

# Market Development and Improvement

*The real goal of marketing research is to help improve marketing. Description and analysis are only steps toward that goal. Research in this field should result in practical recommendations for improving the marketing of farm products.*

*Moreover, improvements do not always come about automatically when a research bulletin is released—however accurate, complete, and sound the bulletin may be. To get improvements in marketing, we must have a vigorous program of education, and must often do promotional work.*

*In Section 2, we consider the demand for farm products as something to be measured, but as something largely beyond the control of farmers or dealers. Here we shall consider efforts to change demand. Throughout the book we have considered market institutions and practices as something to understand, and possibly to adjust here and there. Here we shall consider programs to provide new and better markets.—EDITOR.*

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**8.1   Aims**

The general aim of market development is to increase demand, either by finding new markets or by enlarging old ones. More specific aims are suggested in the following three readings. The first of these is a brief comment on innovation. New products, new markets, and new methods of marketing can contribute to "economic evolution" as Professor Schumpeter called it.—*Ed.*

- 8.1.1   Schumpeter, Joseph A. *Business Cycles.* McGraw-Hill, New York, Vol. 1, 1939. P. 86. Reprinted by permission.

If we do this, we immediately realize that innovation is the outstanding fact in the economic history of capitalist society or in what is purely economic in that history, and also that it is largely responsible for most of what we would at first sight attribute to other factors. To illustrate this by an example: modern economic processes are to a great extent contingent upon agglomerations of population in cities and upon the facilities put at the disposal of the business community by public action. But these conditions of further innovations themselves are, not indeed always, but in most cases the results of industrial processes which come within our concept of innovation, and either directly produced or made possible by them.

The changes in the economic process brought about by innovation together with all their effects, and the response to them by the economic system, we shall designate by the term Economic Evolution. . . .

In the depression years preceding World War II, a main aim of market development was that of finding ways to make food surpluses available to low-income families.—*Ed.*

- 8.1.2 Wells, O. V. "Agricultural Surpluses and Nutritional Deficits: A statement of the Problem and Some Factors Affecting Its Solution," *Jour. Farm Econ.*, Vol. XXII, No. 1, Feb., 1940. Pp. 317, 319, 321, 322-23.

When the President called the attention of Congress to that third of our nation which is "ill-housed, ill-clad, ill-nourished," he succinctly summarized a problem with which researchers, administrators, and the people themselves are becoming increasingly concerned. Considering our natural resources, our mechanical facilities and the number of competent workmen available, why should any sizeable portion of our population lack adequate housing, or sufficient clothing, or the food necessary for an adequate diet?

Agricultural workers, of course, are chiefly interested in the nutritional aspect of this problem, since approximately 85 per cent of farmers' income is derived from the production of commodities used for food, and since agricultural surpluses, either actual or potential, have been one of the dominant factors in the agricultural situation since 1920. . . .

\* \* \*

Considering these minimum and maximum estimates and assuming that families and individuals now obtaining adequate diets continue their current consumption pattern, it seems safe to conclude that the consumption of 10 to 20 per cent more milk and butter, of at least 20 per cent more tomatoes and citrus fruits, and about double the current quantity of leafy, green, and yellow vegetables is needed in order to obtain substantial nutritional improvement.

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An educational program can contribute to the solution of the problem. But attention is called to the fact that education is usually a relatively slow method of obtaining improvement; that it will not solve the problem for families whose incomes are too low to afford an economically fair diet, even assuming wise selection; and that in the case of many families whose incomes are sufficient to support a reasonably good diet provided their foods are properly selected, such a selection would simply mean shifting the demand from one class of food to another, so that the net effect would be to change the form of our surpluses rather than to increase total demand.

Public agencies undertake promotional programs for a variety of reasons. The Agricultural Extension Service helps organize groups of farmers to do a more efficient job of marketing. The Production and Marketing Administration promotes a new market for perishables in some cities. Such programs may benefit farmers, dealers, and consumers, if they are based upon sound research. But the point here is that promotional work of some kind is often essential to put the program across.

The economist should not forget the importance of innovations as a means of overcoming stagnation and chronic unemployment. Innovations are essential to economic progress.

Quite recently there has been a renewed interest in market development as a means of moving surpluses into consumption with a minimum reliance upon government measures to support prices.—*Ed.*

- 8.1.3    Benson, Ezra Taft. "The Challenge—Research," address before the National Institute of Animal Agriculture, West Lafayette, Indiana, April 21, 1953.

We need to expand our markets for many farm commodities. How shall we do it?

In the General Statement on Farm Policy which we issued some two months ago, there is this statement: The most important method of promoting the long-time welfare of farm people and the Nation is the support of adequate programs of research and education in the production, processing, marketing, and utilization of farm products and in problems of rural living.

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Research can help in freeing American farmers from too much dependence upon Government. Through these methods we can help the individual to help himself. We can and must find new uses that will reduce the problem of continuing surpluses at great cost to the taxpayer.

As all of you know, I am making every effort to expand markets, foreign and domestic, for our farm products. This is part of our fundamental policy.

Now we use about 85 per cent of our total farm production for food, feed, and fiber. We have no exact figure on the percentage that goes to industrial uses, but it is very low, probably between 2 and 3 per cent of our total production. Even a small increase in industrial uses could exert a profound influence on demand for those commodities used by industry. We expect to strengthen research of the Department aimed at developing new uses for farm products and by-products. I feel sure that industry could profitably increase its investment in this field.

We also need to do more on nutrition education. If farmers and the dairy industry could team up to recapture the market for the 130 pounds of milk per person which has been lost in the last 13 years, they could turn milk surpluses into scarcities. If everyone followed the recommendation of nutritionists — that they use 5 quarts of milk a week — we would be consuming one-fifth more milk than we are now.

\* \* \*

I challenge you to create more basic research to produce a wider use in industry for surplus farm products. I challenge you to step up the tempo of marketing research to move these products. It is my conviction that our very freedom is involved in meeting this challenge.

Unless we in agriculture, and you in industry, closely allied to agriculture, can provide a framework of free enterprise in which the American farmer can do his job, then it is inevitable that the forces of a "planned economy" will step in to entice our people down the false road of statism. This must never happen.

## 8.2 Market Surveys

Sound promotion needs to be based on careful research regarding the market to be developed. Industrial concerns have generally found it necessary to conduct "market surveys" before mapping out advertising campaigns or before introducing a new product. Such surveys can be useful in developing a program for the marketing of farm products, foods, and clothing.

We first note a point of view which is fairly common among plant hybridizers, breeders of animals, and judges at county fairs.—*Ed.*

8.2.1 Cassebeer, F. W. "Better and Better Iris," *The Home Garden*, May, 1952. P. 9.

Flower hybridizers, especially those who breed Bearded Iris, are a race apart in the commercial world: unlike other "manufacturers" (which indeed they are!), they do not make market surveys to determine public taste, nor do they make a conscious effort to cater to it. On the contrary, they set for themselves standards of perfection, strive to attain them, and then pass the fruits of their efforts on to the public on a take-it-or-leave-it basis.

In the following excerpt, Brunk clearly states the opposite point of view and goes on to discuss practical methods of surveying markets.—*Ed.*

- 8.2.2 Brunk, Max E. "Discussion of Research on Consumer Behavior and Preferences," *Market Demand and Product Quality — A Report of the Marketing Research Workshop*, July 13 to 21, 1951, Mich. State Coll., U. S. Dept. Agr. Pp. 39-41.

. . . The knowledge that consumers react in a given way can greatly contribute to the effectiveness of our marketing mechanism and can mean dollars in the pockets of marketing agencies and growers as well as greater customer satisfaction. The necessity for identification of a customer is one of the first problems that confronts a researcher in observing purchasers in a store.

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In my opinion the controlled experimental method is not a complicated, slow and expensive technique but quite to the contrary it is a simple, fast and inexpensive research method. An additional advantage is that it is also one of the most direct methods. The fear of complexity and expense has kept many researchers from using this method. This past fall studies were made of the reactions of 80,000 customers to 17 different ways of displaying apples in a controlled experiment replicated four times in a latin square design. Four months were required to secure the data. Only a short period of time was necessary to analyze the data and by the middle of January the results of this study were available for store use at a cost of only \$6,500 which included overhead. This illustrates the point that controlled experiments can be fast, simple and economical. Of course the controlled experiment is not a substitute for the survey method. The type of technique to be employed should depend entirely on the objectives of the study.

The observation technique is excellent but it needs to be incorporated into some experimental design that will permit assigning definite values to store differences or time differences. The design must not create an artificial situation that will influence the decisions of the customer. Too often in "matched lot" tests this principle has been violated. In many of these tests the difficulty has been that the consumer is confronted with an abnormal situation. Consumers normally make their decisions in qualities of a product between stores not within a store.

In our study of apple merchandising consisting of a combination of displays of packaged and bulk apples priced at 4 pounds for \$0.29 people bought  $5\frac{1}{2}$  times as many apples in packages as in bulk. But this did not tell us one thing about how many apples would have been sold if they had been offered to customers

in either packaged or bulk form alone. Actually the sales showed that the customers bought 13 pounds per 100 customers when apples were displayed in bulk, 18 pounds when displayed in packages and 20 pounds when offered in combination bulk and package display. They were all priced in the same units, displayed in the same location and in displays of the same size. Inference from matched lots would have been that  $5\frac{1}{2}$  times more apples would be sold in package form. In actual practice less than 50 per cent greater volume of apples were sold in packaged form.

The measurement of "market potentials" is far from an exact science. The object is to estimate how much could be sold and at what prices — also, what sort of promotional campaigns would be required, and what it would cost to develop the potential market. Such research involves a great many different considerations, as is indicated below.  
—Ed.

8.2.3 Robert, Shelby A., Jr. "Measuring and Developing Market Potentials," *Pricing and Trade — A Report of the National Marketing Research Workshop*, July 11-19, 1952, Texas A. and M. College. U. S. Dept. Agr. Pp. 160-62.

There are many other problems involved in appraising consumer acceptance, production possibilities and market potential for new products. I would like to indicate somewhat of a check list that might be used on problems of this kind and indicate some of the approaches or techniques which have been used in studying some of these problems:

1. How does the consumer react to the new product in terms of taste, use and actual purchase?

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2. How should the product be packaged in terms of sizes, use, and will the package stand up under storage and transportation difficulties?

3. At what price can the product be sold and what margins are normally required in similar items and at various levels of trade?

\* \* \*

4. Are raw materials available in sufficient quantities and how may they be obtained?

\* \* \*

5. What are the problems in distribution? What channels are available for distributing a new product?

\* \* \*

6. What is the competitive picture in the field in terms of direct and indirect competitive products and the distributive, promotional and production policies of competing producers?

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7. What investments would be required for production facilities including inventories, distribution, and promotion?

8. What is the size of market? The estimated potential in terms of dollars or volume of product? What is the character of the market in terms of consumers who are the potential users? Will the market be steady or will it be seasonal? Can it be expected to increase and over what periods of time? The measurement, or more accurately, the estimation of the potential size of the market for a new or improved product is one of the keys to determination of commercial feasibility. Statistical measures of market expansion or size can sometimes be used when distribution is of a size to provide adequate data. In most instances, however, other measures must be developed for estimation of the size of the market from a very small base. For example, the meat concern introducing baby meats placed these on sale in three mid-Western markets and expanded these figures on the basis of birth rate. In the industrial field we have recently completed a study of the market potential for oilseed proteins in industrial uses. Our expansion to potential market in this study was made on the basis of interviews with the larger factors in the using industries and their ideas of trends in use of oilseed proteins and competing products. In most instances the expansion from a small market test to market potential is primarily based on subjective approaches.

Several studies of potential markets for new foods have been made.—*Ed.*

8.2.4 Bayton, James A., Dwoskin, Philip B., and Robert, Shelby A., Jr. "New Concentrated Apple Juice, It's Appeal to Consumer," U. S. Dept. Agr., Bur. of Agr. Econ., Nov., 1951. Pp. 1-2, 4-5.

In the fall of 1950 the Washington State Apple Commission furnished the Western Laboratory with enough apples of each of the major varieties produced in the State of Washington to manufacture sufficient quantities [of frozen concentrated juice, a new product] to carry out discrimination, preference, and market tests. These apples were processed at the Western Regional Research Laboratory and various varieties were blended to make several different juices for experimentation. All of the juices



contained at least one-half Delicious apple juice. Other varieties were blended in varying degrees.

Samples of 12 of these juices were sent to Washington State College. There discrimination tests were conducted that had been designed cooperatively by Washington State College's agricultural economic staff and the Bureau of Agricultural Economics to ascertain the ability of panels to discriminate between the juices. A report on this phase of the work is in process at Washington State College. From these discrimination tests, it was learned that the panels could not discriminate between the various varietal blends of approximately equal acidity. Furthermore, those in the test had difficulty in discriminating between the 100-per cent Delicious juices and the blended juices when they were of equal acidity. The findings indicated that people are more likely to detect differences in acidity in these juices than they are variety differences at the same level of acidity. As a result of these tests, 3 juices were selected for further preference tests in the San Francisco metropolitan area. They were: (1) a 100-per cent Delicious juice without acid added, natural acidity about 0.2 per cent, (2) a 100-per cent Delicious juice with citric acid added to adjust the acidity to about 0.4 per cent, and (3) a blend of 50 per cent Delicious, 20 per cent Jonathan, 20 per cent Winesap, and 10 per cent Rome Beauty, with a natural acidity of about 0.4 per cent.

Samples of these three juices, with instructions as to how to carry out preference tests, were delivered to a sample of approximately 300 households in the San Francisco metropolitan area, and preferences were determined for these three juices. The over-all preference as found in this study was for the blended juice; however, the younger age groups — those tasting who were under 21 years of age — preferred the sweeter straight Delicious juice without acid added.

As a result of these studies, market tests were made to assist in determining whether it would be commercially feasible to undertake commercial production of frozen concentrated apple juice manufactured by this method. This was the over-all purpose of the study on which this report is based. On the basis of the San Francisco preference tests, the blended juice described above was selected as the juice to use in the market tests.

The Southwest and Pacific Coast appeared to be the most advantageous market for apple products manufactured in the Northwest. Therefore, markets in these areas were selected for the

market tests. The criteria for the selection of markets included the following: Cities of around 30,000 population having a daily newspaper and radio station for advertising purposes. An additional criterion was the cooperation of wholesale frozen-food distributors who would assist in carrying out the studies. The market tests were made in Tyler, Tex. and Modesto, Calif.

The Washington State Apple Commission supervised the market tests and placed the juice on sale in Tyler on February 7, 1951; on February 14, 1951, the juice was placed on sale in Modesto. A program of newspaper and radio advertising was begun through the Commission's advertising agents. After the juices had been on sale for 9 weeks, homemakers in the two cities were interviewed to find their opinions as to the frozen juice. Interviewing began in each city on May 14, 1951.

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*How many homemakers bought frozen concentrated apple juice?* Among the homemakers who knew about this product 22 per cent in Tyler and 16 per cent in Modesto had bought it. These represent 7 per cent of all of the homemakers in Tyler and 4 per cent of all of the homemakers in Modesto.

*How many homemakers made repeat purchases of frozen concentrated apple juice?* In each town nearly 7 out of 10 of the homemakers who had bought this product made repeat purchases. Approximately 4 out of 10 of those who had bought it had made 4 or more separate purchases.

*In what ways did homemakers use frozen concentrated apple juice?* Most homemakers used it either as a breakfast juice or a between-meal snack. Very few used it as a dinner cocktail. Homemakers in Tyler were more likely to use this product as a between-meal snack than those in Modesto.

*What did the homemakers who had bought frozen concentrated apple juice think about it?* A very large majority of those who used it said they liked it unqualifiedly. The taste of this product was the chief reason given by homemakers for liking it. In most cases the fresh-fruit flavor was cited. Among the homemakers who had used both frozen concentrated apple juice and bottled apple juice, most preferred the former. Among those who had used both frozen concentrated apple juice and frozen concentrated orange juice for the same purpose, most preferred the latter.

*How did the homemakers who had bought frozen concentrated apple juice react to the price of it?* There was very little evidence of homemakers being dissatisfied with the price at which this product was being sold.

*Conclusions and Further Considerations.* The data gathered in this research warrant the conclusion that there is a fairly sizable market for frozen concentrated apple juice. But in order to be certain that this product would be acceptable to consumers commercially, on a continuing basis, several factors, in addition to those considered in this study, will have to be taken into consideration. Two of them are as follows:

1. The necessity for an intensive and properly directed promotional campaign. One important problem in such a campaign would be making more users of bottled apple juice aware of this new product.
2. Maintaining, or improving, the quality of the product, including standardization throughout the processing season.

Of course, market surveys are not limited to new products. The producer and processor need to know more about market preferences for the commodities which have been sold for years. There is still much to learn about the preferences, attitudes, and habits of consumers, and about the relation of such factors to the effective market demand for bread, potatoes, meat, and other common articles of diet and clothing.—*Ed.*

8.2.5 Bayton, James A., Meyers, Trienah, and Goldhammer, Margaret. "Consumers' Use of and Opinions About Citrus Products," *U. S. Dept. Agr., Bur. of Agr. Econ., Agr. Inf. Bull. No. 50*, Oct., 1951. Pp. 4-5.

*Attitudes toward citrus products.* Most homemakers regard citrus fruits as representing a special class within the larger category of fruit. The uniqueness of citrus fruits is attributed by the homemakers primarily to their health and food values. Among the various fresh citrus fruits, oranges were thought by them to be highest in food value; fresh citrus fruits, in general, were said to be of better quality than processed citrus items.

Health and taste characteristics were the primary factors involved in either using or not using citrus products. In addition, convenience and cost factors were influential in the use of the canned products.

Among homemakers who had used frozen concentrated orange juice this product usually had a preference rating much higher than the canned citrus juices.

<i>Purchasing Practices and Preferences— Alternatives</i>	<i>Direction of Preference</i>	<i>Preference With Greater Intensity</i>
Fresh oranges, fresh grapefruit— <i>loose vs. packaged</i>	Loose	Loose
Fresh oranges, fresh grapefruit— <i>priced by count vs. priced by pound</i>	Priced by count	Priced by count
Fresh oranges— <i>natural-color vs. color-added</i>	Natural color	Natural color
Fresh grapefruit, canned grapefruit juice— <i>pink vs. white</i>	Fresh grapefruit— pink	White
	Canned grapefruit juice—white	White
Canned citrus juice— <i>sweetened vs. unsweetened</i>	Except Pacific Re- gion—sweetened	Unsweetened
	Pacific Region— unsweetened	Unsweetened
Canned citrus juice— <i>small vs. large cans</i>	Large cans	Small cans
Lemon juice— <i>canned vs. bottled</i>	Bottled	Bottled

*Decision-making in purchasing citrus products.* Decisions as to whether to buy fresh citrus fruit or which one to buy were influenced by the quality of the fruit within the store. The criteria used in judging quality usually were aspects of the skin rather than size, weight, or variety.

Whereas many homemakers said they usually buy a particular brand of canned citrus juice, they seem to shift, rather readily, to other brands at those times when their preferred brand is not available.

The foregoing examples illustrate research by colleges and governmental agencies. Many large corporations find it necessary to carry out extensive research programs as a basis for intelligent, i.e. profitable, market development.  
—Ed.

82.6 Hyde, A. D. "How General Mills Develops," *Food Industries*, Vol. 19, Oct., 1947. Pp. 1374, 1375-76.

To be successful, a new food specialty must rest upon a substantial three-corned base consisting of, first, a sound idea; second, a market opportunity; and third, a superior product. Commercial manufacturers who introduce grocery items with any part of that base missing are inviting failure.

\* \* \*

At General Mills we have found that a *complete* research pro-

gram — including chemical, engineering and specialized market investigation — is the only reasonably sure means of creating new food products that make a worthwhile contribution to the American table and return reasonable profits to the company.

During recent years it has become increasingly clear that America's new frontiers lie in industrial and economic expansion. Today, full employment, an improved standard of living, an increase in national wealth must come through the fuller utilization of raw materials — through the building of new industries, the development of new products.

*Development Policy Stated.* Consequently, the success of a new product, food or non-food, has become important, not only to the individual producer, but to the nation as a whole. Recognizing this fact, General Mills has been steadily reinforcing its laboratory organization, making doubly sure that the base for its new grocery specialties is firm and complete. The company has adopted the policy that "new General Mills products must not only be the very best that science and technology can possibly devise; they must also have a well charted course from the plant to the consumer."

The basic steps used to maintain this policy have evolved from pioneer experience in food development and processing since 1852.

To be effective, all phases of product development must move simultaneously toward a definite goal; formulation, packaging, engineering and market research are complementary, working together like the parts of a machine. At General Mills the organizations which conduct these four phases of development are integral parts of the research department and, consequently, function in close cooperation, guiding each other in the development of the original idea.

That idea, itself, may come from an almost limitless number of sources — from the research staff, from manufacturing personnel, from the sales and advertising departments, from independent consultants, from wholesalers or retailers and many others. But the soundness of all ideas must be established through studies of general consumer tastes and habits, market possibilities and production methods.

Many articles have been written about man's tastes and habits and about means of measuring them. Some are excellent, providing highly useful technics for evaluating desires, buying habits, and so on. But technics are only tools and must be used as such.

The tools for measuring consumer taste and habits are valuable only in the hands of workers who understand the basic nature of the things they seek to measure.

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*Cheerios Took 10 Years for Development.* As a highly simplified example of how these factors may be used to develop and establish the soundness of an idea, take the story of Cheerios, General Mills' ready-to-eat oat cereal. In the early 1930's, market analysis confirmed our observation that rolled oats as a porridge was one of America's most popular breakfast dishes. It also indicated that the American housewife was becoming increasingly interested in ready-to-eat foods; she was socially more active than ever before. Often she did a full day's work outside the home, and she both wanted and needed to escape the long hours of "KP" which were accepted by her mother. Since no ready-to-eat oat cereal was then on the market, the Cheerios idea appeared sound. Time has shown that it was.

Actually, of course, Cheerios was not born that simply. Although the product was conceived shortly after the turn of the '30's, it was not ready for the market until 1941, nearly 10 years later. It came into being amidst the pain and effort of careful development and economic research, and the idea was examined in the light of detailed market analysis.

That all ideas must be so examined is the fact most often overlooked by the food manufacturer. He frequently will study the economic factors relating to production; he will determine the materials he needs; find out where he can buy them and how much they will cost. He will assure himself an adequate supply of labor and learn whether or not he can handle the new product with present plant facilities and equipment. Yet he may have only a hazy idea of how he will move his product from the plant to the dining room table — if, indeed, he has any idea at all.

*Lack of Market Opportunity May Mean Failure.* Since a market opportunity is the second corner of the triangular base vital to a new grocery product, failure to establish it beyond doubt can easily lead to economic disaster.

Accurately speaking, market research (or New Products Commercial Research, as we term it at General Mills) is a continuous process. It keeps its finger on the public pulse, ready to detect changes in taste and habit which suggest new product ideas. When it uncovers an idea, it measures that idea against the yard-

stick of economic feasibility. It helps guide chemical and engineering research during product development, and finally, it determines how that product may best be sold. Each phase merges with the next, and there is no clear line of demarkation between them. Since, however, we are momentarily concerned with "establishing the soundness of ideas," let's consider market research's role in determining economic feasibility.

*Will It Be Profitable?* In the mind of every food manufacturer (and in the mind of every other manufacturer, for that matter) one question is predominant: "Will my product make money?" Unfortunately, that question can never be answered with complete certainty; the factors involved are too numerous and complex. However, it can be answered with a minimum of doubt if we know how many people may want or need the product, who and where those people are, how much they can afford to pay and how much it will cost to produce and market.

Aside from the special technics developed by all active market research organizations and guarded as valuable "trade secrets," the basic procedures for answering these questions are standard. Through business literature, they are available to the food processor, large or small, and he need only adapt them to his own individualized operation. In addition, he has at his finger tips the myriad United States Government publications, listed in "Market Research Sources," the "List of Publications of the United States Department of Commerce," general government price lists and many other releases.

### 8.3 Promotion: Advertising and Merchandising Campaigns

A great deal of money and effort nowadays goes into advertising, merchandising, and other promotional efforts. This activity has become a major industry in its own right. Payments for advertising provide the main income of most popular magazines and newspapers, not to mention radio and television broadcasting. Some idea of the range of advertising costs for products of agricultural origin is given in the following excerpt.—*Ed.*

8.3.1 Waite, Warren C. and Cassady, Ralph, Jr. *The Consumer and the Economic Order*. 2nd ed. McGraw-Hill, 1949. Pp. 176, 177, 187, 194. Reprinted by permission.

Several points should be kept in mind in this connection, however. (1) If there is any waste in advertising, it should not be condoned on the ground that it is only a minor percentage of national income. (2) The social effect of advertising may be

TABLE 19  
ADVERTISING AND SELLING EXPENSE PER DOLLAR OF NET SALES FOR  
SELECTED INDUSTRIES, 1940

Industry	No. of Corporations	Advertising	Selling and Delivery	Total Advertising, Selling, and Delivery
		(cents)	(cents)	(cents)
Cereal preparation . . . . .	14	13.08	5.77	18.85
Cigarettes . . . . .	10	11.30	4.60	15.90
Soaps and cooking fats . . . . .	20	10.94	8.89	19.83
Fruit and vegetable canning . . . . .	49	4.49	6.87	11.36
Men's and boys' clothing sold through own stores . . . . .	5	4.20	20.90	25.10
Bread and bakery products . . . . .	82	2.63	24.24	26.87
Cane sugar refining . . . . .	17	.17	4.62	4.79

much greater than is indicated by the amount of the expenditure.

(3) As is shown by the figures in Table 19, advertising expenditures in certain fields in terms of a percentage of the consumer's dollar are quite significant. (4) Advertising may permit higher prices to be charged for products by giving the seller a quasi-monopolistic position in the market. These costs to the consumer may be many times the advertising outlay.

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To summarize, then: In analyzing the effect of advertising on prices, one needs to inquire into (1) the effect of the advertising — whether increased sales accrue to the entire industry or to one producer at the expense of others; (2) the type of industry — whether it is one of increasing, constant, or decreasing cost; and (3) the disposition of the product of increased efficiency — whether the consumer actually is given the benefits or whether, on the other hand, efficiency savings are retained in the form of profits by the firms effectively utilizing the sales-promotional device.

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It must always be borne in mind, however, that (if, indeed, we are to condone *any* sales effort in our economic system) advertising may aid in accomplishing a selling task at a lower cost than if personal sales effort were utilized exclusively. There are at



least two ways in which this may be brought about. (1) By utilizing the device for economically seeking out prospective buyers or sellers. . . . (2) By supplying information to, and reducing sales resistance of, prospective purchasers so that the costly time of the salesmen may be saved. . . .

Few individual farmers are large enough producers to undertake extensive advertising of their products. Nor could they get much individual benefit from advertising, except in small local markets, since their products cannot be differentiated in the consumer's mind from those of other individual producers growing the same commodities. Some of the larger cooperatives, however, have carried on successful advertising programs. Sunkist Growers, Inc. (formerly the California Fruit Growers Exchange) is perhaps the best known. There has been a growing tendency, also, for states officially to sponsor advertising programs for particular farm products important in their commercial agriculture. Such programs are usually financed through taxes or assessments against the marketings of producers in the state.

Some facts about this development in fruits and vegetables have been summarized by Tousley. We quote from his study, and add also an excerpt from a recent report of the Washington State Apple Commission.—*Ed.*

8.3.2 Tousley, Rayburn D. "Advertising Fresh Fruits and Vegetables," *Harvard Business Review*, Vol. XXII, No. 4, Summer, 1944. Pp. 457, 448.

For a number of years, there have been three main types of advertising programs: (1) those carried on by cooperatives, (2) those administered by the industry on a voluntary basis, and (3) those administered under compulsory state laws. The strong, well-established cooperative which controls a large percentage of the production of its region has been able to continue advertising on much the same basis as it did during the more prosperous nineteen twenties. In those cases, however, in which the cooperative has felt that it was "holding an umbrella over the industry" and in those cases in which a strong cooperative did not exist, voluntary industrial and compulsory state programs have developed. In general, it may be said that the voluntary programs have had considerable difficulty in maintaining permanent interest, and thus we have had the development of compulsory state advertising laws.

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At the present time there are four organizations which are generally considered to be the leaders in advertising and sales

promotion: the California Fruit Growers Exchange, the California Walnut Growers Association, the American Cranberry Exchange, and the Calavo Growers of California. All four are well-established, well-managed cooperatives with good promotional programs. Studies have been made of their sales methods and policies by competent and unbiased authorities; in each instance the conclusion has been favorable to the organization. None of the four was forced to curtail activities because of the nineteen thirties, and in no instance has the state taken over the advertising activities of the cooperatives in order to place them upon a wider industry basis.

*California Fruit Growers Exchange.* . . . An appropriation of not to exceed \$10,000 was made after the Southern Pacific Railway promised to match it dollar for dollar. Iowa was selected as the test market, and the exchange spent between \$6,000 and \$7,000 in that state during the 1907 season. At the end of the season, the sales records of the exchange indicated an increase of 50% in Iowa compared with an increase of 17.7% for the country as a whole.

**8.3.3 Washington State Apple Commission. *Report to Growers, 1951.* Wenatchee and Yakima, 1951. Pp. 11, 22, 23.**

In answer to insistent grower request and pressure during its 1937 session, the Legislature of the State of Washington passed legislation which created and, that same season, launched the Washington State Apple Advertising Commission. The Commission law, in simplest form, shifted to a mandatory and compulsory basis a cooperative advertising and merchandising program for 5,000 Washington apple growers, 80% of whom were already voluntarily supporting a similar plan operating under the title of Washington State Apples, Inc.

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Financing of the Commission program is handled through an assessment on all Washington apples moving into fresh market channels — apples going into processor outlets are exempt from the assessment. The original legislation placed the ceiling on such assessments at 6 cents per 100 pound gross billing weight (approximately 3 cents per packed box), but left to the discretion of the Commission the amount to be collected within limits of the 6-cent ceiling provision. Various assessment rates have been in effect during the 15-year history of the Commission, with increased postwar pressure from competing fresh, canned and frozen

fruits, produce and juices, plus rising advertising costs, having prompted the Commission to increase assessments to the legal limit during recent seasons.

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It would not be proper to close this chapter without stressing to the reader the fact that the mere purchase and placement of advertising is not in itself the answer to selling an apple crop. Purchase and placement of apple advertising is only the beginning — only part of a well-rounded, effective, result-getting promotional program that can do the job that needs doing for our product. Supplementing the ad programs, and of equal significance in merchandising apples, is the work of the Commission's field staff, the efforts of its research department, the interplay of various other related programs, and the home office planning and direction of Commission management. Each of these phases of Commission work is inter-dependent upon, and strengthens, each other phase. Over-emphasis on any particular phase of Commission activity could do more harm than good, and one of the important and most constant responsibilities confronting members of the Commission is the problem of properly balancing and relating these many phases of Apple Commission activity.

Of equal importance to direct media advertising (described in preceding chapters) but quite different in nature is the closely related field covered by the general term "merchandising." By "merchandising" we indicate a number of important Commission activities, all of which are specifically aimed at gaining the fullest possible measure of apple selling impact from the Commission's advertising.

Work of the Commission's field staff in promoting apple sales events, and its constant use of display materials, promotional aids, etc., to improve retail apple handling and to increase apple movement is merchandising in every sense of the word. *Merchandising and direct apple advertising are inescapably related — it is advertising which paves the way for the fieldman and his merchandising approach, and it is merchandising which makes apple advertising fully effective.*

For an illustration of merchandising and newspaper advertising working together let's consider Birmingham as an example. A general step up of apple movement is needed. On information from the market and after consultation with the advisory committees it is indicated that Birmingham as an individual market

can be sparked to greater volume by the addition of newspaper advertising. The first step is to so notify the agency, which in turn contracts for the advertising space. Copy for the ads is approved and furnished to the newspaper. A regular ad schedule is established which will last from three to ten weeks, depending on the circumstances.

The next step is for the Commission's merchandising man to call on the advertising and merchandising managers of the newspapers to get their help in notifying the trade, both retail and wholesale, that Washington State apple advertising is coming and to solicit tie-in advertising in the retailers' own ads.

The most important job of the Commission's representative, after the quick check with the newspaper, is to call on the distributive and retail trade of the area to show them copies of the Commission ads that will be run, to leave the advertising schedule with them and to ask, in return for our advertising, that they give special attention to Washington apples during the period. Quite often these contacts are made ahead of time and trade support is secured before the advertising schedule is even placed. The value of the Commission's consumer advertising is doubled when it is sold back to the trade in return for its whole-hearted support. Thus, merchandising helps the advertising and the advertising helps the merchandising.

While he is at the paper the fieldman also calls on the food page editor to urge her to feature apple recipes and pictures during the period of the apple advertising campaign. This is adding the personal follow up to the general mailings that already will have been sent to her with apple stories, pictures, etc.

It is easy to see how much more effective our apple ads are likely to be when all of this background work has been accomplished — an example of what *merchandising* really is, and of how it supports and amplifies the direct *advertising*.

Modern advertising and promotional activities have been a subject of considerable interest and controversy among economists. From the general social standpoint, some have praised advertising as the spark plug of economic growth and progress. Others have condemned it as a deplorable economic waste and a corrupter of public morals to boot. Clark and Weld see considerable value to advertising.—*Ed.*

*The Economics of Advertising.* The creation of demand, which is an important part of the marketing process, can be accomplished in two principal ways: first, through personal salesmanship, and second, through advertising. The salesmen of manufacturers, jobbers, and retailers are continually working to get their customers and prospective customers to want the product or products they have for sale. They have to spend much time in pointing out the advantages and superior qualities of their products before actual sales are consummated.

Personal salesmanship is effective in creating demand; but it has its limitations. One salesman can talk with a very limited number of people in a day. If he is a salesman that visits retailers, there is still the problem of creating demand in the minds of consumers. The retail salesman cannot be expected to pass along the sales talk with any degree of effectiveness, because his time is so limited, and because he usually has so many different items to sell.

This is where advertising enters in creating demand. While a personal salesman is visiting perhaps a hundred customers in a week, an advertisement in a leading national magazine enters as many as 2,000,000 or 3,000,000 homes. Its message may not be as forcible or as convincing as the personal story, and it may actually be read by only a part of those who buy the magazine; but by frequent repetition in different magazines and newspapers, on outdoor displays, and over the radio, there is gradually built up a knowledge and acceptance of the product advertised. Sometimes this acceptance takes the form of an active demand for the product; sometimes it sets up a subconscious demand, that is brought into active operation when the product is seen on display in a retail store or when a retail clerk calls attention to it. Through proper and sustained advertising there is built up such a demand as could never be developed by personal salesmanship; it would require too many salesmen, and the cost would be prohibitive.

By creating demand, advertising therefore tends to reduce the cost of selling. The salesman — on the road or in the retail store — has to spend less time in describing the goods, and has more time for taking orders. In many cases he becomes nothing more than an order-taker. In still other cases, the salesman is dispensed with altogether, as in self-service stores or in the use of slot machines. Advertising, by creating a lively and continuous demand,

also tends to reduce selling costs by increasing the rate of turnover in the retail store. In other words, a larger volume of sales is made with a smaller average stock of goods on hand — a situation that results in lower unit selling costs.

Not only does advertising tend to reduce selling costs, but it also tends to reduce manufacturing costs, by helping the tendency toward large scale production. The successful advertiser gets volume by creating demand that did not exist before, and by winning business away from competitors. As his business grows, he may enjoy the lower unit costs of mass production.

As a result of these tendencies to reduce selling and manufacturing costs, advertising often tends to reduce prices. This statement is contrary to the belief of some people, who think that advertising raises prices, and who say that they do not buy advertised goods, because they have to pay for the advertising. This is not sound reasoning, because although the cost of advertising has to be included in the price, other costs may be, and often are, substantially lower because of demand created by advertising. It would be just as logical for a person to refuse to buy factory-made shoes, because he has to pay for the use of the machinery. He would have to pay very much more if the shoes were made by hand.

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*Limitations to Advertising of Farm Products.* How do the foregoing fundamentals of advertising affect the advertisability of farm products? In the first place, advertising has undoubtedly increased the demand, and hence the market, for many farm products. It has undoubtedly reduced the cost of selling some products that go to market in their natural state, like oranges and walnuts; it has unquestionably reduced the cost of selling many manufactured goods that are made out of agricultural products, like flour, canned goods, tobacco products, and by increasing the demand for such products it has increased the demand for the farm grown materials of which they are made. Furthermore, to the extent that it has reduced the manufacturing costs of these articles, it has widened the market for the farmer's products, and hence has had a beneficial effect on farm prices.

Farm products, in their natural state, have not been advertised to the same extent as have manufactured products. There are several reasons for this. In the first place, many farm products are simply raw materials, which are converted by manufacturers. . . .

Another reason why farm products have not been advertised heavily is that most of them are difficult to brand. . . .

Another reason why farm products are difficult to advertise is that many of them are so perishable and so seasonal in character.

. . .

And finally, one very fundamental reason why farm products have not been advertised to a greater extent is the fact that farm production is scattered among millions of individual farmers, not one of whom produces on a large enough scale to advertise in a broad way. . . .

Although there are many examples of the successful advertising of farm products as such, it is in the field of manufactured food products that advertising has done the most to expand the market for the products of the farm. The fruit and vegetable canners, the meat packers, the flour millers and bakers, the soup canners, the tobacco manufacturers, are among the heaviest advertisers of the country. Farmers do not always realize how important this advertising has been in creating a large and steady demand for their own products which these manufacturers process for sale to consumers. And yet there is plenty of room for further development of advertising among farmers themselves, through their associations. Advertising has assisted materially in solving the "farm problem" for many growers, and it will be helpful to others in the future.

Some observers have criticized advertising and promotion as unproductive, and sometimes misleading. They have pointed out that some brand advertising, as well as promotional campaigns to sell a particular commodity, may simply divert demand from one product to another without raising total demand. The economist should discount exaggerated claims. The following reading is a delightful parody on such claims.

The last paragraph quoted below refers to "the multiplier principle advanced by Mr. Keynes." Exaggerated claims have been made for such a multiplier in the case of farm income, but it would be rather foolish to deny the possibility of any multiplier at all. Economists and statisticians might well study this problem thoroughly and try to make objective measurements of the multipliers associated with various parts of the economy.—*Ed.*

### CATS

8.3.5 Moulton, Harold G. Remarks on His Retirement as Head of the Brookings Institution, *Congressional Record*, July 4, 1952. P. A4507.

Consider the economic significance of keeping a cat. In the

first place, it is necessary to give the cat milk. This tends to raise the price of milk and to increase the income of the milk producer, who begins his day at 4 a.m. that the teeming children of our cities may have the vitamins essential to health and happiness. Moreover, higher incomes for the dairymen would enable them to raise more cows, thus increasing the market for hay, grain, etc. — thereby materially aiding the hard pressed farmers as a whole. Since the milk, hay, grain, etc. have to be transported, railway income will be favorably affected; and the railways can and should be compelled to provide more employment, thus increasing national purchasing power.

In the interest of a well-balanced diet, the cat will doubtless require some fish. This will not only furnish a desirable stimulus to the fishing industry, but since it will be found most economical to provide canned salmon or tuna fish, the tin can industry will also be favorably affected, giving a still further impetus to employment and purchasing power. Since the American Can Company is a market leader, the increase in its earnings will provide a needed tonic to the stock market, paving the way for the flotation of new securities for the rehabilitation and upbuilding of the Nation's industries generally.

If perchance the salmon or tuna fish should come from Japan, relations with that country are likely to be improved, paving the way for the reopening of the channels of international trade over ever widening areas. To be sure, the birth rate in Japan, already high, would tend to be further raised, which in turn might ultimately involve Japan in additional wars; but these considerations are remote and speculative — the immediate results would undoubtedly be favorable.

If the cat occasionally eats a bit of meat, this also would inure to the benefit of agriculture, not to mention the long suffering packing house industry.

The cat will catch rats and mice. The damage done by these rodents to crops and wildlife has been reliably computed by the statisticians of the CSB at \$216,587,216.29 per annum, the saving of which would go far toward balancing the Federal budget. There would also be a reduction of the diseases spread by these animals. Moreover, since mice eat bees and bees fertilize blossoms, the quantity of flowers and fruits would be increased. Furthermore, the destruction of field mice would increase the supply of clover, thereby enriching the quality of the soil.

If, at the first thought, you may incline to the view that



the ramifying economic importance of the program thus briefly outlined has been somewhat exaggerated in the foregoing statement, it may be observed that if there were only one cat per family the cat population of the United States would be 28,363,452 units. In the preindustrial age an average of four cats per household was by no means unusual. With the food surpluses now available and with our superior knowledge of feline habits and diseases, is it too much to expect that we might at least equal, if not exceed, our former standard of achievement? It may be noted in passing that the multiplier principle advanced by Mr. Keynes would here operate under propitious conditions.

#### **8.4 The Economist's Part in Development Programs**

The typical agricultural economist is not a promoter; he is a researcher or an educator. His creed is "give people the facts and they will know what to do." There is nothing wrong with facts, nor with analysis, nor with education, but economic ideas must be promoted if there is to be any action. Many sound ideas are buried in research reports and are dormant because they have never been successfully promoted.

Economic research and education do, of course, bring about a gradual improvement in public understanding of issues and of alternative ways of dealing with them. But before major changes are made, someone, or some group, usually must promote a specific program. Somebody promoted most cooperative associations, most railroads, most breakfast foods, most city markets, and most legislation.

Agricultural economists have paid too little attention to these promotional activities. Promotion of the wrong things can do great harm; promotion of the right things is necessary to progress in agricultural marketing — as in other fields. Economists have perhaps been too ready to confine themselves to armchair discourses on promotion and development work when the need is to study actual programs and to measure their economic effects.

Subsection 8.2 on market survey work indicated another field where the services of the economist are needed, and where an increasing amount of work is being undertaken by economists.

But above and beyond these, there are many fields of activity where economists should — and many do — work directly with those concerned in promotional endeavors in marketing. This is true of economists in private industry, of economists in the state colleges and extension services, and of economists in government agencies. Economists can and do help develop and promote sound ideas. And to

the extent that they are active and effective in this, they are more likely to be listened to when they oppose crack-pot proposals and the schemes of self-seekers.

As examples of such promotion we include, first, brief statements on two Extension Service marketing projects.  
—Ed.

- 8.4.1 U. S. Department of Agriculture Extension Service. *Extension Marketing Work Under the Research and Marketing Act 1951-52*. Prepared by the Division of Agricultural Economics, Feb., 1952. Pp. 8, 4. (Processed.)

A marketing program was developed in one area through the cooperation of the local county agricultural agent, an egg dealer, and the State Extension Poultry Marketing Specialist. The dealer agreed to buy all the eggs produced by farmers with flocks of 500 or more hens, if the hens were fed and managed, and the eggs cared for according to approved methods. The eggs were paid for on a graded basis. During May 1951 the total weekly egg check to producers in the county amounted to \$10,000. This was "new money" which did not go into that county the previous year. It has resulted in improving the farm income for a number of under-employed farm people and has demonstrated that quality eggs can be produced and marketed locally to partially meet the needs of a deficit egg area.

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Work with food retailers is designed to aid them in the adoption of efficient methods and techniques of handling and merchandising farm products based on research and successful business practices.

The work consists mainly of demonstrations in the care and handling, displaying, and merchandising of food products at retail. Most emphasis so far has dealt with perishable fruits and vegetables, but the program is now being broadened to include meats, dairy, and poultry products. One-day schools, or four two-hour meetings, supplemented by personal visits to the retailers' stores, constitute the backbone of the program. It also consists in working with retail food groups in assisting them in planning, developing, and presenting their own educational programs.

*Examples of Progress:* The benefits of this kind of educational work with the trade appear promising. For example, over three-fourths of the retailers attending the *Illinois* retail merchandising school indicate that, as a result of their attending the school, they have increased their sales and reduced their losses. In *New York*, apple sales were found to increase 40 per cent when sold in a

six-pound, transparent film bag and displayed with bulk apples. Pilot demonstrations of these findings are being carried on in a number of retail stores. The retailer education specialist in *Michigan*, besides holding regular schools and giving talks to trade groups, was recently invited to assist in developing a produce educational program being planned by a trade association representing more than 6,000 retail food stores.

Our remaining example of promotional work refers to the many activities needed in developing plans for new market facilities, gaining support for these plans, and helping to get the facilities built. Brief progress reports on several such projects suggest the scope of these activities. They include numerous meetings with trade groups, farm groups, labor representatives, and officials of the city and state governments. This work is a combination of research, education, and promotion; and all three are essential to a successful program to improve marketing facilities. The work also involves discouraging the building of new market facilities that careful investigation indicates would be unsound ventures.—*Ed.*

- 8.4.2 U. S. Department of Agriculture. *Activities of the Marketing and Facilities Research Branch During the Fiscal Year Ended June 30, 1951*. Production and Marketing Admin., Washington, D. C., 1951. Pp. 16, 17, 19, 20, 21. (Processed.)

*Work Done During the Year in Developing Markets Previously Recommended.*

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*Columbia, S. C.* In line with the plans developed by the Branch, as outlined in its report of January 1949, the South Carolina State Marketing Commission currently has under construction, on a 50-acre site near the Fair Grounds in the southern section of the Columbia metropolitan area, a modern wholesale produce market facility. Included in the original construction program are: Four store buildings containing a total of 61 units, 36 of which will have direct rail connections, for produce wholesalers; three sheds containing a total of 125 stalls for farmers and truckers; an office building; service station; container storage shed; paved streets and parking areas; and team tracks. Space will be available in the market area for a 100 per cent expansion of the amount of facilities now under construction. The estimated cost of the new market, including the costs of land and construction, will approximate 1 million dollars. It is expected that some of the new facilities will be completed and occupied in August

1951. However, some of the construction work now under way may not be completed until October 1951. Branch representatives have continued to work with the State Marketing Commission as problems have arisen in connection with the construction program.

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*Louisville, Ky.* The final report covering the findings of the study of the produce market in Louisville and containing plans for a new wholesale market, which was prepared in cooperation with the Department of Markets and Rural Finance of the University of Kentucky, was published as Kentucky Agricultural Experiment Station Circular No. 69 in October 1950. The market recommended consists of 42 wholesale stores with rail connections alongside the rear platforms and 150 stalls under sheds for farmers and truckers. Total market cost was estimated at \$1,070,000. Of this amount, the cost of land was estimated at \$120,000 and the cost of constructing facilities at \$950,000. The annual savings in marketing costs in the new facility were estimated at \$321,000. The plans and recommendations have been presented to farmer groups, wholesale dealers, railroad officials, and to members of the independent retail grocer association. The Louisville Chamber of Commerce, the organization which requested the study, has appointed a special market committee consisting of wholesalers, farmers, and interested businessmen to sponsor the project and to devise ways and means of financing it. In November 1950, the market committee met with the Mayor of Louisville and the City Board of Aldermen to present a summary of the conclusions and recommendations of the Louisville report and to discuss possible methods of financing a new wholesale produce market. The consensus of this group was that the project should be sponsored and financed by the city of Louisville, and it was requested that the market committee prepare and submit a specific proposal for financing the market. Branch personnel have acted as technical advisers to this committee.

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*Raleigh, N. C.* A study of the Raleigh produce market was completed in fiscal year 1950. Since the publication of the final report, Branch personnel have worked with the State Department of Agriculture and the agricultural committee of the Chamber of Commerce in an effort to find means of financing the acquisition of land and the construction of facilities.

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*Tyler-Jacksonville, Tex.* Since the publication of the final project report in June 1950, Branch representatives have worked with local groups in Tyler and in Jacksonville in further exploring types of ownership and methods of financing the proposed markets. At both localities it was decided by these groups that municipal ownership and operation would be most desirable, and the respective city administrations were petitioned to hold referenda to decide whether bonds should be issued to acquire land and construct the proposed facilities. Referenda were held in Tyler in January 1951 and in Jacksonville in March 1951. The market proposals were defeated in both instances. In Tyler, a second referendum is scheduled for August 1951.

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*New Studies Conducted During the Year to Develop Market Facilities.*

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*Beckley, W. Va.* In February 1951 a survey to determine the feasibility of the establishment of a centralized wholesale produce market at Beckley was undertaken at the request of the Beckley Chamber of Commerce. This study was made in cooperation with the Department of Agricultural Economics, West Virginia University. The field work has been completed, and the final report is being prepared for publication.

With the exception of a branch store of a wholesale fruit and vegetable firm in Charleston, W. Va., two dry grocery firms handling small quantities of fruits and vegetables, and one packer branch house, all firms supplying produce at wholesale to the area are located in larger marketing centers 15 or more miles away. Wholesale buyers in the area are primarily those buying for independently owned and company owned retail stores.

The several wholesale distributors in the city did not show favorable interest toward the development of a central produce market. The area as a whole consumes a much greater amount of all kinds of produce than it produces, and it is being well served by the more distant markets. Under the circumstances that exist there, the investment in central wholesale marketing facilities would be attended by a very high degree of risk. Therefore it was recommended that no attempt be made to organize and build such a market.

