

Bargained Work Rules Can Increase Food Costs

August 1973—Food prices have been a major concern of consumers for several months. A recent study conducted at The Pennsylvania State University revealed that a higher percentage of consumers blame labor unions and food manufacturers more frequently than any other groups for rapidly rising food prices. (See May 1973 Farm Economics)

It is often asserted that labor unions affect costs by putting restrictions on the amount of work which can be performed per hour or per day. "Feather-bedding" practices affect costs and prices. If productivity is restricted, the cost per unit of product will probably be higher than it would be if labor productivity were not limited. As wage rates and other labor costs rise, unit costs also rise unless labor productivity increases fast enough to offset those increases. If labor productivity does not increase fast enough, prices must also rise or, at best, remain at levels higher than could be maintained if such a situation did not exist.

Hourly labor rates in food marketing went up 74 percent between 1960 and 1971. Labor costs accounted for 46 percent of the food marketing bill in 1971. Marketing costs represented about 2-3 and labor costs incurred by marketing firms almost 1-3 of total retail food costs.

Food industry labor costs increased 44 percent on a per unit basis between 1960 and 1971. This suggests that labor costs have gone up faster than productivity. However, unit labor costs may have gone up simply because of more away-from-home dining. It may be that foods purchased in 1971 were more fully prepared and a greater quantity of additional conveniences might have been built into them than in the products sold in 1960. Such additions would require additional labor; and increases in per-unit labor costs during the period might be explained on this basis alone.

To determine whether or not collective bargaining affects labor productivity and ultimately unit costs and consumer prices in the food industry, one must study individual parts of the food-marketing complex in detail. Only by intensive study of a rather small portion of the industry can one determine whether or not there is a cause and effect relationship between collective bargaining and labor productivity. If it occurs in one part of the marketing complex it may also appear in other sectors, though that is by no means certain.

The fluid milk industry

The fluid milk industry pasteurizes, bottles, and distributes milk which ultimately is consumed in liquid form. Many changes in technology, transportation, life styles, and distribution methods have taken place since 1940, and each has had its impact on the fluid milk industry. Developments in equipment and methods of handling bottled milk have affected the sizes and locations of pasteurizing plants. The growth in importance of supermarkets as a means of distributing bottled milk has affected distribution systems. Each of these and many other developments which have occurred in the past thirty years have affected the levels of labor productivity that are physically attainable.

However, no other function performed by fluid milk marketing firms has been as drastically altered nor have the possibilities for increasing labor productivity been as great as they have in wholesale

distribution, which involves the trucking and delivery of bottled milk and other dairy products to stores, restaurants, schools, hospitals, military installations, and similar complexes.

By the late 1960's, 75 to 80 percent of all fluid milk in most metropolitan areas was distributed through wholesale outlets, predominantly through supermarkets. It is possible for a wholesale driver delivering to supermarkets to deliver from 10 to 20 times as much milk per day as a driver delivering to homes. Even when store markups are added to the dairy company's wholesale delivery costs, the total is lower in most cases than if the milk were delivered to homes. As these cost differences are reflected in prices, more and more consumers shift to store purchases. Fewer drivers are required. Union members lose jobs, unions lose dues-paying members, and those businesses distributing milk to homes face severe price competition.

Milk has been distributed to stores for decades, but the stores of an earlier era were a far cry from those of the 60's. By comparison they took small quantities and required more individual attention. Unions bargained work rules and pay plans for wholesale drivers serving those stores. Some of these practices and services became archaic when serving modern supermarkets. As opportunities for increasing labor productivity developed, one would have expected dairy firm managers to take advantage of them and achieve lower unit costs. One might also expect labor unions to resist so as to preserve jobs and keep dues-paying members. One method of resisting management's attempts to increase labor productivity would be through preservation of outdated work rules.

To increase output, as measured by units delivered per man-day, it is necessary to maximize that portion of a driver's day which he spends actually delivering the product. All auxiliary functions—such as at-store services, time at plant, or driving and stopping—tend to reduce the amount of time available for delivering product. While some of these functions may be necessary or desirable, they do cut into a driver's actual delivery time. In order to increase productivity, management can reduce at-plant time, reduce at-stop services provided, or reduce frequency of delivery to each stop. Reduction of delivery frequency tends to increase the volume per delivery occurrence, and with proper routing, reduces the average driving and stopping time per unit. As a result, units delivered per unit of time increase.

The amount of service provided at a wholesale stop and the quantity of product delivered per stop are two of the more important factors affecting unit wholesale distribution costs. Service provided at wholesale stops requires additional time and thus limits labor productivity. Order taking, collecting for delivered product, dairy case stocking, and price marking are forms of seller service provided to some wholesale buyers. Many retailers can perform some of these functions with their own labor, without incurring additional costs. Other buyers can be induced to perform these functions themselves if cost savings are shared with them. Other functions, such as ordering and billing, can be handled much more efficiently by the distributor's clerical staff. Drop deliveries (placing cases on the loading platform of a store) require minimum at-stop service, reduce time at each stop, and increase productivity. These

productivity-increasing practices have been, or are, prohibited by some labor agreements.

Labor productivity on wholesale routes can be further restricted by limiting the size of load (usually by means of restricting truck size or heights of stacks) or by requiring drivers to perform certain at-plant functions which could be performed by less skilled, lower-paid workers. Further restrictions can be applied by means of actually limiting hours on the street through the setting of "earliest permissible starting times" and

"latest permissible on-street times." The effect of such provisions is to restrict the amount of time available for on-route work and hence the quality of product delivered each day.

Because the greatest opportunities for increasing labor productivity have occurred in the distribution phases of the industry, one would expect a union interested in preserving jobs and dues-paying members to bargain productivity-restricting work rules in that phase of the business. Anything which would

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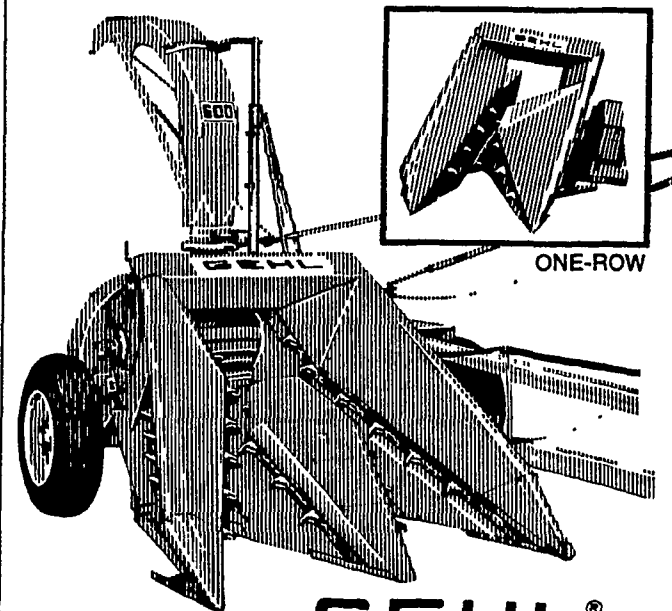
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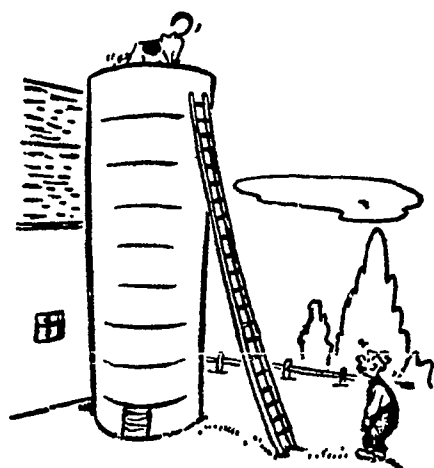
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