SHED CLASSING VERSUS STORE CLASSING

F. H. GRUEN

Australian National University, Canberra

AND

J. O. WHITE

Grazier, Canberra

Wool may be classed (i.e., grouped into reasonably uniform lots prior to sale) either immediately after shearing in the shearing shed or it may be packed into bales and sent to a wool store for classing. The second type of operation (especially when applied to relatively small quantities of wool) is known as bulk classing. With bulk classing the individual grower's wool loses its identity and is offered for sale in mixed lots. There are a number of other methods of preparation of wool for sale. Of these the only one which will be considered here specifically is " interlotting " which consists of shed classed bales from a number of growers being matched and sold as one lot. Interlotting is purely an operation to increase the size of lots (i.e., the number of bales per lot sold) so as to attract more competition from buyers or to reduce the valuing, inspection and bidding work of buyers and others.

With the 50 per cent increase in the Australian wool clip in the last decade, pressure has built up to increase lot size, so as to keep the demand for valuing services and auction facilities from rising too rapidly. Woolgrowers have been reluctant to allow this increase in average lot size for various reasons :

(a) They feel that if their wool loses its identity, they will not have the same incentive to build up the quality of their offering;
(b) Bulk classing costs about 3d. per lb.—or between five and ten per cent of the price currently received for their wool. Admittedly growers may gain something from selling their wool in larger lots and save on some shed classing costs, but these may be more than counter-balanced by bulk classing costs and possible losses from selling in mixed lots rather than under a single grower's brand.

The report on the " Economics of bulk classing of wool " by the Bureau of Agricultural Economics examines the economic aspects of bulk classing and, in particular, sets out to discover the conditions under which it will pay an individual grower to have his wool bulk classed.[1] The report is divided into five parts. Part I gives a definition of the various terms used and discusses the criteria for classing. Part II examines the characteristics of individual wool selling centres, including historical and seasonal trends in the proportion of the clip bulk classed. Part III describes store classing and provides information about the size of store classed lots and the effect of opening bales in the store on the wool's moisture content and weight. According to the report, woolbuyers

1. Bureau of Agricultural Economics, " Economics of bulk classing of wool ", Canberra, August, 1960.

generally consider that wool loses weight in Melbourne and gains weight if bulkclassed in Sydney or Brisbane. In the latter two centres buyers therefore lower their estimates of yield to allow for this extra moisture. It is believed that this allowance is around 2-3 per cent. As the woolgrower is paid according to the weight of the wool delivered into the bulkclassing store (as opposed to the weight of wool when it is eventually sold), it is possible that the real charges for bulk classing in Sydney and Brisbane are considerably greater than the actual charge for bulk classing of around 3d. per lb.

Part IV on the economic aspects of bulk classing—is the most important section of the report. Four aspects are discussed in some detail and will be listed individually.

(a) Economic Limits of Classing

The report suggests that, as wages in most countries which buy wool from Australia are considerably lower than they are here, " a cursory separation before sale followed by detailed sorting in the mill (i.e., in the consuming country) may represent the most profitable method of classing wool ".[2] This argument is not entirely convincing as mill sorting may be more time consuming than shed classing of the same general standard. It is more difficult to identify the individual fleece after baling and dumping and after mill sorting the mill is faced with the problem of " off-sorts ". Another objection is that some countries where wages are relatively low such as Communist China do not possess skilled labour for sorting and hence have very stringent classing requirements for lots purchased on their behalf. Lastly, as is in fact suggested in the Report " if mill sorting costs are high, it is quite possible that the mill may withdraw from the wool market and use synthetics instead . . . As wool is competing with other fibres the cost of classing may be a promotion cost best paid for by the individual grower."

In this connection it is of interest to note that some buyers at the Goulburn Wool Inquiry have maintained that standards of classing have slipped appreciably in recent years.[3] This is confirmed by isolated comments from U.S. sources reported in their marketing research literature.[4] Other evidence which tends to confirm this view is provided by the declining margin between U.S. prices for Australian 64's and fine combing U.S. Territory wool. The price differential in favour of Australian wools averaged 14 per cent during the thirties, compared with an average of 10 per cent between 1948[5] and 1952, and less than 6 per cent between 1954 and 1956.[6] Differences in U.S. prices between comparable

2. Words in brackets added by the reviewers.

3. See L. H. Bell's evidence to the Goulburn Commission, pp. 1913-14 and p. 2008 of the Transcript of the Inquiry.

4. Hodde, Walter L., " Manufacturers' and Topmakers' views on some wool marketing problems ", *United States Department of Agriculture General Report No.* 34, June, 1957, pp. 7 and 11.

5. Carr, D. W. and Howell, L. D., " Economics of Preparing Wool for Market and Manufacture ", *United States Department of Agriculture Technical Bulletin* 1078, November, 1953, pp. 45-46.

6. U.S. Senate Committee on Agriculture and Forestry, 85th Congress, 1st Session, " Futures Trading on the Wool and Wool Top Exchange ". Washington, D.C. U.S. Government Printing Office, 1957, table 22, p. 22.

Australian and U.S. wools are often erratic, probably because of short term supply factors. However, the steady decline in the percentage margin does suggest either that Australian classing has got worse or that U.S. classing has improved.

(b) Comparison of prices paid for Big and Star Lots

All lots of four bales or less are sold separately at auction as " star lots ". Because each lot requires much the same time for inspection and valuation, not to mention bidding and office routine, buyers' costs rise if they value and purchase a larger proportion of star lots. As a result some buyers concentrate entirely on the purchase of big lots and competition for star lots is somewhat less. Whether it pays to shed class or bulk class will depend in part therefore on the price differential which can be expected if wool is shed classed into star lots instead of being bulk classed or interlotted into big lots.[7]

As far as we have been able to ascertain the report provides the first systematic comparison of the price difference between big lots and star lots. The comparison relates to fifteen wool types sold between September, 1959, and January, 1960, in Melbourne, Sydney and Brisbane. The number of lots per comparison ranged from a minimum of 200 to over 1300. Of the 15 wool types compared, the average price for big lots exceeded that of star lots for 14 types and in 8 of the 14 cases the price difference was statistically significant at the 5% level. A crude average of the price difference for the 15 comparisons is 2.1 pence in favour of big lots. As pointed out in the report, this suggests that price differences between big and star lots are generally not sufficient to justify increasing lot size of well-classed star lots at bulk classing rates.

Two other features of interest emerge from the comparison. These are firstly the greater variability of prices in the star lot room—possibly as a result of less active competition. Secondly price differentials for the different sized lots seem to be greater in Melbourne than in either Sydney or Brisbane (admittedly for different types).[8] While the Report mentions this difference, no attempt is made to provide an explanation for it.

(c) Price Differentials according to Classing Methods

A lot containing wool from different growers presents buyers with a more difficult assessment problem than a lot which contains only one grower's wool. A buyer valuing wool prior to the bidding makes two assessments—the first concerns the type of wool for offer and the second the clean yield which will be realised on scouring or carbonising the greasy wool which the buyer is going to bid for. In the case of a lot containing wool from different growers the type may not be quite as uniform as in the case of wool from a single grower ; however, a factor of more importance is that even if the type is uniform, the yield—which will

7. Bulk classing of wool does not necessarily guarantee that it will be sold in big lots. In Melbourne 20% of the wool bulk classed in 1958/59 was finally sold in star lots ; however, in Sydney, Brisbane and Newcastle the corresponding figure was below 10 per cent.

8. The average price difference in Brisbane and Sydney was 1.6 and 1.5 pence respectively, compared with 3.5 pence for Melbourne.

depend on the particular conditions of the individual farm where the wool is grown—is likely to be more variable and hence more difficult to assess. It has been suggested that, in allowing for this difficulty, buyers will probably make a conservative estimate of yield and thus bid relatively less for mixed wool.[9] An attempt is made in the Report to test this view ; unfortunately the available data only allowed such a comparison for four types sold in Melbourne. In the case of these four types higher average prices were recorded for wool packed by single growers. The relevant comparisons, with the price difference between big and star lots, is given below in tabular form.

A Comparison of Price Differences by Lot Size and Classing Methods

TYPES	Average Price advantage in favour of :			
	Big Lots compared with Star Lots	Grower's Brand compared with :		Interlotted compared with Bulk Classed Wool
		Bulk Classed Wool	Interlotted Wool	
Column I	II	III	IV	V
62	2.28*	1.57 N.S.	1.39*	0.18 N.S.
78B	7.65*	3.26*	2.98*	0.28 N.S.
148C	3.83*	N.A.	3.90*	N.A.
423	.50 N.S.	2.29*	0.33 N.S.	1.96*

*Significantly different at 5% level.

N.S. = Not statistically significant.

N.A. = Not available.

Ignoring savings in shed costs as a result of bulk classing, some conclusions regarding the profitability of bulk classing or interlotting solely to increase lot size are possible. Bulk classing (or interlotting) will only increase a grower's net return if the price difference between big and star lots (i.e., column I) exceeds the price difference between growers' brand and bulk classed (or interlotted) wools—as shown in columns III and IV respectively—by more than the cost of bulk classing or interlotting.[10] Of the three comparisons for bulk classing, it is only in the case of Type 78B that bulk classing would have been profitable. As the price difference between big and star lots for this type was the largest of any of the 15 type comparisons mentioned earlier, it would appear that bulk classing generally would not be profitable if the sole aim is to increase lot size.

9. Theoretically this implies that the price differential between the grower's brand and bulk classed wool represents a risk premium to compensate buyers for the greater possibility of errors in estimating the yield of bulk classed wool (and possibly some allowance for the extra cost to mills of disposing of " off-sorts ").

10. The cost of interlotting is less than ¼d. per lb. in Melbourne and around ½d. in Sydney. However, interlotting is relatively rare in Sydney.

In the case of interlotting four comparisons are possible ; in two cases (i.e., Types 62 and 78B) interlotting would have been profitable, for type 423 interlotting at Melbourne rates would not have affected net returns markedly either way ; for type 148C there would have been a small loss of about ¼d. per lb. at Melbourne rates.

As shown in the table there seems to be a price differential in favour of interlotted wool as compared with bulk classed wool. In two of the three cases the difference is very minor, but in the third case it amounts to almost 2d. per lb.

(d) Shed Classing Costs Versus Bulk Classing Costs

This section of the report seems open to criticism. To assess whether it pays to class in the shed or in the store it is necessary to estimate the costs of classing in the shearing shed. The extra costs resulting from classing in the shed can be listed under three headings : (i) higher wages which need to be paid to a classer (compared with a skirter or wool roller who would otherwise suffice). According to the report this item would amount to about £9 per week. (ii) Classer's fares and travelling expenses to and from the property. These are arbitrarily assessed at £16. As the report is considering mainly smaller flocks—and especially those running between 500 and 1000 sheep, this amount would seem excessive. In most cases a classer will be obtained from a nearby country town (or perhaps even from a neighbouring farm). (iii) Classing facilities consisting of " extra floor space in the shed, bins and incidentals ". These are assessed at £200, or £20 per annum. This allowance again seems somewhat unrealistic—as a general assumption. A shearing shed is a long term investment and it seems most unlikely that anyone constructing a shed would consider making it so small that it could not be used for classing.

As a result of these assumptions the report suggests that the transfer of classing from the shed to the store would enable the small woolgrower (i.e., a man shearing about 500 sheep and producing about 15 bales of wool) to save about 2½d. to 3¼d. per lb. on shed costs. His saving in the shed would be counter-balanced approximately by the cost of store bulk classing ; however, if his bulk classed wool was sold in big lots he would gain something—say about 2d. per lb. on the average—which would probably more than compensate him for the lower price which mixed lots command. (But no allowance has been made for the " moisture effect " in Sydney and Brisbane which was mentioned earlier. In those two centres this would probably take away any net gain from bulk classing and possibly convert it into a net loss.)

However, if the extra cost of shed classing is around ½-1d. per lb. for small growers (i.e., if we make more conservative allowances under headings (ii) and (iii) above), bulk classing becomes an uneconomic proposition, even for a grower with considerably less than 500 sheep. Furthermore, many of these smaller woolgrowers would be able to use or would actually use neighbouring sheds—especially if they are concerned about the cost of shearing and classing on such a small scale. If arrangements are made with neighbouring or nearby sheds, the cost of shearing and classing would be approximately 6d. per lb., or about 4d. per lb. for all the activities other than shearing (i.e., skirting, classing, pressing, etc.). Under these conditions no savings of any kind could be offset against the costs of bulk classing.

It appears to us therefore that, under present conditions, grower's fears that they lose as a result of bulk classing would seem to be well justified. In fact the main justifications for bulk classing would seem to be firstly that small quantities of uniform wool (i.e., of one bale or less) can at present not be sold conveniently in any other manner. Secondly under the wool selling regulations in Northern centres 1,000 bales of wool cannot be sold in more than 240 lots. If a grower's average lot size is 4 bales or less he therefore has little choice but to allow some of his wool to be either bulk classed or interlotted by his broker. In addition some growers may find it convenient to use bulk classing, but there would seem to be little financial inducement for such a course.

Some General Comments

Although the report has made a significant contribution to our knowledge of wool marketing, its main conclusion " that current costs favour store classing for all clips under 15 bales " seems very doubtful. Another criticism is that no attempt has been made to provide any quantitative assessment of the effect of moisture changes on the price received by the grower. It would seem possible and desirable to obtain more direct evidence of the price differentials resulting from store classing (including changes in lot size) by means of direct experiment. As the pressure for an increase in average lot size may be expected to continue with the growth of the Australian clip, more accurate information of the effect of store classing is likely to be required. If arrangements could be made with, say 50 large growers to have one bale from each of their larger lots bulk classed, interlotted or sold separately as star lots (on the same day as the main lots are auctioned) a more exact comparison of likely price differences could be obtained. Such an experiment would seem worthwhile, partly for its own sake and also as a check on the accuracy of the type comparisons made in the report. It would seem possible (and is in fact mentioned in the Report) that some of the price differences recorded are the result of quality differences (especially in the case of the star lot versus big lot comparison).

Lastly some comment should be made about the general organisation of the report. The absence of a summary, the rather prosaic introductory portions of the report and the somewhat unrealistic discussion of shed classing costs are likely to detract from the worthwhile contributions on price differentials and discourage the interested farmer who would otherwise benefit from it.