How Terminal Livestock Firms Compete

K. E. Egerton 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.

Since price competition is precluded, competitive devices 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 advertising 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!
More Meat Type Hogs Are Needed

D. F. Fienup and K. E. Egerton

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 has been used by packers for many years. It originated 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 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 existence 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.
Terminal Livestock Firms

(Continued from page 1)

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 con-
tacted 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

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<th>Soliciting days per solicitor*</th>
<th>Number of firms</th>
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<tr>
<td>0</td>
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<tr>
<td>1.0-1.9</td>
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* Includes full-time solicitors and licensed salesmen

The extent of on-the-farm solicitation is shown in table 2. These calculations were based on the pattern of solicita-
tions during the first week of August, 1956. Twenty-two of the firms indicated this was a normal pattern of solici-
tation 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 sales-
men) out in the country 2 to 3 days during this week in August. Three of the firms did not send any of their men
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 per-
cent of the firms had solicitors out on
that day, with an average of 2.6 eligible solicitors per firm. In contrast, 44 per-
cent of the farms had eligible solicitors
in the country on Monday of that week;
the average was only 1.2 eligible solici-
tors per firm.

The explanation for this is that firms
take advantage of light receipts on
Saturday by sending out their sales-
men, in addition to the full-time solici-
tors, to solicit business for the com-
ing week.

The degree to which personal solicita-
tion varies by species of livestock was
brought out in another 1956 survey,
conducted by the Department of Agri-
cultural Economics, University of Min-
nnesota.

Eight hundred randomly selected
farmers in 20 Minnesota counties were
interviewed with regard to their live-
stock marketing practices. Of the farm-
ers who sold cattle, 15 percent indicated
that commission personnel had visited
them. On the other hand, only 5 per-
cent 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 representa-
tives contact the farmer after consign-
ment has been made to them. He is
couraged to view the selling trans-
action and to discuss his livestock
marketing problems. The purpose is to
meet the farmer and establish favor-
able, lasting commission firm-farmer
relationships.

Personal Letters and Phone Calls

These two forms of solicitation were
used to some degree by all of the com-
mission firms in 1956. Fourteen of the
firms contacted from 1-10 percent of
their patrons in this manner; 12 con-
tacted from 11-50 percent of their
patrons, and 1 contacted as many as
60 percent of its consignees by per-
sonal 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 agricul-
tural services and purchased by com-
mission 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 live-
stock 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 solici-
tation 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 busi-
ness is carried on through truckers.
Since truckers are located in the pro-
ducing 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 commis-
sion 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 ser-
VICES necessary from the time the pro-
duct 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 individ-
ual 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 solici-
tation the commission firms are pro-
viding the farmer a real service before
livestock ever reach the terminal
market. The farmer who uses these
services receives an on-the-farm ap-
praisal of his livestock regarding grade
and degree of finish. He also learns
current marketing information per-
taining to prices and supply with eval-
uation of market trends.
Even though the farmer does not con-
sign to the terminal market after being
solicited, he has gained more knowl-
edge of the value of his livestock and
can make a better informed market-
ing decision.
Minnesota Farm Prices
Aug. and Sept. 1957

Prepared by R. A. Andrews

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

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<tr>
<td>Wool†</td>
<td>.51</td>
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<td>.38</td>
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*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 than in 1957, August and September. 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

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<th>Commodity class</th>
<th>Average September price as a percentage of average August prices</th>
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<td>Livestock products</td>
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<td>All commodities</td>
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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. 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
- 1920-43 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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Indexes for Minnesota Agriculture

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*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.