MINNESOTA
farm business
NOTES

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How Terminal Livestock Firms Compete

K. E. Egertson and D. F. Fienup

Minnesota farmers derived 34 percent of their income from the sale of livestock in 1956. Of the total livestock sold, a large share was marketed through the terminal market at South St. Paul.

The bulk of the total volume of livestock moving through South St. Paul was sold by 1 of the 27 commission firms located there. A small percentage was sold direct. In 1956, these firms handled 1,176,892 head of cattle, 3,005,967 head of hogs, 536,274 head of calves, and 469,889 head of sheep.

Distribution of receipts among commission firms is not equally divided. For example, 5 firms, or 18 percent, handle 53 percent of total cattle receipts. Five firms handle 55 percent of hog receipts.

Each commission firm would like to sell a larger share of the total volume because profits are largely determined by numbers handled. Therefore, the nature and means of competition among firms for the supply is important to each commission firm and to farmers as it affects their returns from livestock.

Competition in most industries can be classified into two categories: price and non-price competition.

An example of price competition is the retail grocery store that competes by selling groceries at lower prices than other grocers.

Commission firms, however, do not compete for supply through price cutting. Commissions, feed, yardage, and other charges assessed by the commission firm are fixed under regulations of the Federal Packers and Stockyards Act. This act specifies that their charges shall be the same for all firms, be made on a non-discriminatory basis, and shall not be used as a method of price competition in obtaining additional supply.

Table 1, Number of Commission Firms Contacting Various Percentages of Farmer Shippers by Solicitation

Type of Solicitation	Percent of farmers contacted						
	0	1-10	11-20	21-30	31-40	41-50	51-100
	Number of commission firms						
On-the-farm	0	17	5	3	2	0	0
Market	0	14	5	4	1	2	1
Letters	1	20	4	1	0	1	0
Telephone	1	23	2	0	1	0	0
Newsletter	10	3	2	1	0	2	9
Farm meeting	14	10	1	0	1	0	1
Truckers	13	3	0	4	2	3	2

Since price competition is precluded, competitive devises used for gaining and holding patronage center around nonprice factors.

Commission firms try to differentiate their product, which is service. They attempt to put forth more and better services to their patrons. Each firm also attempts to convince the farmer that it can obtain a higher price for livestock than other firms.

Solicitation

One of the most important means of gaining and maintaining patronage is through personal contact with the farmers. This is known as solicitation.

Solicitation is a form of advertizing which involves contacting the farmer in some way before he sells his livestock. Many forms of solicitation exist. These are: personal contact by commission firm personnel on the farm, personal contact at the market, personal letters, newsletters, farm meetings, and through truckers.

From the standpoint of the commission firm, the purpose of solicitation is to "drum up business". As we shall see later, however, the farmer also benefits by it.

In 1956, all 27 commission firms used some form of solicitation. The extent to which South St. Paul commission firms use various forms of solicitation is shown in table 1. It is quite evident from this table that solicitation is an important means of contacting farmers and maintaining patronage.

When asked how important solicitation was in maintaining volume, 20 of the commission firm representatives stated that it was very important and 5 said it was necessary. Approximately 75 percent of these felt that they must keep in touch with their customers to meet competition from other firms and markets and to maintain volume. Two of the firms were not in favor of solicitation as a means of maintaining business because they considered solicitation too costly.

On-the-Farm Solicitation

On-the-farm solicitation was carried out by all 27 commission firms in 1956. The amount of on-the-farm solicitation is significant in view of the fact that it is regulated by the St. Paul Livestock Exchange.

The 23 commission firms who are members of the Exchange are allowed a maximum of two full-time solicitors in the country, but may, in addition to these, have as many licensed salesmen soliciting as they see fit. Com-

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More Meat Type Hogs Are Needed

D. F. Fienup and K. E. Egertson

The hog enterprise is undergoing a "slimming down process." This is because of an increasing consumer demand for leaner pork. Packers, marketing experts, and housewives are encouraging farmers to produce a more desirable meat type hog.

However, without a price incentive, either in the form of increased price for lean pork or decreased prices on fat pork, the farmer is reluctant to change his old production practices to meet new demands. This must come about through an improved marketing system which will accurately reflect back to the producer the tastes and preferences of the consumer. It is generally agreed that the straight run system of buying fails to do this.

Packers and terminal market representatives have increasingly recognized the inequities to farmers of buying on a straight run weight basis. Some have already taken steps toward improvement. Two improved methods now exist and are being used to varying degrees. These are:

1. Live weight and grade method.
2. Carcass grade and yield.

Before looking into how these operate and the advantages of each, it would be well to review briefly the straight run method of sale.

Straight Run Method

Under this system the price paid for slaughter hogs is a direct function of the average live weight of all the hogs in a shipment. Little or no consideration is given to the grade of the hogs within a given weight range.

This system his been used by packers for many years. It orginated when the difference in grade, based on fat, was not important. The consumer was willing to eat and use more fat, and the export market could take care of the surplus.

When hogs are sold in this manner, the fat hog and the meat type in a given weight range bring about the same price. Meat type hogs are, however, worth more to the packer and consumer and should receive a higher price.

Live Weight and Grade

Although some packers and terminal market commission firms have used a live weight and grade method for several years, it was only recently that the American Meat Institute recommended that all packers adopt this form of merit buying.

Live weight and grade marketing can be described as a system in which value differences for individual hogs are recognized. Putting actual live weight grades on the hogs is the fundamental principle of the system. To a degree, weight is also considered when determining a price.

A shipment of hogs sold under this system would be sorted into various grades: No. 1 premium hogs; No. 2 average hogs, but still desirable; No. 3 overfinished and generally undesirable; and medium or underfinished.

The price paid for a load of hogs would depend on the number of hogs in each grade, not on the average weight alone.

The main advantages of selling by this system are: (1) it gives the farmer more of an incentive to produce the meat type hog, (2) the farmer has a better indication of what the market wants, and (3) it rewards the good producer and penalizes the poor one.

Carcass Grade and Yield

Although carcass grade and yield is not extensively used as yet, it warrants considerable attention. Under this method three factors are used to determine the market price of the hog. They are: (1) carcass grade, (2) yield, and (3) weight.

The carcass grade is determined by checking the back fat, size of ham, and covering of the carcass. Carcasses with a high proportion of lean cuts, as indicated by a reasonably thin backfat, are graded as No. 1 premium. Those of desirable, regular type go as No. 2's. Carcasses that are overfinished are graded as 3's or 4's.

Yield is calculated by dividing the carcass weights by the live weights of the animals. The yield is then compared with the standard yield, (yield of the average hogs within a given weight range) to determine whether or not the carcasses are above or below average.

How is live price calculated under this method? First of all a base carcass price is determined by dividing the price paid for hogs bought on straight run method by the current standard yield. The standard yield used will depend on the weight class in which the live animal falls. This price is then paid for No. 2 carcasses yielding standard for the given weight class. Carcasses grading No. 1 receive a premium above this base; those grading either 3 or 4 receive a lower price.

An additional premium or deduction is made for hogs yielding carcasses above or below the standard yield. The price per hundred pounds live weight is then calculated by multiplying the base carcass price plus the premiums paid for yield and grade by the original standard yield.

In addition to the advantages listed for buying hogs on a grade basis, selling on carcass grade and yield is the method which most accurately reflects the true value of the carcass.

Conclusion

At present only 25 percent of the hogs produced in the United States are meat type. This indicates that changes must be made in both production and marketing. Only if there are continuing changes can pork products hope to regain consumer acceptance and hog producers receive higher returns.

The recent move of the American Meat Institute to advocate that all packers buy on a grade basis is a step in the right direction. However, premiums must be high enough to encourage the farmers to change production practices. Likewise, discounts must be equally high to discourage production of the fat type hog. The mere existance of premiums and discounts is not enough, they must be high enough to provide real economic incentive to change.

Furthermore, all packers must cooperate by offering the farmer the alternative of selling on a grade basis. The program cannot be successful if only a small proportion participate.

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Terminal Livestock Firms

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mission firms not belonging to the St. Paul Livestock Exchange may hire as many full-time solicitors as they wish.

Seventeen, or 63 percent, of the firms contacted up to 10 percent of their patrons through personal solicitation; and the remainder of the firms contacted 11-40 percent of their farmer patrons by this means.

Table 2. Commission Firm Soliciting Days per Week South St. Paul, August 6-11, 1956

Soliciting days per solicitor*	Number of firms	Percentage of firms
0	3	11
.1- .9	8	30
1.0-1.9	9	33
2.0-2.9	7	26
Total	27	100

* Includes full-time solicitors and licensed salesman

The extent of on-the-farm solicitation is shown in table 2. These calculations were based on the pattern of solicitations during the first week of August, 1956. Twenty-two of the firms indicated this was a normal pattern of solicitation for their firms throughout the year. The remaining five indicated it was less than usual. Therefore, the extent of solicitation may be slightly underestimated.

Seven commission firms indicated that they had each of their eligible solicitors (full-time solicitors and salesmen) out in the country 2 to 3 days during this week in August. Three of the firms did not send any of their men out during this week. The remaining 17 firms averaged 1 to 2 soliciting days per eligible solicitor per firm.

Saturday was the most important day for soliciting business. Seventy-five percent of the firms had solicitors out on that day, with an average of 2.6 eligible solicitors per firm. In contrast, 44 percent of the firms had eligible solicitors in the country on Monday of that week; the average was only 1.2 eligible solicitors per firm.

The explanation for this is that firms take advantage of light receipts on Saturday by sending out their salesmen, in addition to the full-time solicitors, to solicit business for the coming week.

The degree to which personal solicitation varies by specie of livestock was brought out in another 1956 survey, conducted by the Department of Agricultural Economics, University of Minnesota.

Eight hundred randomly selected farmers in 20 Minnesota counties were interviewed with regard to their livestock marketing practices. Of the farmers who sold cattle, 15 percent indicated that commission personnel had visited them. On the other hand, only 5 percent of the farmers who sold hogs stated that commission personnel had contacted them prior to the sale of their hogs.

Important, also, was the fact that 26 percent of the farmers who had not been contacted would like to be visited by terminal market personnel, when they have livestock to sell.

Market Solicitation

Personal contact with the farmer, when he brings livestock for sale, is another important means used to hold and gain patronage.

Commission firms are not allowed to try to influence the farmer at the time he is unloading his stock at the yards. This form of market soliciting is illegal. Instead, the commission firm representatives contact the farmer after consignment has been made to them. He is encouraged to view the selling transaction and to discuss his livestock marketing problems. The purpose is to meet the farmer and establish favorable, lasting commission firm-farmer relationships.

Personal Letters and Phone Calls

These two forms of solicitation were used to some degree by all of the commission firms in 1956. Fourteen of the firms contacted from 1-10 percent of their patrons in this manner, 12 contacted from 11-50 percent of their patrons, and 1 contacted as many as 60 percent of its consignees by personal letter or telephone calls.

Commission firms often use this means to inform farmers who have previously been contacted through on-the-farm solicitation or prior patronage. Information is provided about market breaks or rises and when the time to sell appears best.

Newsletters

Newsletters were sent to farmers by 17, or 63 percent, of the commission firms in 1956. This method of patron contact was used extensively by eight of the firms. They contacted as many as 75 percent of their patrons through this method. On the other hand, 10 of the firms did not use it because they did not feel that it was important.

Many of the newsletters used by firms are published by other agricultural services and purchased by commission firms.

Farm Meetings

An increasingly popular method of soliciting farm business is through farm meetings.

The purpose of farm meetings are two-fold: 1) to acquaint the farmer with the advantages of selling livestock through a terminal market and, 2) to acquaint the farmer with the advantages of the individual firm. The extent to which the latter is used is sometimes limited because all firms often go together in handling these meetings.

Although this form of personal solicitation is not extensively used at present, one firm did contact up to 70 percent of its patrons in farm meetings.

Truckers

An indirect method of soliciting business is carried on through truckers. Since truckers are located in the producing area, it is quite advantageous for a commission firm to use them as solicitors for their firm. This is legal if no direct payments are made to the truckers for his service.

This form of contact was used in varying degrees by 14 of the commission firms, while 13 did not use it at all.

The Farmer Benefits

The main function of a commission firm is to perform all the selling services necessary from the time the product arrives on the market until it is in the hands of the packer. That is, the firm accepts the livestock, grades and sorts it, displays it in his individual block of pens, and finally bargains with the packer or other buyers to sell it for the highest possible price.

However, through the use of solicitation the commission firms are providing the farmer a real service before livestock ever reach the terminal market. The farmer who uses these services receives an on-the-farm appraisal of his livestock regarding grade and degree of finish. He also learns current marketing information pertaining to prices and supply with evaluation of market trends.

Even though the farmer does not consign to the terminal market after being solicited, he has gained more knowledge of the value of his livestock and can make a better informed marketing decision.

Minnesota Farm Prices Aug. and Sept. 1957

Prepared by R. A. Andrews

Average Farm Prices for Minnesota August 1957, September 1955, 1956, 1957*

	Aug. 1957	Sept. 1957	Sept. 1956	Sept. 1955
Wheat	$2.00	$2.01	$2.03	$2.14
Corn	1.10	1.01	1.33	1.16
Oats	.52	.53	.63	.51
Barley	.81	.83	.89	.89
Rye	1.02	.99	1.16	.78
Flax	2.92	3.10	2.95	2.80
Potatoes	1.38	1.05	.81	.65
Hay	14.30	14.70	16.00	14.20
Soybeans†	2.16	2.07	2.02	1.95
Hogs	19.60	19.10	15.40	15.70
Cattle	18.60	16.90	15.60	15.50
Calves	20.90	18.70	17.80	16.50
Sheep-lambs	19.56	19.84	17.38	16.52
Chickens	.110	.114	.114	.163
Eggs	.320	.320	.330	.410
Butterfat	.640	.640	.630	.610
Milk	3.25	3.35	3.35	3.25
Wool†	.51	.51	.38	.38

*Average prices reported by the USDA.
†Not included in Minnesota farm price indexes.

The Minnesota farm price index was 201.9 in September which is 4.9 points or 2.5 percent higher than it was one year ago. Prices paid by farmers were 3 percent higher in September in 1957 than a year ago. The result of this was that the purchasing power of Minnesota farm products was 0.6 percentage points below last year.

Comparison of August and September Prices

Commodity class	Average September prices as a percentage of average August prices
Crops	101
Livestock	94
Livestock products	101
All commodities	99

Indexes for Minnesota Agriculture*

	Average Sept. 1935-39	Sept. 1957	Sept. 1956	Sept. 1955
U. S. farm price index	100	228.5	220.1	219.2
Minnesota farm price index	100	201.9	197.0	192.2
Minnesota crop price index	100	193.2	201.7	190.8
Minnesota livestock price index	100	222.0	192.5	191.8
Minnesota livestock products price index	100	188.2	187.3	194.2
Purchasing power of farm products				
United States	100	96.4	95.7	98.4
Minnesota	100	85.1	85.7	86.3
U. S. hog-corn ratio	12.6	16.6	10.8	12.7
Minnesota hog-corn ratio	14.9	18.9	11.6	13.5
Minnesota beef-corn ratio	11.9	16.7	11.7	13.4
Minnesota egg-grain ratio	17.3	13.3	12.2	15.9
Minnesota butterfat-farm-grain ratio	32.4	37.4	30.9	34.3

*Minnesota index weights are the average of sales of the five corresponding months of 1935-1939. U. S. index weights are the average sales for 60 months of 1935-1939.

The Outlook Corner— Hogs

The number of pigs saved in 1957 will be a little higher than in 1956, and also a little higher than the average for the decade (table 1). This increase has come in the fall pig crop.

Table 1. Pigs Saved, United States

Period	Spring	Fall	Total
		millions	
1957	53.2	36.5	89.7
1956	57.7	38.0	95.7
1955	55.0	34.2	89.2
1950-54	53.2	38.0*	91.2

*Estimated.

Few of these extra pigs will come to market in 1957. So, the supply of pork in 1957 will be only slightly above 1956 — 68 pounds of pork per capita compared with 67.5 pounds in 1956. This is only slightly higher than the average for the past 50 years.

This fall's pigs will come to market this coming winter and spring. With 4 percent more pigs on the market, prices will average lower than last winter and spring.

How many pigs will be raised next spring? Prices this fall will stimulate an increase. The corn-hog ratio in July was 15.7. As an average for the breeding season (September-December) the corn-hog ratio may average between 14 and 15.

In the past 30 years, farmers have stepped up farrowings whenever the corn-hog ratio has been above 12.7. The changes have been erratic, but roughly, with a ratio of 15 they have increased sows farrowed by 5 to 8 percent over the previous year. What they do this fall will also depend upon their feed supply, the quality of their corn, the possibilities for government loans, and how they size up the future.

With more hogs in 1958, prices will be down but the amount is uncertain. If the number of pigs saved are up 4 percent this fall and 7 percent next spring, the number slaughtered in 1958 will be up about 6 percent. This would mean a sharp drop in prices, especially in the fall of 1958.

Pork also is strongly affected by beef production and prices. Supplies of beef in 1958 are likely to be slightly less than in 1957, but the difference is too small to affect prices a great deal.

Production of beef has stepped up relative to pork. Per capita supplies of pork now are about average for the last 50 years. Beef supplies, however, have increased.

Beef consumption per capita in the past has been:

1957 (est.)	83 lbs
1953-56	81 lbs
1946-52	63 lbs
1920-45	56 lbs
1909-19	65 lbs

A high level of beef production is likely to continue for some years. This will affect the long run price for hogs.

In addition, marketing studies indicate a shift in consumers' preference from pork to beef. That is, with a given supply of each, pork prices now are lower relative to beef prices than they were in the past.

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