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**PROCEEDINGS**

**Agricultural Economics Seminar**

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## TECHNOLOGICAL CHANGES IN LIVESTOCK MARKETING

Richard Vilstrup\*

Livestock marketing practices vary widely in the major areas of mean animal production in the United States. Producer groups have historically sought competitive market outlets that would recognize the value of outstanding livestock. Packers also have expressed a need for more efficient and economic procurement methods.

Recent developments in livestock marketing indicate that modern communications and technology can be advantageously incorporated into the marketing system. New technological pricing innovations utilizing telephone and teletype communications have been introduced by producer groups and market agencies. Noted among these market developments are the Ontario teletype hog market and the network of Tel-O-Auction or Tel-O-Markets in southern Wisconsin.

Because of limited time this discussion will briefly touch on the fundamentals and organization of only these two marketing programs. The plans are basically aimed at providing a competitive pricing mechanism. The programs are designed to merchandize livestock to the packing plant (or plants) that has the best possible price or wholesale outlet on a particular market day. The new methods are primarily concerned with improved pricing efficiency, yet retain a strong emphasis on operational efficiency in moving livestock and meat from the producer to the consumer. The competitive pricing mechanism is utilized to obtain the widest possible buying and pricing support for the animals to be sold. Both systems recognize the need for reducing the procurement operational costs of the packer, facilitating specification buying and yet selling producer hogs to their best advantage.

### TEL-O-AUCTION:

A network of swine Tel-O-Auctions is located at Belmont, Dodgeville and Fennimore, Wisconsin. The sales are sponsored by the Southwestern Pork Producers Association jointly with the Wisconsin Feeder Pig Marketing Cooperative and by the newly organized Midwest Livestock Producers. Incorporated into the system are pooling, grading and communications techniques from Michigan and Virginia. During the first 2 years over 150,000 hogs have been sold by Wisconsin producers to 18 packing plants in 9 states. During the past year Tel-O-Auctions have been established for feeder pigs in Minnesota, North Dakota and Missouri and for slaughter hogs in Missouri.

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\* Presented by Richard Vilstrup, Livestock Marketing Specialist, University of Wisconsin, Madison, Wisconsin. May 7, 1968.

The Tel-O-Auction is a hog merchandizing method which combines grading, ownership co-mingling, the sorting into large lots hogs of uniform weight and grade, and telephone auction pricing. The method is dependent on the use of the simultaneous telephone conference call linking at least thirteen distant phone buyers in addition to possible ringside buyers.

Procedure Used:

1. Market hogs are delivered by the producer to convenient concentration points in southwestern Wisconsin.
2. Upon arrival hogs are identified, graded, weighed and sorted by weight.
3. Hogs are co-mingled with other hogs of equal grade and value. Lots are made up in sizes and weight ranges to attract maximum buyer interest.
4. A simultaneous telephone conference call is then placed to all packer-buyers who have indicated an interest in bidding on hogs. Buyers are also eligible to bid from ringside.
5. A pre-established time is set for starting the bidding. Each buyer is assigned a number and bids are taken by number only. The auctioneer describes each lot by weight, grade and number of hogs.
6. When the final bid is accepted, the number of the buyer is announced, consummating the sale.
7. The hogs are then loaded and shipped to the packing plant buying the hogs.
8. There is no charge made to buyers. The only procurement cost of the packer-buyer is the trucking charge from the auction to the plant.
9. The farmer pays a commission of sixty cents per hog. This charge pays for the auctioneer, facilities, telephone advertising and other operating expenses.

The sponsors of the new market currently plan to expand the sales program. A similar telephone system called Tel-O-Market is presently operating in Wisconsin.

Advantages listed for the system by the market agency:

1. Packer buyers can reduce country procurement costs in purchasing concentrations of graded hogs from their central office.
2. Packers can buy hogs by specification and according to the kind and grade of hogs needed.

3. Farmers producing superior hogs have the opportunity to sell on a graded and quality basis.
4. Producers can take advantage of the sales appeal of large, sorted and co-mingled lots.
4. Producers have the advantage of a wider range of packer outlets in selling hogs throughout the Midwest and Eastern states.

#### ONTARIO CANADA TELETYPE MARKETING SYSTEM

The Ontario teletype swine marketing system was established nearly seven years ago. The central office of the Ontario Pork Producers Association is located at Toronto, Canada. The Ontario marketing system is dependent on a network of teletype communications linking eighteen larger packing plants and one machine provided by the Association serving thirty smaller plants. A province market order voted by referendum requires all hogs to be sold under the system. Consequently, every hog in the province is sold competitively to the packer willing to pay the highest price.

#### Procedure Used:

1. Producers bring hogs to nearest collection points located throughout the swine producing areas in the province.
2. Managers of local collection points wire the central office in Ontario of the number of hogs in the drove.
3. At the central office the message is typed on the central machine to all buyers. (Example: "75 Hogs Hamilton")
4. The "Dutch Auction" system is used with the bidding starting from the top,
5. A tape of prices in a declining order is then placed in the machine. (Example: \$29.95 .90 .85 .80 .75 .70 .65 .60 .55) (Hogs are sold on a carcass weight based on the top grading hog.)
6. Each machine in a buyer's office is equipped with a signal button to stop the machine (called a "panic button").
7. The first buyer that pushes the button on his machine purchases the hogs. The central office operator then types a confirmation of the purchase price to the successful plant. None of the other buyers are informed of the name of the purchaser; however, all are informed of the final price. The next lot is then typed on the central machine.
8. The drove of hogs is then shipped directly from the local concentration point to the buyer at the packing plant.

9. The plant purchasing the hogs pays the trucking costs from the local concentration point.
10. Final determination of weight, grade and trim is made by official government graders and representatives. Value is determined by the teletype price times final carcass weight.
11. A differential price is set in advance for hogs not meeting top grade standards.
12. During the period studied the commission for selling was set at forty cents per hog, paid by the producer. Three cents per hog was paid by the packer-buyer to cover the cost of marketing and teletype operation.

Advantages of the system listed by the Association:

1. Every hog in the province is sold competitively to the packing plant with the best order on a given day.
2. Procurement costs are reduced. Buyers located in packing plant offices are charged only minimal rates.
3. Final grades and weights of hogs are determined by neutral government graders and representatives.
4. Hogs are diverted directly from the local concentration point to the packing plant purchasing the hogs.
5. Every packer has an equal opportunity to bid on all hogs for sale in the province.
6. Duplication of market facilities has been drastically reduced.
7. More complete knowledge of procurement problems, grades desired and carcass improvement needed, has stimulated an extensive educational program.

SUMMARY

It is essential that any new system be analyzed in its proper perspective. It must be recognized that the Tel-O-Auction and teletype methods are new and yet only a small part of a complex marketing system. Presently, the majority of the livestock is sold by older conventional methods. It must be noted, however, that these new systems have demonstrated the successful use of modern communications and organizational techniques, that the innovations may lead to further developments in livestock evaluation, use of photo-phone techniques, closed circuit T.V., ultra sonic measurement, and instantaneous market reporting.

It is the challenge of the market industry to constantly review the sound programs of the past and yet incorporate the new improvements of the future in further developing the modern marketing system.