference between the retail price per pound sold and the cost per pound to the retailer. This difference averaged 5.5¢ per pound. But part of this amount covered the costs of additional poundage lost through waste and spoilage. A second method of computing the retail margin takes this loss into consideration and subtracts the costs to the retailer from his return for each pound handled. This gross margin, adjusted for spoilage losses—called the retailer's realized margin—was on the average only 4.2¢ per pound.

The gross margin was higher in the large metropolitan centers of San Francisco, Los Angeles, and San Diego than in other portions of the state. Within these metropolitan centers stores offering

credit or delivery had significantly higher gross margins than cash-carry stores. Store size did not seem to make a significant difference within metropolitan centers.

Outside of the metropolitan areas store size and location did affect retail gross margins; but no significant differences in margins were noticeable as between stores offering credit and delivery service and cash-carry stores.

The gross margin for wholesalers averaged 25.4¢, and for truck-jobbers—who carry produce in smaller lots—33.1¢ per lug. The wholesalers' margins tend to be slightly higher in the smaller cities than in the large metropolitan centers of the state.

These margins include all charges, commissions, and fees except transportation costs. Transportation costs are such a small proportion of the total marketing cost that reduction in cross-hauling would not greatly reduce the total cost of marketing.

Walter D. Fisher, resigned, was Assistant Professor of Agricultural Economics, University of California College of Agriculture at the time of the research.

The study upon which the above article is based was undertaken jointly by the United States Department of Agriculture, Bureau of Agricultural Economics, the California Farm Bureau Federation, and the California Agricultural Experiment Station.

CALIFORNIA AGRICULTURE

Progress Reports of Agricultural Research, published monthly by the University of California College of Agriculture, Agricultural Experiment Station.

William F. Calkins *Manager*
Agricultural Publications
W. G. Wilde *Editor and Manager*
California Agriculture

Articles in CALIFORNIA AGRICULTURE may be republished or reprinted provided no endorsement of a commercial product is stated or implied. Please credit: University of California College of Agriculture.

CALIFORNIA AGRICULTURE will be sent free upon request addressed to: Agricultural Publications, University of California College of Agriculture, 22 Giannini Hall, Berkeley 4, California. Please allow about two weeks between your request and the arrival of your first copy.

In order that the information in CALIFORNIA AGRICULTURE may be simplified, it is sometimes necessary to use trade names of products or equipment. No endorsement of named products is intended nor is criticism implied of similar products which are not mentioned.

