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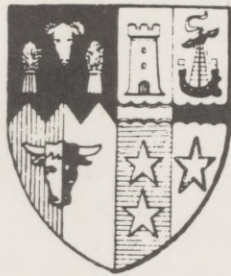
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Cattle



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CONTRACTING FOR FAT CATTLE

A Regional Study

C. MACKEL, M.A., B.Sc., Ph.D.

July, 1979

Economic Report No. 131

Price £2.00

ACKNOWLEDGEMENT

The basis of this study is data gathered from 100 farms in the North of Scotland and I would like to express my thanks to the farmers involved. They went to considerable trouble in looking out sales figures for the three year period and in answering a long and complex questionnaire. I am also grateful to my colleagues in the Economics Division for their help in the survey work and for their comments on earlier drafts of the report. Mr John Lemon of the Computer Centre was of great assistance in the analysis of the data. The study was grant aided by the Central Council for Agricultural and Horticultural Co-operation and the author also benefited from being able to present the results of the study at a CCAHC staff seminar. The original draft of the report has been improved following comments both by members of the trade and the MLC. Members of staff of the MLC were particularly helpful, both in the initial stages of the study and in providing detailed comments on the first draft.

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FOREWORD

The Central Council has always been very insistent on the need for commitments by farmers to their co-operatives. This is not merely because a commitment to use the co-operative's services helps to underwrite Government grant contribution and the farmer's investment. Nor is it because the spectacle of a co-operative, which farmers have set up, but then do not support, is both anomalous and distasteful. A more fundamental reason is that a co-operative provides an extension of the farm business into the market place, and is the means whereby the farmer informs himself of what the market can provide and what the market needs, so that he can adjust his production accordingly.

Because of human frailty, it is best if commitments can be supported by contracts—although the value of these is often more moral than legal! In many sectors, marketing contracts, or agreements, present no difficulty. But they have never been so easy in beef production, for reasons which, until recently, have only been half understood.

This was the background against which Chris Mackel undertook his study of "Contracting for Fat Cattle" based on a hundred farmers in the north-east of Scotland. It was based also on the goodwill and assistance of Buchan Meat Producers, to whom the Central Council, like the author, is most grateful. It should not be thought that this report solves all the problems of contracting for fat cattle but, by explaining what these problems are, it brings them closer to solution. It will be read with interest and profit by livestock co-operatives and others throughout the United Kingdom, and it has already been used by the Central Council to help it refine its own policies in this important sector.

John Morley,

Co-operative Planning Unit,
Central Council for Agricultural
and Horticultural Co-operation.

INTRODUCTION

This report presents the main findings of a regional study into the contractual procurement of fat cattle. The specific remit for this study was to investigate the attitude of farmers towards the contractual procurement of fat cattle. To this end the main part of this report is concerned with an analysis of a survey of 100 beef farmers in the north east of Scotland. The study arose directly out of CCAHC's concern over the level of commitment felt by farmer members towards their marketing co-operatives.

Preliminary investigations indicated that there were a number of important issues which, whilst outside the particular remit of this study, were pertinent to any consideration of contracting. These issues are therefore discussed in Section 1 to provide a background to the analysis of the survey results in Section 2. Conclusions are drawn and presented in Section 3, which in addition contains a Postscript. This Postscript combines the results of the survey with ideas developed in the course of background reading and subsequent discussions with colleagues, members of the trade and the staff of MLC and CCAHC. The objective is to highlight the results and provide a stimulus for further discussion.

CONTRACTING FOR FAT CATTLE —A REGIONAL STUDY

1. PRELIMINARY INVESTIGATIONS

1.1 THE CHANGING STRUCTURE OF MEAT MARKETING

1.1.1 Introduction

Past experience indicates that when any farm product ceases to be marketed in a basic untreated form, but becomes instead a highly processed foodstuff, this has far reaching consequences for the whole distribution chain. The foodstuff ceases to be a variable commodity and becomes a specified and repeatable product. The traditional and often fragmented market also undergoes radical changes. The high capital costs involved in processing, packaging, storage and distribution, and the necessity of ensuring maximum utilisation of plant and other facilities tends to ensure that there is increasing concentration amongst the processors. The emergence of market leaders serves to accentuate this trend. As a result, in many sectors of the food industry a few firms emerge to control a major share of the market *eg* three major processors account for 60 per cent of the value of domestic sales of frozen food.*

To ensure regular supplies and safeguard their interests these firms may regularise their supply links in one of three ways:

1. Discount trading *eg* Birds Eye and its fish suppliers.
2. Contractual arrangements *eg* 80 per cent of peas and beans for processing are contracted.
3. Vertical integration *eg* the Ross Group's ownership of broiler production.

Obviously such major changes in the procurement, processing and distribution network have major implications for the primary producer. Instead of a fragmented market he is faced by fewer oligopolistic buyers who will demand a much more closely specified raw material. Also, because of the increased level of processing, considerable value is added to the product after it leaves the farm gate. Therefore the farmer finds it increasingly difficult to relate either the quality or the price of his farm product to those of the article at retail.

1.1.2 The current structure of the beef market

In contrast to many other foodstuffs the beef market remains a largely traditional and highly fragmented sector. A very high proportion of beef is still sold in a fresh perishable form, often reaching retail outlets as dressed carcasses. Trade is often by inspection and practical considerations have prevented the adoption of a national classification scheme. This section will look in more detail at selected aspects of the beef marketing chain.

Auction marts Have an established and important role in the marketing of fatstock in the UK. They form a primary market capable of handling and sorting slaughter cattle of widely varied breed and finish. They also provide a unique meeting point for the trade and farming interests. Finally, they provide an important price indicator for all sectors of the trade.

*The Monopolies and Mergers Commission: *Frozen Foodstuffs. A Report on the supply in the United Kingdom of Frozen Foodstuffs for Human Consumption.* HMSO 1976.

In 1966/67 auction markets in the UK handled 61 per cent of the certified fat cattle and dead weight (D/W) centres 35 per cent. By 1969/70 these figures were 50.2 and 49.8 respectively.* Figures for 1977/78 showed that D/W centres took just over half the certifications with 51.6 per cent. That is, there has been a gradual but very definite trend towards direct selling to D/W centres.

Statistics for Scotland show a similar movement away from auction marts in the 1960's and early 1970's. In 1970/71 46 per cent of certifications were through marts. This trend reversed in the mid 1970's with the mart's share increasing to 52 per cent in 1976/77. However this reversal of the decline in sales through marts appears to have only been temporary in nature. The most recent statistics from MLC show that D/W centres took 50.2 per cent of fat cattle in 1977/78.

It is anticipated that this gradual movement towards D/W centres will continue, although it is difficult to envisage a time when marts will cease to play a vital role in fatstock marketings. Within the context of traditional meat trading it is a most cost effective way of supplying the varied requirements of the trade. The ability of the marts to meet the possible changes in the meat marketing chain, as envisaged elsewhere in this report, is outwith the scope of this study. Also the fact that there will be fewer butchers, dealers and wholesalers to buy in the mart will have an effect on their role as a locus for price formation. Again this is an area with far reaching implications worthy of study in its own right.

Slaughter/wholesale The FMC is by far the largest slaughter/wholesaler, but even so handles only around 12 per cent of total UK throughput. The top ten private companies handled less than 35 per cent of the total throughput in 1975. Producer co-operatives handled almost 5 per cent of the total and retail butchers 4.8 per cent.

This fragmented structure is also reflected in the number and size of slaughterhouses. In 1977/78 there were 1,444 slaughterhouses in Great Britain but only 87 of these were up to full EEC standards. Slaughterhouses with a capacity of less than 5,000 cattle units per year still accounted for some 70 per cent of total abattoirs in 1977/78, though their share of throughput was only 7.5 per cent. Slaughterhouses with a capacity of 20,000 plus cattle units account for only 12 per cent of the total but they handle in excess of 70 per cent of throughput. Many of the small slaughterhouses are under capitalised and will find it increasingly difficult to meet hygiene regulations. Indeed the rate at which slaughterhouses have been closing in the last 10 to 15 years is an indication of the pressure under which they now operate. In 1963 there were over 8,100 slaughterhouses in the UK, by 1973 this figure had fallen to 1,594 and to 1,444 in 1977/78; an annual rate of decline of some 5 per cent over the period.

The heavy capital investment necessary to meet EEC standards and the increasingly frequent addition of boning and processing plants to slaughterhalls point to a continuing trend towards fewer and bigger abattoirs in the future.† Because of the need to maintain throughput in these plants it means that cattle will be drawn from an increasingly wide geographical area. Conversely many farmers will lose their access to a local slaughterhouse.

As these modern meat plants develop they will adopt a far more flexible pattern of marketing. Instead of the bulk of the meat going as sides to pass through a traditional wholesale market it will go direct to retail customers. Primal cuts and boxed beef are still a relatively small proportion of total sales but it is anticipated that these will take an increasing share of the wholesale market.

*Source: MLC; 1969/70, 1976/77 and 1977/78 statistics for GB only.

†R Cawthorne (MLC 6th National Meat Conference) estimated that only 650 abattoirs may be left in 1985.

Retail At the retail level fragmentation is even more marked. The consumer co-operative network with almost 10 per cent of the retail outlets has still the largest single share of the market. Some 65 per cent of retail outlets are still in the hands of independent butchers. However this sector is under growing pressure both from rising costs and the inroads made by supermarkets and multiple grocers. A recent survey* showed that between September 1976 and September 1978 the share of meat expenditure taken by the independents fell from 55 to 53 per cent. The share of supermarkets and multiple grocers increased from 27 to 30 per cent over the same period.

However despite this increased share of expenditure even the supermarkets tend to handle meat in very conventional ways, that is the meat is delivered either in sides or part sides and cut up on the premises. The high labour costs involved in this type of operation plus the loss of valuable in-store selling space are recognised, but so far progress towards a satisfactory solution has been slow. The increased use of primal packs is one partial solution. Centralised prepacking is the obvious answer since it maximises the use of skilled labour but so far it has failed to overcome the following problems:

1. Housewives' resistance to anything which does not approach the appearance of fresh meat.
2. The short shelf life of fresh prepacks means that the need to make frequent deliveries of fresh packs tends to outweigh the economic benefits of centralised packing.

This failure to turn meat into a product which can be merchandised just like any other product is the fundamental reason why supermarkets have failed to increase their share of the beef market as expected. New techniques are now becoming available, however, which may well prove the key to a major revolution in meat handling. If this is so then they will have major implications for the meat marketing sector. These new techniques are now briefly considered.

1.1.3 The potential impact of new meat handling techniques

Current commercial practice in the UK is for the carcasses to be split into sides whilst hot and then allowed to cool for a period of at least 18 hours before either further boning or dispatch as whole sides. This period is the minimum and sides often hang for several days to ensure proper maturing of the meat. Previous attempts to reduce the handling period by rapid chilling have led to cold shortening of the carcass and thus reduced tenderness. However, experiments now suggest two ways of reducing the time from slaughter to dispatch/further processing. Firstly, electric shock treatment of the carcass immediately after slaughter speeds up acidification and removes the risk of cold shortening. The second technique involves the hot de-boning of the carcass and the immediate packing of the meat in vac packs before refrigeration.† Its application to the quality UK beef industry offers the following advantages:

1. Reduced cooling time for the meat, excluding bone and fat, means reduced costs and better utilisation of chiller space.
2. Higher yield of meat off the bone with improved tenderness, colour and appearance.
3. The meat can be shaped to suit retail cutting and shelf life in the packs is improved.

One of the main barriers to the adoption of this technique may be trade resistance to meat which is not presented in the traditional cuts. Quality control methods will also have to be adopted to prevent the distribution of dark cutting meat.

*S Buck. *Some Facts about Meat Retailing*. AGB Research Ltd.

†MLC *Marketing Newsletter No. 5*. September 1975.

A further technique, which may be used alongside hot boning or in a conventional line, is the freezing of meat in retail cuts. The benefits of being able to obtain prepared retail packs of meat are particularly attractive to large multiple grocery outlets which, as yet, handle a small proportion of meat sales. However, lack of shelf life and customer resistance means that only a relatively small proportion of meat is currently retailed in customer packs. These difficulties may be overcome by the new technique of skin packing in which the retail cuts are rapidly frozen and immediately wrapped in plastic film from which all air has been evacuated. The colour and general visual presentation of the meat is similar to packs of fresh meat.

The speed with which these new techniques will be adopted is far from clear. Economic pressures such as labour shortages, the need to optimise shelf utilisation and low or negative net margins on slaughtering may in fact speed up the process.

Widespread adoption of these techniques will have the following consequences:

- i. It creates the need for further capitalisation by an industry already heavily committed to providing new plant to meet EEC requirements. These new overheads will further emphasise the need to maintain adequate throughput and make the procurement of cattle on a planned and regularised basis much more attractive.
- ii. Increased merchandising of meat products will strengthen the hold of multiples and multiple grocers on the retail market. The necessity of meeting regular sales direct to these outlets will be a further factor tending to push meat plants into more regularised forms of procurement.

1.1.4 The importance of domestic freezers

Freezers are an important factor influencing the purchase of meat and meat products. Ownership of freezers increased from 16 per cent of households in 1974,* to reach 41 per cent in 1978. AGB estimate that in the 12 weeks ending 16 September, 1978 30 per cent of total meat sales were for freezers.† One major multiple grocery chain has just launched a scheme to market retail portions of meat in completely sealed cartons. Early indications are that this move will be successful and will enable the company to market meat in stores which at present have no specialist fresh meat department.

If meat can be successfully launched as a packaged foodstuff then it will have major repercussions on the share of meat sales controlled by independent shops. For example, between September 1976 and September 1978 multiple grocers expanded their share of expenditure on packaged groceries from 47 to 56 per cent, whilst the share of independents and other outlets fell from 37 to 28 per cent.§ Therefore if the proven ability of these multiple grocers to merchandise products can be harnessed to a growing willingness by housewives to purchase packaged meat then they will make serious inroads into the sales of independent butchers. Certainly the rapid growth in freezer ownership gives them a very lucrative market to aim at.

1.1.5 Summary

This first sub-section has provided evidence that the meat trade may be on the edge of fundamental change. There are indications that the techniques to turn meat from a variable commodity to a product with an extended shelf life are about to be put into commercial use. As a result, an increasing share of meat sales will go to supermarkets and multiple grocers. There will also be noticeable changes in the structure of the slaughtering industry in the next ten years. Rising costs and the new investment necessary to meet more stringent hygiene requirements may lead to a halving of the number of abattoirs in the next ten years.

*Birds Eye.

†AGB/Home Audit.

§AGB/TCA Survey.

The implications of these changes for fat stock procurement are as follows:

1. The extra overheads plus the larger scale of the surviving meat plants means that throughput must be maintained at higher levels to ensure long term viability. Therefore it is suggested that abattoirs should consider some form of contractual arrangement with their producers as a means of giving a regular and planned base to weekly or monthly throughput.
2. If the multiple grocery outlets are able to increase their market share significantly then it is probable that they would want to purchase direct from meat plants in primal cuts or portion controlled packs. To meet these regular and very specific sales a contractual arrangement would seem desirable. It would regulate supplies of fat cattle and provide market information for the farmer. Thus the farmer could be advised as to which type of cattle and which management regime yielded the desired level of saleable meat in the most cost effective way.

The benefits and particular problems of contracting for fat cattle will be considered in the next two sub-sections.

1.2 THE ROLE AND FUNCTIONS OF CONTRACTING

1.2.1 Definition and type

In the context of agricultural marketing a contract may be defined as "a commitment by the farmer to supply an agricultural commodity of specified type, form, quality and quantity within set time periods, and a commitment by the buyer to accept all produce delivered within the terms of the contract and to market it on the farmer's behalf."

The contract may or may not be drawn up as a legally enforceable document. The important factor is that having accepted the contractual arrangement in good faith "both parties act in accordance with an understanding which co-ordinates their activities."*

The Barker Report (paragraph 32) classifies contracts into three broad groups:

Type A Marketing contracts: dealing specifically with the exchange sector for farm products *eg* malting barley.

Type B Buying contracts: dealing only with agricultural inputs *eg* weaner pigs or feeds.

Types A and B may be linked together.

Type C Transferred management contracts: in which the farmer surrenders the whole or part of his management function in return for credit, inputs or market outlets *eg* some broiler contracts.

For the purpose of this study attention will be restricted to contracts of Type A.

1.2.2 Function and characteristics

Contracts may be regarded as a natural consequence of the changes in the food processing and marketing sectors outlined in Section 1.1.1. The processing and packaging of food to reach particular sections of consumers implies the need to ensure regular deliveries. The ability to make these regular and often closely specified deliveries plus the increased level of capitalisation means that wholesalers and processors are in turn keen to secure their primary sources of supply. For the farmer a satisfactory contractual arrangement means a guaranteed outlet for at least part of this output. It also means improved management information.

* *Contract Farming*. Cmnd 5099, HMSO, 1972, Paragraph 9. This Report of the Committee of Enquiry on Contract Farming is referred to in this study as the Barker Report.

Marketing contracts vary considerably in their finer detail but each one will generally specify the following:

1. Interested parties.
2. Commodity, quality and quantity.
3. Pricing and payment procedures.
4. Delivery arrangements.
5. Arbitration procedure.
6. Length of contract and notice of termination.

Several functions of contracting may be isolated and the most important of these are now considered:

- i. To obtain a uniformly graded product which can then be sold in regular quantities, possibly in a branded form backed by advertising. Obviously it is essential that a mutually accepted system of objective grading be operated if this function is to be satisfactorily fulfilled. By ensuring repeatable qualities the product can then begin to be differentiated from other similar foodstuffs and promoted on this basis; thus, hopefully, gaining a premium from an established market position.
- ii. To reduce price uncertainty by providing an equitable and agreed means of price formulation. For some commodities the exact method of price fixing may be relatively easy. For example, relating price to some representative and well reported price indicator or commodities exchange. Futures markets may have a valuable role to play here since not only do they give price quotations for near positions but also provide clear quality criteria against which contractual standards may be discounted/awarded premia. Another approach is to adopt an "advisory committee" approach to price finding and then use these reports as a basis.* Pricing formula may also involve input costs or realisation less costs.

The key factor in all these possible approaches, however, is that they should not only be fair to all parties concerned but that they should be seen to be fair. A fact which implies not only careful evaluation before a scheme is adopted but also detailed discussion and participation at all stages of preparation, initiation and operation.

One final point that can be made is that the regular throughput of produce to clearly identified customers, particularly if it can be processed out of its basic commodity form, should also ensure that prices do not fluctuate as much as those in open wholesale markets. A word of caution here is that the large scale buyers, particularly the multiple grocers, often have wide ranging marketing strategies of which the particular foodstuff is but part. It would be extremely unfortunate for producers if the pricing formula for their product was influenced, for example, by some type of loss leading operation.

- iii. To improve information flows between the producer, processor and consumer. For, as the Barker Report succinctly commented "Contracts are of no special significance in themselves, but are of considerable importance as a means of communicating market information" (para 98). Improvement here will not only increase the efficiency of production but should also ensure that the various stages in the marketing chain are more cost effective. Further, implicit in the grading and pricing arrangements discussed under points 1 and 2 above is the assumption that there is a high level of understanding between the parties involved. This relationship can

*eg H Jansen. Die Notierung von geschätzten Gleichgewichtspreisen für Apfel in der Obstregion Bodensee.

C Mohr. Bisherige Erfahrungen mit der Preisfindungstelle für Schlachtschweine in Baden-Württemberg. Both papers reporting on the work being carried out at Stuttgart-Hohenheim, Germany.

only be fostered by good communications covering a wide range of topics *eg* input costs, marketing costs, market trends and customer reaction. Thus the farmer benefits from access to a range of market information which he could not hope to support from his own internal farm resources.*

- iv. To improve management systems at all stages in the chain. In a period of inflation and with a high level of capital investment any reduction in planning risk is an attractive proposition. A suitable contract means that the farmer no longer produces in a situation where he neither knows his customers nor what they want. Medium to long term decisions can be taken on the basis of market information relayed via a contract with the knowledge that the product will find an outlet. Similarly the processor can base his investment decisions on much improved knowledge about the future supply situation and level of commitment by producers.

1.3 CRITICAL FACTORS FOR LIVESTOCK CONTRACTING

Section 1.2 has established the overall benefits of contracting and the application of contracts to the marketing of fat cattle will now be discussed. The Barker Committee in considering their evidence were presented with only three examples of contracts for slaughter cattle. The reasons for this lack of contractual arrangements will now be discussed.

Grading The first function of contracting mentioned in Section 1.2 was the use of an objective grading scheme to encourage repeatability of the product and a fair return to the producer. Objective measurement of such commodities as malting barley, pigs or vegetables has been established and contracts are relatively common for these products. However, an objective scheme for the measurement of beef carcasses has proved a much more elusive goal. Despite intensive and detailed work by both the MRI and MLC a national scheme of classification has still not been widely accepted in the trade. This study is not the place to give a detailed critique of the problems involved and there is an extensive literature on the subject.[†] It is sufficient to say that without a widely accepted evaluation scheme for carcasses "contracting cannot become a major element in livestock marketing" (Barker Report, para 64). If this is true then it implies that either the MLC scheme must be brought into much greater use or that individual meat plants must spend time and money refining their own methods. It is important that any scheme should be an accurate predictor of meat yield and should be seen to be so by the producer. For the meat plant an error of 3 or 5 per cent in wrongly estimating any carcass or even batch of carcasses is acceptable. It is acceptable because of the numbers involved and the assumed random distribution of such errors around the norm. For the individual farmer an error of under estimation represents a serious loss which cannot be accepted if a satisfactory contractual relationship is to be maintained.

One final point about grading and repeatability may be made and this relates to the question of scale and the 'lumpiness' of cattle. A farmer contracting for, say, cereals, pigs or vegetables usually has a relatively large population from which to select his contracted quota of a particular grade. Given the variability of agricultural production he needs this buffer since he would be extremely unwise to commit 100 per cent of his potential output to any one grade. The longer production cycle, greater variability and much bigger capital investment represented by beef cattle all mitigate against this type of flexibility. It means that a farmer's scale of production must be much greater before he can safely consider commitment to regular deliveries of specified grades.

*J Phillips. An Economic Evaluation of Contract Marketing, *Rev. Market Agric. Econ.* 36 (4), 1968, 155-164.

[†]*eg* G Harrington (1971). The Shape of Beef Cattle and their Carcasses in Relation to Carcase Merit *Inst. of Meat Bull. No. 73*. August 6-20.

MLC (1976). Progress on Beef Carcase Classification, *Marketing and Meat Trade Technical Bulletin No. 22*.

Bureau of Agricultural Economics (1978). *Issues of the Evaluation of the Proposed Carcase Classification Schemes*, Occasional Paper No. 45, Canberra, Australia.

Pricing The second function of a contract mentioned in Section 1.2 was pricing. This does not necessarily imply that prices will be fixed for long periods ahead but that at least the method by which the contract price is to be set will be agreed. For commodities like cereals, where there is a futures market plus widely available quotations for spot prices, the pricing exercise is relatively straight forward. However, for fat cattle, the exercise is much more difficult. It is anticipated that the bulk of meat sold forward by the meat plant would at least be in specified primal cuts and possibly in the form of portion controlled packs. The meat plant would wish to procure cattle best suited to fulfil these requirements. In this situation it may be the case that the type and conformation of animal required does not represent either the general run of animals through local marts or what local opinion considers to be 'best' in terms of breed or finish. In which case what is to be the locus of price discovery? With some justification it can be argued that Smithfield is no longer representative enough to act as a price indicator for this type of trade.

The possibility of a commodity exchange type arrangement has been suggested* and should be investigated. Another alternative would be to follow the German idea of price discovery offices as mentioned above. These offices are operating successfully in southern Germany, despite lack of official encouragement.† Adoption of these techniques in the UK would require a long process of familiarisation and also careful consideration of the RTP Act.

In the absence of other methods of price discovery it means that the individual contracting company will have to develop their own system. If the meat is being sold direct to retailers then the retailers buying-in price less costs is one possible method. Such a system would offer the advantage of being less volatile than wholesale or auction prices and would normally accurately reflect the price that the retail market would bear. The danger to avoid would be the influence of the retailer's over all pricing policy. It would also be important to demonstrate to producers how the system worked, to answer criticisms, and show that the return offered compared favourably with the prices offered for similar types of cattle through other marketing channels.

Information The third function to be discussed was the informational role of contracts. Given the swing towards primal packs and other forms of boxed cuts with the need to satisfy much more specific requirements this function would emerge as a primary one in any fat cattle contract. If meat plants are to satisfy future demand for meat packs in an economical manner it will be important for them to spell out to farmers their requirements, how these differ from existing carcasses and how the necessary changes may be achieved. Because these changes will not be achieved over night this informational role is essentially a long term one.

This long term objective of bringing about change in management systems fulfils the fourth function outlined in Section 1.2. If meat plants are to undertake capital investment programmes to meet long term market requirements it is essential that they have assured supplies. Similarly if producers are expected to make long term changes in their beef management it is important that they have assured outlets. This type of relationship can only be built up on the basis of mutual understanding and trust. Certainly if the meat trade, including farmers, is to fully exploit the opportunities provided by the new techniques it will not do so by taking short term advantage of the opposing sectors as has tended to happen in the past.

*R Cawthorne. (MLC 6th National Meat Conference) 6-7 November 1978.

†FDR (1977). Comments on the contribution by Mr R Borst "Alternatives to Price Finding for Slaughter Animals on Organised Markets" in *Towards a More Efficient Beef Chain*, OECD, 559, 560.

The functions, problems and benefits discussed above are fundamental to the success of fatstock contracting. There are a number of other related issues *eg* the rationalisation of transport, but these are essentially peripheral to the question of whether such contracts are feasible. The benefits to be gained from some form of contractual arrangement are considerable but then so are the practical difficulties facing any such attempt at regularising fatstock marketing. The next section of this study, the survey, will provide evidence against which these difficulties can be evaluated.

2.

THE SURVEY

2.1 STRUCTURE AND GENERAL DETAILS OF THE SURVEY

The sample of 100 farmers was selected from farms in the counties of Aberdeen, Kincardine, Moray, Banff and Nairn. The geographical and size distribution of farms in the survey is shown in the table below:

Table 1 Geographical and size group distribution of farms visited in the survey

	Number of feeding cattle			Row totals
	50-99	100-199	200 +	
Aberdeen	26	16	8	50
Banff	10	4	4	18
Kincardine	7	5	4	16
Moray	4	3	4	11
Nairn	2	3	—	5
Column totals	49	31	20	100

The sample was stratified on the basis of cattle numbers recorded in the 1976 June Census. Since the primary objective of the study was to obtain data on the feasibility of contracting, farms with less than 50 feeding cattle were excluded. It was considered that these farms would not have sufficient cattle to fulfil contractual requirements.* All questionnaires were completed by interview and took about 45 minutes on average. In cases where it was impossible to interview the farmer first selected a substitute was selected from the appropriate reserve list.

As well as details of beef marketing the survey covered details of the general farm business. These details contained in Appendix 1 are largely self-explanatory. Of the 100 interviewees 94 were farmers and the remainder managers. In terms of off farm involvement in fatstock marketing four were co-op directors, one was a cattle dealer and one a wholesale butcher. Table 1.6 (Appendix 1) shows the age distribution of interviewees.

2.2 ANNUAL AND MONTHLY PATTERN OF FAT CATTLE SALES

Interviewees were asked to give details of the number of cattle sold fat in the three years May 1974 to April 1977. Details were also recorded for the monthly sales in the year May 1976 to April 1977. Sources of cattle and market outlets were also recorded for this last year.

*The results of the survey showing monthly marketing of cattle amply justified this decision.

Table 2 Number of fat cattle sold years 1974/77
(May–April years)

	Size group							Row totals	
	1–24	25–49	50–99	100–199	200–299	300–499	500–999		1,000 plus
1974/75	7	10	24	17	15	7	10	6	96
1975/76	6	12	22	21	11	12	8	6	98
1976/77	8	14	20	22	9	15	6	6	100

The development of cattle sales over the three year period were analysed by cross-tabulation as shown below.

Table 3 Cross-tabulation of cattle sold in 1974/75 and 1976/77
(May–April years)









	Cattle sold in 1976/77							1,000 plus	Row totals
	1–24	25–49	50–99	100–199	200–299	300–499	500–999		
Cattle sold in 1974/75									
1–24	3	3	1						7
25–49	2	7	1						10
50–99	2	3	16	3					24
100–199			1	15		1			17
200–299				2	8	5			15
300–499					1	6			7
500–999			1			3	6		10
1,000 plus								6	6
Column totals	7	13	20	20	9	15	6	6	96

In fact 67 (70 per cent) of the farmers selling fat cattle in 1974/75 sold approximately the same number in 1976/77. Fourteen farmers had increased the number of cattle sold and 15 had reduced their sales. There were four farmers selling cattle in 1976/77 who had not done so in 1974/75; these were in the size groups 1 to 24, 25 to 49 and two in 100 to 199.

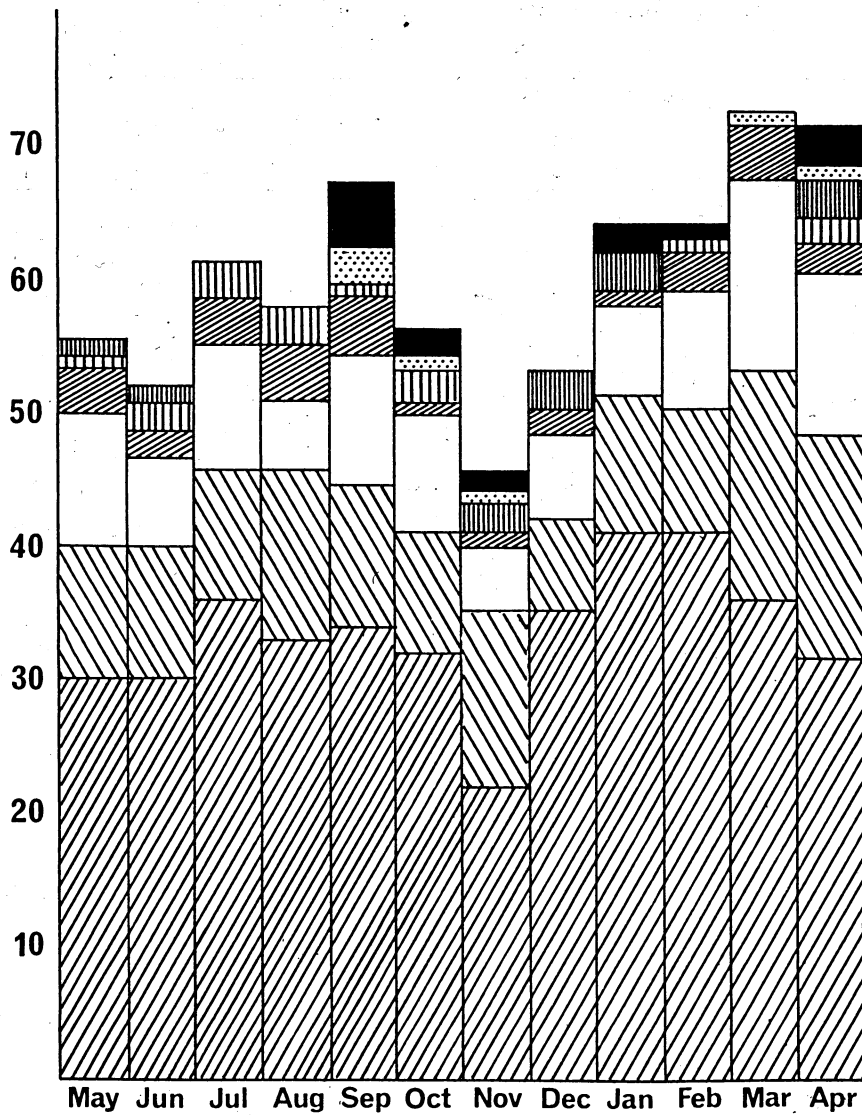
From the display of monthly marketing figures in Figure 1, it is evident that by far the largest proportion of farmers send less than 24 fat cattle away in any one month. Only in two months (November and April) does this size group account for less than 50 per cent of those sending away cattle. The small size of batches and their variability has a critical bearing on contracting in two ways:

1. Small and irregular sales of cattle make it extremely difficult for farmers to fulfil contractual commitments to supply cattle.
2. Conversely contracts, by providing a guaranteed outlet, might encourage the farmer to alter his selling pattern or even to increase the total number of fat cattle sold. It has yet to be established, however, whether incentives under a contract would be sufficient to encourage this type of long term change.

No of Cattle sold per month

-  1-24 cattle per month
-  25-49 cattle per month
-  50-99 cattle per month
-  100-149 cattle per month
-  150-199 cattle per month
-  200-299 cattle per month
-  300-499 cattle per month
-  500 plus per month

No of
Producers



The variable pattern of monthly sales figures is further illustrated by Table 4.

Table 4 Monthly sales figures for fat cattle May 1976 to April 1977

Month	Average ¹	Range		No. of farms selling cattle
		Lowest	Highest	
May 1976	39	2	267	55
June 1976	38	4	200	52
July 1976	36	2	208	60
August 1976	35	1	189	57
September 1976	88	3	450	65
October 1976	60	2	450	56
November 1976	57	4	372	46
December 1976	37	1	250	53
January 1977	55	2	200	63
February 1977	40	1	150	63
March 1977	41	1	145	70
April 1977	67	3	220	69

Annual average 49

¹ Rounded to the nearest whole number.

Whilst the average monthly sales figure never drops below 35, this figure disguises a considerable variability in numbers, as columns two and three show. Added to this there are the farmers who did not sell cattle in that month at all. In the low summer months of May to August a total of 8,270 cattle were sold, a monthly average of 2,067. By comparison, in the following three autumn months of September to November 11,750 cattle were sold at a monthly average of 3,917. Monthly sales dropped in December 1976 before recovering in the months January to April 1977 when 13,431 cattle were sold, a monthly total of 3,434.* In fact 77 per cent of the cattle sold off farms in the survey went in the period 1 September to 30 April.

Given these features three problems for contracts become immediately self-evident:

- i. Many farmers could not fulfil a contract if it required them to make a delivery of specified numbers of cattle in regular consecutive monthly batches.
- ii. The considerable range of batch sizes shown in Table 4 is simply a reflection of the large differences in farm size, enterprise structure and personal preferences represented by the 100 farmers in the survey. It is difficult to envisage therefore a single contract which could satisfactorily meet the requirements of the various groups. A more flexible group contract is a possible alternative and this is considered in more detail below.
- iii. Even amongst farms sending away large numbers of cattle there is an apparent monthly and seasonal variation in numbers. One objective of a contract might be to try and smooth out these fluctuations. If this were the case its conditions would have to be sufficiently favourable to overcome the practical and managerial problems of such a change.

*This pattern of seasonality compares closely with the National distribution shown in MLC Meat and Livestock Statistics 1978/2, Monthly Market Survey, July 1978, Table 12. The main difference is that on the survey farms the autumn peak occurred in September and not the end of October. A difference which may be attributable either to the regional nature of the survey data or the fact that it was for one year only.

These points were further illustrated by analyses of monthly sales figures for 1976/77 according to farm size group.

Size group 100 to 199:* There were 22 farms in this size group and the average monthly total of fat cattle sold was 19, with a low of 10 in November 1976 and a high of 31 in April 1977. As might be expected the range of cattle sold within any one month is much reduced, though in April 1977 it was 8 to 160. Only three farms sold cattle for more than five consecutive months. No farmer in this group sold cattle in every month and only one sold cattle in 11 months of the year.

Size group 200 to 299: There were only nine farms in this group with a monthly average of 28. There was still significant variability in monthly ranges. Five of the nine farmers sold cattle for more than five consecutive months but still no farmer sold cattle in each month of the year. Also, even given this improvement, very few farmers sold more than 24 in any one month.

Size group 300 to 499: There were 15 farms in this size group and a level of throughput adequate to satisfy contractual requirements was much closer. The average monthly sales figure was 38. Two farmers actually sold cattle in 11 months. Only two farmers sold cattle in less than six month periods.

Because of these important changes this size group of 300 to 499 fat cattle is an important turning point in terms of the ability to fulfil contracted numbers.

Size group 500 to 999: There were only six farms in this group. The average monthly sales figure increased to 60, and, except for December 1976, the number of cattle sold on any of the farms never fell below 25. Three farmers sold cattle throughout the year and none of these sold less than 25 in any month. Two others sold significant numbers of cattle for nine and ten months of the year respectively. It is therefore conceivable that these two farmers could also spread their marketing throughout the year. The monthly sales figures at the individual farm level showed a very low level of variability. A further indication that the farmer could make a much more accurate appraisal of his sales figures for future months and that a contract might be written accordingly.

Size group 1,000 plus: There were also six farmers in this group. There was a sharp increase in the monthly average of fat cattle sold—now 130 per month over the year. Only two months—March and April 1977—fell below 100 cattle sold. The number of cattle sold per farm in any one month had also increased significantly, only in June and July 1976 did the number sold by any farm fall below 50. Again three farms sold cattle throughout the year—significantly, all of them, except for June 1976, sold more than 50 per month throughout the year. Two other farmers sold cattle for 10 and 11 months respectively. The remaining farmer sold almost entirely off the grass in a five month period.

This analysis underlines the fact that the annual total of fat cattle sold has an important bearing on the ability to fulfil any contract specifying quantity to be delivered. It might be assumed that the annual total sold had a bearing only on the average monthly sales figure. But this has been shown not to be the case. The annual total affects month to month variations in numbers sold and also the ability to maintain deliveries over a number of consecutive months.

Therefore it is only amongst those farmers selling more than 300 cattle per year that a buyer is likely to find individuals able to satisfy the normal contractual requirements of regular deliveries over a 12 month period. There are two ways of overcoming this problem:

*Only the results for size groups 100 to 199, 200 to 299, 300 to 499, 500 to 999 and 1,000 plus cattle per annum are presented and discussed in this section since they have the most bearing on contracting.

1. Contract for shorter periods and offer, for example, one contract geared to production off the grass and another to production out of courts.
2. Offer group contracts, whereby a group of farmers contract to fulfil the requirements from the larger pool of cattle on the group farms.

Whilst both of these alternatives are feasible there are a number of difficulties which would have to be considered:

- i. Contracting for shorter periods with a greater number of farmers multiplies not only the number of contracts but also the problems of maintaining a satisfactory contractual arrangement and understanding. Particularly if the farmer were out of touch with the buyer throughout his non-marketing period, and therefore not being fed with market information. In this situation, where the number of cattle gained per contract is obviously lower, then the extra costs for the buyer may possibly outweigh the benefits.
- ii. Contracting for groups is a definite possibility, but the group would have to have sufficient cohesion and discipline to regulate its members disposal of fat cattle. In fact the situation verges on a two tier contract system.

Two further points can be made at this stage. First of all it is not simply numbers which have to be fulfilled through contracts but presumably the buyer is also looking for specific qualities. For those selling less than 300 cattle per annum, given the smaller monthly lots from which to draw specific types, this factor will only serve to accentuate the problems of scale already discussed above.* Secondly, willingness to even consider the possibility of contracting for fat cattle may well be influenced by experience of and attitude towards contracting for other farm produce, an aspect of the problem which is examined in Section 2.4.

2.3 USE OF MARKET OUTLETS

This section will analyse the use made of market outlets irrespective of size of beef enterprise. Details were recorded for the two main outlets used by farmers for their cattle and the distribution is shown in Table 5.

Table 5 The two main outlets for fat cattle

	Mart	Co-op D/W	Private D/W	Butcher/ wholesaler	Dealer
Main outlet	73	9	12	5	1
Percentage	73	9	12	5	1
Percentage of farmers with this as sole outlet	59	66	50	20	—
Second outlet	9	16	17	1	1
Percentage	20.5	36.4	38.6	2.3	2.3

*See also discussion in Section 1.3.

The importance of the marts in the North of Scotland is self evident; a result of the fact that most farmers are within easy reach of a market, of the service provided over a considerable period of time and of the general regard felt by many farmers for the marts. Dead weight centres are next in importance, with 21 farmers using them as their main outlet. Five farmers sell direct to a butcher or butcher/wholesaler. Dealers are now seen to be relatively unimportant in marketing finished cattle. Fifty-six farmers sent all their cattle through the one outlet; 43 of these used only the mart, six used only private dead weight, six only co-op dead weight and one used only a retail outlet.

In terms of cattle sold through the main outlet 45 per cent went through the mart and 53 per cent through dead weight centres. That is, despite the much higher proportion of farmers using the marts, the number of cattle actually going through the two main outlets is much more in balance, the dead weight centres now taking slightly more of the sales. In fact the proportional distribution is very similar to that shown in the recent MLC statistics.* This difference between the distribution of farmers selling cattle and the actual number of cattle sold is of course a reflection of difference in scale of enterprise. A factor looked at in more detail in Section 2.4.

Farmers were asked for the two main reasons why they used their present outlets, and these answers, cross-tabulated by type of outlet, are presented in Table 6.

Table 6 Combined table of reasons given by farmers for using their two main outlets

Reason for choice	Market outlet					Row totals	Row percentage
	Mart	Co-op D/W	Private D/W	Butcher/wholesaler	Dealer		
Good prices offered	44	11	9	4	1	69	24
Regular number of buyers	19	—	—	—	—	19	7
Co-op	1	1	—	—	—	2	1
Good grades	—	7	3	—	—	10	3
Fixed price	—	7	13	2	1	23	8
Level of service provided	8	1	2	—	1	12	4
Quick payment	16	—	2	2	—	20	7
Shareholder	3	—	1	—	—	4	1
Flexible marketing possible	20	2	7	—	—	29	10
Variety of cattle handled	7	3	4	—	—	14	5
Other reasons	36	12	12	2	1	63	22
Not specified	10	6	5	2	—	23	8
Column totals	164	50	58	12	4	288	100

From this table it is evident that price plays an important part in attracting the farmer. Over half of the farmers said that they believed that the particular outlet in question gave them good prices on average. It is important to note however that there is no evidence that one type of outlet paid better prices than the others. Quick payment is also important to farmers and here the marts show a definite

*MLC Meat and Livestock Statistics 1978/2, Monthly Market Survey, July 1978.

lead over other outlets. Obviously the marts have an advantage since they are simply a market channel. The dead weight centres with their involvements in processing, storage and distribution face a much longer cash flow.

The marts also offer the advantage for the farmer of bringing together, on a regular basis, buyers with widely differing requirements who are prepared to buy on the basis of visual assessment. As a result the marts provide a market for a very wide range of quantity, quality and cattle types. This ability to market cattle of irregular type and number is obviously an important attribute of the marts but it is heavily dependent upon the number of buyers round the ring. If there was a reduction in the number of buyers attending any particular mart it would have serious implications both for the general level of competition and for the range of demands represented. Also, whilst dead weight centres need to maintain total throughput from week to week to cover capital costs, they are equally able to handle both irregular sized batches and a wide range of cattle types. The optimum utilisation of cattle types at dead weight is largely dependent upon directing the meat to the appropriate outlet, rather than letting it find its own way through the traditional wholesaling chain.*

Of the 'other reasons' proximity to the chosen outlet was mentioned by 23 farmers, important since it offered the associated benefits of lower transport costs, smaller weight loss and more contact with the outlet's employees. This factor was mentioned both by farmers using marts and those sending dead weight, though obviously the network of local marts offers an advantage here. Next in importance, 19 farmers mentioned the facility of being able to see their cattle sold in the marts. Associated with this was the ability to withdraw cattle if they did not reach the desired price level. Obviously this is not possible from a dead weight centre. However it is not clear how many farmers actually used this option in the marts, not to mention the costs of extra keep and double handling. Another factor of some importance and mentioned by 12 farmers was the desire to be seen to be marketing quality cattle. Other factors included the mart as a social meeting point and payment of a premium for quality.

In terms of personal contact with the main outlet, 62 farmers had regular visits or 'phone calls'. The level of contact was highest amongst those using co-op dead weight centres (87 per cent) and private dead weight centres (75 per cent). Amongst farmers using the marts as the main outlet it was 62 per cent. Thirty of the farmers (68 per cent) using a second outlet had personal contact with it. Again scale had an important effect on the level of contact with fieldsmen (Table 11, Section 2.4).

Farmers sending cattle through dead weight centres were asked a number of questions about price information. These answers are summarised in Table 7.

*See for example R W T Hunt and C R Groves (1977). *The Marketing of Cull Cows in South West Scotland*, Economics Division, The West of Scotland Agricultural College.

Table 7 Availability of price information for cattle sent dead weight¹

	Market outlet			Row totals
	Co-op D/W	Private D/W	Butcher/wholesaler	
No. whose cattle was bought on basis of a price list	22	12	3	37
Percentage	88	41	50	—
No. who know how price list was fixed	15	4	1	20
Percentage	60	14	17	—
No. considering price list a reasonable guide	20	9	3	32
Percentage	80	31	50	—
No. comparing price list with other sources	19	11	2	32
Percentage	76	38	33	—

¹ This table includes all farmers using dead weight centres as main or second outlet.

There was a greater awareness amongst farmers using co-operative dead weight centres of price lists and how these price lists are worked out. An understanding by producers of pricing arrangements would be fundamental to any workable contractual arrangement.

Of the 62 farmers using dead weight centres, 48 were aware that their cattle were graded. In most cases this grading was carried out after slaughter (83 per cent). The level of satisfaction with grading appeared to be fairly high, with 40 farmers (83 per cent) indicating that they were happy with the grades most or all of the time. One or two farmers were, however, extremely disgruntled with their treatment over grades. Their main complaint appeared to be a belief that grades were varied according to the state of the market and used to their disadvantage. As with pricing, any contractual arrangement could only be built upon a position of mutual trust over grades. Company grading schemes were dominant—accounting for 66 per cent of the farmers whose cattle were graded. Thirteen farmers (27 per cent) had their cattle classified using the MLC scheme.

2.4 SCALE OF BEEF ENTERPRISE AND MARKET OUTLET

In this section the association between the number of fat cattle sold and the use of market outlets will be examined. The sample was split into farmers selling less than 200 cattle per annum (64) and those selling more than 200 cattle per annum (36). The distribution between market outlets is shown in Table 8.

Table 8 Use of market outlets according to number of fat cattle sold 1976/77

	Market outlet					Row totals
	Mart	Co-op D/W	Private D/W	Butcher/wholesaler	Dealer	
Less than 200 cattle per annum						
First outlet number	52	4	4	3	1	64
Percentage	81	6	6	5	2	100
Second outlet number	4	7	11	1	—	23
Percentage	<u>17</u>	<u>30</u>	<u>48</u>	<u>4</u>	<u>—</u>	<u>100</u>
Column totals	<u>56</u>	<u>11</u>	<u>15</u>	<u>4</u>	<u>1</u>	<u>87</u>
More than 200 cattle per annum						
First outlet number	21	5	8	2	—	36
Percentage	58	14	22	6	—	100
Second outlet number	5	9	6	—	1	21
Percentage	<u>24</u>	<u>43</u>	<u>29</u>	<u>—</u>	<u>5</u>	<u>100</u>
Column totals	<u>26</u>	<u>14</u>	<u>14</u>	<u>2</u>	<u>1</u>	<u>57</u>

It is evident that marts are particularly important for farmers selling less than 200 cattle per year, with 52 of these farmers (81 per cent) using it as their main outlet. Further, 67 per cent of these farmers used no other outlet. Amongst farmers selling more than 200 cattle per year 21 (58 per cent) used the mart as their main outlet. However, amongst this second group there was a much higher proportion using dead weight centres as their main outlet, 36 per cent compared with 12 per cent. In fact total usage of dead weight centres by larger farmers exceeded that of the marts.

Table 9 Recent changes in use of market outlets

	Change to mart	Change to D/W	Change between D/W	No change
Less than 200 cattle per annum	8	8	2	46
More than 200 cattle per annum	4	3	2	27

As Table 9 shows it was impossible to determine any trend in favour of particular market outlets. A number of farmers indicated that it was their policy to sell cattle in the marts when prices were buoyant. If the market began to slacken at all then they felt that better prices were obtained at the dead weight centres.

Table 10 Proportional distribution of reasons for choosing outlet by scale of enterprise

	Less than 200 cattle per annum	More than 200 cattle per annum
	%	
Good prices offered	23	25
Regular number of buyers	8	4
Co-op	1	1
Good grades	4	3
Fixed prices	6	11
Level of service provided	5	3
Quick payment	6	8
Shareholder	2	—
Flexible marketing possible	9	11
Variety of cattle handled	2	9
Other reasons	21	24
Not specified	13	1
Column totals	100	100

Reasons given for choosing their market outlet were similar for both size of groups. A good price and quick payment were more or less equally important. The most significant difference was that the farmers selling larger batches of cattle showed a much higher preference for fixed prices, that is cattle priced before leaving the farm. Of farmers in the 200 plus group, sending cattle to a dead weight centre, 44 per cent were paid on this basis and the remainder on dead weight and grade. Also because of the number of cattle they are sending away it is important that their buyers can handle a variety of cattle. These are two areas in which contracts could be of assistance, by developing markets for particular types of animals.

Table 11 Size of beef enterprise and contact with fieldsmen/auctioneers

	Less than 200 cattle per annum	More than 200 cattle per annum
	%	
Contact with main outlet representative	58	72
Contact with second outlet representative	59	81
Number of cattle bought on price list—main outlet	11	22
Number of cattle bought on price list—second outlet	57	57

Farmers selling more than 200 cattle per annum have a much higher level of regular contact with their market outlets (Table 11). As the section on contracting will show, personal contact is important in the establishing of contractual arrangements. The higher proportion of cattle going to dead weight centres as the second outlet is reflected in the increased use of price lists in this group.

2.5 EXISTING USE OF CONTRACTS

Sixty-one of the farmers had either current or past experience of contracting for commodities other than beef, 58 having undertaken written contracts. One farmer was contracting for beef. Details of the three most important commodities contracted by the farmer are recorded in the following tables.

Table 12 Type of commodity contracted

	Commodity						Row total
	Bacon	Barley	Weaned pigs	Beef	Potatoes	Wheat	
Number of farmers	11	53	2	1	8	1	76 ¹

¹ Because this is a composite it includes farmers who contract for more than one commodity.

Table 13 Details of products contracted

		Commodity						Row total
		Bacon	Barley	Weaned pigs	Beef	Potatoes	Wheat	
Total number of farmers		11	53	2	1	8	1	76
Number with fixed quantity contract ¹	No.	11	46	1	1	7	1	—
	%	100	87	50	100	88	100	—
Number with penalty clauses	No.	9	41	—	—	4	1	—
	%	88	77	—	—	50	100	—
Number with legally binding contracts	No.	8	48	—	—	7	1	—
	%	73	91	—	—	88	100	—

¹ Most of these so called fixed quantity contracts would have tolerance levels built into them.

A proportion of farmers were on a fairly formal contract which specified quantity, had penalty clauses and which was considered to be legally binding (Table 13).

Table 14 Pricing arrangements for commodities contracted

	Pricing arrangement							Row totals
	Feed cost + delivery	Market price + grade	Agreed at sale	Fixed at time of contract	HGCA forward price	Market price + delivery bonus	Market price + sharing of pool element	
Bacon	1	5	—	—	—	5	—	11
Barley	—	13	3	31	2	1	3	53
Weaned pigs	—	2	—	—	—	—	—	2
Beef	—	—	—	—	—	—	1	1
Potatoes	—	1	1	5	—	—	1	8
Wheat	—	—	—	1	—	—	—	1
Column totals	1	20	4	37	2	6	5	76

Table 14 is dominated by the fixed price contract which is used for barley, wheat and potatoes. The use of the futures market or HGCA forward prices makes this type of forward selling particularly feasible for cereals. The lack of these facilities for the fatstock sector would make a fixed price contract an extremely hazardous undertaking for both parties. The second most common arrangement is the market price at the time of exchange plus a bonus based on grade.

The idea of a 'market price' plus a share of the pool generated by realisation is operated for three of the barley contracts and the sole beef contract. This scheme has much to commend it since it ensures the farmer a base price payment plus a share of the reward for higher grade, better yield *etc.* Within the context of a scheme where carcasses are being boned out and sold direct as primal or boxed cuts this type of scheme might be operated.

Any scheme developed along these lines would have to have a base or market price which was seen by the farmer to be representative of the price he could expect to obtain for his cattle elsewhere. To this price would be added premia for carcasses yielding above average amounts of saleable meat. The price could also be discounted for carcasses failing to achieve average yields. Therefore the scheme obviously has to have two basic requirements:

1. A satisfactory way of arriving at a market price. For example, by use of local auction prices but this would not be totally satisfactory if the type of cattle required under contract were not representative of the marts' normal trade. Another possibility is the retailer's buying-in price less meat plant costs and profit. Again this might prove less than satisfactory if the buying-in price began to be influenced by the buyers other retailing strategies. From this limited discussion* it is evident that any attempt to move away from a traditional mart and wholesaling situation to a position where the meat plant is looking for farmer commitment to provide particular types of carcase requires new developments in price discovery work.
2. Secondly, the farmer must have his final price calculated fairly and quickly. To achieve this the pricing structure must be based on some type of carcase classification scheme. Then the carcase can be evaluated for its yield of meat and placed in the pricing grid accordingly. A number of schemes in England appear to be operating satisfactorily on this basis with prices based on the MLC classification scheme.†

*See Sections 1.2 and 1.3 for a fuller discussion of this problem.

†*eg Farming Business*. Summer 1977, p 10.

Finally, good communications would be the essence of success in such a system. Certainly the schemes in England place great emphasis on relaying information back to the producers as to group and individual performance, plus market information.

Farmers were also asked for the particular advantages/disadvantages which were apparent to them from contracting. Thirty-four (45 per cent) were satisfied but could not give any specific advantages from contracting. Of the remaining 42, 20 said they were generally satisfied and specifically mentioned the benefits of advanced pricing (8) and a guaranteed outlet (12). The remaining 22 gave the following reasons for their dissatisfaction:

Table 15 Reasons for dissatisfaction with contracting

	Favours buyers	Problems at the processor	Late payment	Grading problems	Not specified	Row total
Number of contractors	4	2	5	8	3	22

Late payment and grading difficulties were important sources of dissatisfaction amongst contractors. They could be equally contentious in a beef contracting situation. Any movement away from whole sides and wholesale markets towards boning and direct selling tends to lengthen cash flows. Therefore it is difficult to ensure prompt payment to farmers however good the pricing arrangements. The question of grading is a vexed one and is likely to remain so as long as grading and classification are confused. It is essential to the success of any contract that the producer is assured that the classification scheme is simply not being manipulated to suit market conditions.

Of the 76 contracts, 69 had been started after an initial approach by the buyer. Another six had started either through friends or a marketing group. This result shows the importance of a personal approach in explaining and establishing a contractual arrangement.

Fifty-nine of the contracts were still in operation, the following reasons were given for terminating the other 17.

Table 16 Reasons for terminating contract

	Adverse price change	Change in enterprise	Belief that contract was used against them	Row totals
Bacon	—	3	1	4
Barley	4	2	6	12
Weaned pigs	—	1	—	1
Column totals	4	6	7	17

A change in farm enterprise was discounted as not being directly attributable to contracting difficulties. This left problems of adverse price changes and the use of the contract to the buyer's advantage—predominantly amongst barley growers. Significantly it is this group where fixed price contracts are most prevalent.

2.6 CONTRACTING FOR FAT CATTLE

All interviewees were asked for their reaction to the idea of contracting for fat cattle. The response to this question was equally balanced between those with no interest in contracting and those who showed at least some interest. Those farmers giving a negative response to fatstock contracting gave the following reasons:

Table 17 Reasons for negative response to fatstock contracting

	Risk of adverse price movement	Unable to fulfil regular delivery requirement	Desire for freedom of action	Satisfied with present system	Already contracting	Distrust of grading	Past experience of contracting	Not specified
Number of farmers	5	15	10	14	2	2	1	1

The inability to fulfil contractual delivery targets must be considered in the light of Figure 1 and the subsequent discussion. That is, many farmers sell cattle in small lots at relatively irregular intervals. In the absence of a satisfactory contract pricing arrangement the risk from adverse price changes is a very real one. The desire for freedom is a related factor, since clearly farmers wish to have the freedom to sell cattle to the market showing the highest return at that time. It should be noted, however, that whilst farmers desire freedom many of them in fact send their cattle regularly to the same outlet (see Table 5). Only two farmers highlighted grading as a problem area. A somewhat surprisingly low number for what has been an area of controversy in the meat trade for some time. The importance of a satisfactory classification scheme for the establishment of contracts has already been discussed in Section 2.5.

The response of those at least interested in the idea of contracting highlighted the importance of pricing to the farmer. Forty farmers (80 per cent) said a satisfactory system of price discovery or forward pricing would have to be developed. By this they did not necessarily mean prices fixed for several months ahead, since many feared that this might in fact work against them. Instead many were looking for an established and agreed pricing arrangement by which the weekly price could be calculated. The remaining 20 per cent linked price with a guaranteed outlet. In other words they preferred the idea of a guaranteed market for their produce but they wanted to be sure that this commitment on their part would not be exploited. Thirty-eight of these farmers (76 per cent) also responded favourably to the idea of a delivery bonus payable only if contracted numbers were met.

2.7 SIZE OF BEEF ENTERPRISE AND ITS EFFECT ON CONTRACTING

The sample of 100 farmers was again split into those selling more than or less than 200 cattle per annum and their contracting experience analysed. Of the 64 farmers selling less than 200 cattle per annum, 35 (55 per cent) had current or past experience of contracting compared with 27 farmers (75 per cent) selling more than 200 cattle per annum. The proportion of written contracts was also higher amongst this second group—only one farmer did not have this arrangement compared with five (14 per cent) in the first group. Also, as Table 18 shows, the acceptance of fixed quantities, penalty clauses and binding contracts was higher in this second group.*

*This section of analysis is restricted to the single or most important commodity sold under contract.

Table 18 Selected aspects of contractual arrangements

	Less than 200 cattle per annum	More than 200 cattle per annum
Number with penalty clauses	24 (69%)	23 (85%)
Number on fixed quantity	30 (86%)	26 (96%)
Number who consider contract legally binding	28 (80%)	24 (89%)
Total number of cases	<u>35</u>	<u>27</u>

There was also a higher level of satisfaction with contracting amongst the 200 plus cattle group, with 21 (78 per cent) indicating their general satisfaction. Amongst the other group 23 (66 per cent) said that they were generally satisfied. Of the 12 farmers in this group who were dissatisfied the following reasons were the most important: contract favours buyer (3), late payment (3), grading problems (4). Grading problems were also mentioned by three of the six dissatisfied farmers in the 200 plus group. In the 200 plus group 23 farmers (85 per cent) were still contracting compared with 22 (63 per cent) of the other group.

The reaction to the idea of fatstock contracting also differed between the two groups. Table 19 shows the level of interest in this type of contract.

Table 19 Level of interest in fatstock contracting according to size group

	Less than 200 cattle per annum	More than 200 cattle per annum
Very interested	3 (5%)	2 (6%)
Interested	28 (44%)	17 (47%)
Indifferent	12 (19%)	8 (22%)
Not interested	21 (33%)	9 (25%)
Total	<u>64</u>	<u>36</u>

The number of farmers in the 200 plus group interested in fatstock contracts is 19 (53 per cent) compared with 31 (49 per cent). Amongst farmers definitely not interested in contracting nine (25 per cent) were in the 200 plus group and 21 (33 per cent) in the other group. Whilst these differences are numerically small their implications for the level of acceptability of contracts in the two groups may well be significant.

The most important reasons for rejecting fatstock contracts are presented in Table 20. The difficulty of meeting delivery targets was important in both groups.

Table 20 Reasons for negative response to fatstock contracting

	Less than 200 cattle per annum	More than 200 cattle per annum
Inability to meet regular deliveries	11 (52%)	4 (44%)
Desire for freedom of action	8 (38%)	2 (22%)
Satisfied with present system	9 (43%)	5 (56%)
Price risk	<u>3 (14%)</u>	<u>2 (22%)</u>
Total number of cases	<u>21</u>	<u>9</u>

The most important incentives mentioned by farmers interested in contracting for fat cattle are shown in Table 21.

Table 21 Incentive required by farmers interested in fatstock contracting

	Less than 200 cattle per annum	More than 200 cattle per annum
Forward price	10 (32%)	2
Pricing arrangement linked to guaranteed outlet	11 (35%)	13 (68%)
Suitable price fixing arrangement	4 (13%)	1
Guaranteed outlet	<u>2</u>	<u>1</u>
Total number of cases	<u>31</u>	<u>19</u>

Certain important differences emerge from this table. Amongst farmers selling less than 200 cattle per annum a forward price is seen to be important. However, as stressed elsewhere, it is doubtful whether in the present state of the beef market such an arrangement could be set up. The dominant feature of the 200 plus group is the linking of a satisfactory pricing arrangement with a guaranteed outlet. An arrangement which is also attractive to the first group.

The reaction to a bonus conditional upon meeting delivery quotas also differed between the two groups. All but one of the 19 interested farmers in the 200 plus group were prepared to accept this condition. Presumably a reflection of the increased ability amongst the 200 plus group to meet delivery targets.

Finally, it should be noted that the one farmer with an existing contract for fat cattle was in the size group 500 to 999 fat cattle per year.

2.8 OTHER FACTORS RELEVANT TO CONTRACTING

Willingness to meet buyers' requirements An important function of a contract is to relay market information between the parties involved. It may well be that this information indicates the necessity of change on the part of the producer to meet a particular market requirement. Therefore all interviewees were asked to give an indication of their willingness to consider changing the type or finish of the fat cattle produced. The sample was again split into farmers selling less than or more than 200 cattle per annum.

Farmers were first asked if they would consider any change in their system—given some form of long term commitment by the buyer. Of farmers selling less than 200 cattle per year 35 (54.7 per cent) said they would. Farmers selling more than 200 cattle per year were marginally more prepared to consider change—21 (58.3 per cent) indicated their willingness. These two groups of farmers were then asked a series of questions as to what type of change they might consider (Table 22).

Table 22 Type of change considered by farmers in fattening system

	Selling less than 200 cattle per annum	Selling more than 200 cattle per annum
Number of farmers involved	35	21
	Percentage making positive response	
Prepared to consider change in breed	77.1	85.7
Prepared to consider change in ration	55.9	81.0
Prepared to consider change in feed rate	66.7	90.5
Prepared to consider change in finish	85.7	85.7
Prepared to consider change in market timing	54.5	66.7

The number of farmers who said that they would be prepared to consider a change of breed is surprisingly high in both groups. Particularly in an area dominated by one or two traditional beef breeds. The farmers marketing more than 200 cattle per annum show a much higher degree of willingness to consider a change in either ration or feeding rate. Presumably because these represent larger and more flexible farming systems. This factor also explains their greater willingness to vary their marketing pattern.

The 56 farmers were also asked what type of commitment they would expect from their buyer if they were to make these changes (Table 23).

Table 23 Type of commitment expected by farmers in return for a change in their system

	Selling less than 200 cattle per annum	Selling more than 200 cattle per annum
	%	
Price incentive	37.1	47.6
Forward price	20.0	14.3
Price fixing system	11.3	14.3
Guaranteed outlet	25.7	23.8
Quality premium	2.8	—
Improved grading	2.8	—
	<u>100.0</u>	<u>100.0</u>

A price incentive emerges as the most important commitment. The availability of a guaranteed outlet is the next most important factor. The quotation of a forward price is also seen to be important. However the provision of this feature in any type of fatstock contract would be extremely difficult. The uncertain state of the market would probably mean windfall gains for one of the two parties involved—not the best conditions for a continuing contractual arrangement. The issue might possibly be resolved by the adoption of a satisfactory price fixing arrangement—as suggested by 13 per cent of the farmers. In this way, whilst no end price would be fixed forward, the method of price discovery would be known and agreed by the farmer.

The farmers who said that they would not consider a change were also asked to give reasons for this. Of the 44 farmers involved, 21 said it was because they were happy with their present system. Other reasons mentioned by more than one farmer were: fear of price fluctuations (4), desire for freedom (6), regarded marts as the key market indicator (4) and too few fat cattle (3).

Level of awareness of marketing developments A farmer's interest in or willingness to consider contracting might also be affected by his awareness of developments in marketing. This awareness will in turn be determined by use made of the press, visits to dead weight centres, marts and extension meetings.

Of the 100 farmers, 24 had attended meetings at which the marketing of cattle was discussed. Only eight interviewees had found these meetings useful and only four attended on a regular basis. Reasons given as to why the meetings were unsatisfactory were: practical implementation of ideas too difficult (6), own contacts provided better guidance or speakers unsatisfactory (5), unable or unwilling to change system (3).

Of the 76 farmers who had never attended a marketing meeting, 47 said that they would be interested if one was organised on a local basis. In other words there appears to be considerable scope for, and interest in, the possibility of local meetings to tackle the problems of livestock marketing. However, from the evidence available these meetings require careful preparation if they are not to prove unsatisfactory in practice.

Another important way of passing on marketing developments is through the dead weight centre. Eighty-two farmers had visited a centre at some time in the past, and 50 of these (61 per cent) had seen their own stock killed/dressed. Fifteen farmers made fairly regular visits to a centre.

Farmers were asked specifically for their awareness of one relatively recent innovation, the payment of the producer according to the actual yield of saleable meat which comes from his animals. Such a scheme obviously implies a well developed system of carcass classification and the actual sale of meat/meat products from the meat plant. Only 17 farmers had heard of yield payment schemes, and only six of these said they understood how it operated. None of the farmers to their knowledge were paid on this basis.

Marketing difficulties Another important feature of a fatstock contract is that it might be used to solve particular areas of difficulty which had been highlighted by market research. Farmers were asked to mention particular areas of difficulty which they experienced in marketing.

Fourteen farmers said that they had difficulty in deciding the type of store animal they should buy/breed for fattening. The numerically most important reason for this was the shortage of suitable stores. Also mentioned were change of breed and uncertainty over future levels of fat prices. More difficulty was experienced over timing the sale of fat cattle. Thirty farmers mentioned this as a particular difficulty. The difficulty of getting animals ready for market at the chosen time was the other major problem faced by these farmers. Nineteen farmers also said that they found it difficult to get the right degree of finish. Here the most important reason was that there was a move towards a lower fat requirement and the cattle therefore tended to be over finished. Other farmers found it difficult to meet the varied requirements of the market. Finally, eight farmers said that they had difficulty in choosing the appropriate market outlet. The main reason for this was the problem of interpreting the price fluctuations between the various outlets. Other farmers had problems in choosing the animals which would do best in particular outlets.

Market information The importance of a contract as a supplement to existing market information has already been mentioned. Farmers were asked questions about their present use of information sources. Of the 100 farmers, 70 said that they checked market prices daily irrespective of whether they had cattle to sell or not. A further 10 said that they checked them weekly. Twelve farmers checked prices only when they had cattle to sell, eight of these checking prices daily on these occasions. Farmers were asked to give their two main sources of information (Table 24).

Table 24 Main sources of market information

	Radio	Paper	Personal contact	Mart	Fieldsman	Price	Other	MLC ¹
Main source	6	86	1	4	1	—	2	—
Second source	18	13	5	36	12	1	9	2
Column totals	24	99	6	40	13	1	11	2

¹ That is direct from the MLC. Many of the other sources *eg* paper or radio would use the MLC as a primary source.

The importance of the local paper as a primary source of market information is self-evident. Many farmers mentioned that their marketing decisions were based on the reports of certain key marts as carried in the press. Direct contact with marts is seen as an important backup to this information. Radio reports are also fairly important, particularly in giving a UK perspective on price trends. Farmers were also asked to give an opinion of the value of these reports as a guide to marketing their cattle. Sixteen thought they provided an accurate record of the trend in prices, however 35 used them as an approximate guide only. Fifteen farmers felt that the way the prices were presented did not give a true reflection of prices paid during the course of the sale, a further seven felt that they did not sufficiently reflect the premiums for different types of cattle. Finally, three farmers wanted greater detail.

2.9 CO-OPERATIVE RELATED FACTORS

Each interviewee was asked for details of membership of livestock marketing co-operatives. Of the 62 members recorded, 29 were members of both Aberdeen and Northern Marts and Buchan Meat Producers. Table 25 cross-tabulates membership of meat marketing co-operatives with length of membership.

Table 25 Length of membership of meat marketing co-ops

	1-3 years	3-5 years	5-10 years	10-20 years	More than 20 years	Row totals
Aberdeen and Northern Marts (including AMMCO)	2	3	5	5	27	42
Buchan Meat Producers	2	1	6	6	41	56

When asked for the reason for joining the co-operative 32 members of the marts (76 per cent) gave the payment of bonus on trading as the reason. A further six said that it offered an alternative outlet. Amongst members of Buchan Meat Producers 35 (63 per cent) said that it was the option of an alternative outlet to the mart which attracted them. Eight were attracted by the payment of bonuses. Five had joined either because they obtained requisites through BMP or had contact with a fieldsman. Only three farmers, all members of BMP, said that they had joined specifically because it was a farmers' co-operative. This low response should be compared with Table 6 where only two farmers specified co-operative status as a reason for sending their cattle through the market outlet.

Farmers were asked if they regarded the co-operative differently from any commercial firm which might be offering for their cattle. Only eight farmers (13 per cent) said that they treated the co-operative differently simply because of its special status. In other words co-operatives will tend to be judged on their commercial performance.

3.

CONCLUSIONS AND POSTSCRIPT

3.1 INTRODUCTION

This report began by showing the effect of a growing concentration in any food marketing chain as resources were rationalised to meet the demand for an increased level of processing and packaging. At the processor/wholesaler stage considerable capital investment is usually necessary to meet the much more precise presentation standards set by the large multiple retailers. As a result a few big companies tend to emerge to dominate the processing sector. The commitment of these companies to deliver a specified product plus their high overheads makes them keen to ensure adequate throughput. Farmers are therefore frequently approached and asked to participate in some kind of supply agreement. This agreement may take the form of discounting, contract or vertical integration. This study concentrated upon the feasibility of contracting.

In contrast with many other foodstuffs the beef sector is at present still highly fragmented. Live auctions account for almost 50 per cent of sales off farms and at the slaughter/wholesaler level there are many small abattoirs. At the retail level the independent outlet is still the dominant factor, with the inroads of supermarkets kept in check by the fact that attempts to pre-package meat have so far met with only limited success.

There are indications, however, that in the next ten years the meat sector will undergo fundamental changes. Economic pressures and the need to meet new hygiene regulations may lead to the closure of half of the present 1,400 abattoirs by 1985. The remaining meat plants will not only be larger but will be equipped to provide meat and meat products to a much wider range of specifications than before. At the retail level it seems possible that new techniques of meat preparation and freezing could be about to give the multiple grocers the market opening they have been waiting for. The growing number of domestic freezer owners gives them an important market to aim at initially.

If, in the next ten years meat plant operators are going to look increasingly not only for assured levels of throughput but also for specific types of cattle to satisfy detailed retail specifications then contracts are one way of meeting these requirements. Contracts would have the following important functions:—

1. Setting down the criteria whereby carcasses were to be classified.
2. Establishing a pricing procedure which was satisfactory both to producer and meat plant operator.
3. As an important medium for the two way movement of information. The significance of this role cannot be over emphasised. Not only does the processor need to know future supplies and the producer market requirements but a level of mutual understanding and trust needs to be developed if the contractual arrangement is to continue successfully.

Whilst these are all key areas for contracting, the difficulties of establishing satisfactory classification and pricing systems for cattle are recognised. There is continued opposition by sections of the trade to the MLC classification scheme, so the widespread adoption of a national scheme is still some time away. As to pricing arrangements under contracts, the question must be raised as to how adequate the prices ruling in existing live and wholesale markets are as indicators for contracts to supply specific types of carcasses. Any further decline in the throughput of these markets will only serve to increase the importance of thoroughly investigating these price relationships.

It was in the context of these changes in the meat marketing sector that this study was carried out. Since the specific remit was to investigate the market situation in north east Scotland, it has not been possible to examine in any detail structural changes, classification and price discovery. An extensive literature already exists on meat classification and reference to this was made in the text. Possible ways of price discovery were suggested but this topic requires further research.

Therefore the questionnaire set out specifically to examine:—

- i. The annual and seasonal pattern of fatstock marketing—since this determines the ability to supply fat cattle “of a specified type, form and quality within certain set time periods”.
- ii. The use made of the various market outlets and the reasons for choosing these outlets—since these are important factors in determining the success/form of any contractual arrangement.
- iii. The attitude of the farmers to possible change in market requirements—important if the contract is to form a signal of customer preferences.
- iv. Existing use of contracts for other farm produce and the interest in the possibility of fatstock contracts—both important indicators of the reception which the idea might expect from farmers.

3.2 CONCLUSIONS

The Ability to Meet Contractual Requirements. If the contract is defined as a commitment to supply cattle of a particular type/quality on a regular basis then very few farmers in the survey could comply with these terms. Figure 1 showed that, except in November and April, the majority of farmers were selling less than 20 cattle per month. Further analysis (Table 4) showed that there were considerable fluctuations in the number of cattle marketed each month, particularly amongst farmers selling less than 300 fat cattle per year.

The size of beef enterprise had the following effects on sales:—

Increased size meant:—

1. A higher average monthly sales figure—range of 19 (100 to 199 cattle per annum) to 130 per month (1,000 plus cattle per annum).
2. Less variability in the monthly sales figures of individual farms.
3. A much smaller range in the monthly sales figures between farms in the same size group.
4. Sales of similarly sized batches of cattle over a greater number of consecutive months—an increase from an average of 4 consecutive months (100 to 199 cattle per annum) to 10.3 months (1,000 plus cattle per annum). Many of the farmers in the size groups 500 to 999 and 1,000 plus sold cattle for 12 months of the year. No farmer selling less than 300 per year sold cattle continuously through the year.

Conclusions drawn:—

- a. Many farmers, particularly those selling less than 300 cattle per year (73 per cent of the sample), would have extreme difficulty in making delivery of specified numbers of cattle in regular consecutive monthly batches.
- b. The variability in the number of cattle sold is simply a reflection of the large differences in farm size and enterprise structure shown in Appendix 1.2 to 1.6. It is difficult therefore to envisage a single contract which could adequately cover these variations.
- c. The problems highlighted in (a) and (b) might be solved by the use of either seasonal or group contracts. However these contracts would involve increased administration, the maintenance of contact with farmers during non-marketing periods and the need for group discipline.
- d. The ability to meet contractual delivery requirements is much higher amongst the larger farmers, particularly amongst those selling more than 500 per annum. Even here some “smoothing” might be required in order to gear numbers marketed more closely to market requirements.

Market Outlets The auction markets were the most frequently used marketing channel—used by 73 per cent of the farmers as their main outlet and by 43 farmers as their sole outlet (Table 5). In terms of cattle throughput however, the deadweight centres had a slight advantage, handling 53 per cent of the cattle sold.

The mart was particularly important for farmers selling less than 200 cattle per year—81 per cent used it as their main outlet. Deadweight centres were much more important amongst farmers selling more than 200 cattle per year (Table 8).

The following were the most important reasons given by farmers for choosing their market outlet (Table 6).

- i. The payment of attractive prices, the agreement of prices on the farm and quick payment.
- ii. The ability to handle a varied number and type of cattle.
- iii. Proximity to outlet with its consequent effects on transport costs, weight loss and personal contacts.

Conclusions drawn:—

- a. Since the live mart is simply a marketing channel and is not therefore involved in the processing and wholesaling of meat to retail it would be difficult for it to become involved in contracting as envisaged in this study*.
- b. Any contract which was introduced would have to be seen to be paying a competitive price. Also, in view of the farmers' desire for quick payment, the cash flow delays inherent in any meat boning and preparation system would have to be kept to a minimum. The way to achieve both of these objectives would seem to lie in the application of an accepted classification scheme to determine meat yield.

The farmers' desire to be quoted a price on the farm militates against contracting, as it is impossible to determine meat yield sufficiently accurately on the live animal.

- c. The fact that there are fewer deadweight centres than marts means that the distances for transport are inevitably greater. However use of contracts might help to co-ordinate transport so reducing costs, travelling and lairage time.

Attitude to Change From the survey there was no evidence of a definite trend towards any particular type of market outlet. Some farmers did indicate that they would switch cattle between marts and deadweight centres, depending upon the general state of the market. Fifty-six farmers said that they were prepared to consider change in their system to meet buyer requirements. Farmers selling more than 200 cattle per year showed a greater degree of flexibility over the type of change they would consider than did those selling less than 200 per year. Obviously these farmers with the larger beef enterprises also tend to have larger farms and therefore more scope for varying their enterprises. In return for any change made to suit the buyer the farmer expected certain advantages. Predominant amongst these was a price incentive and a guaranteed outlet for the cattle produced to specification. Also mentioned were a forward price and a suitable price fixing system.

Conclusions drawn:—

- a. Since there is no definite trend discernible towards particular market outlets conditions which are more/less favourable to contracting are apparently not going to develop in the near future.
- b. The overall level of willingness to consider change was only slightly higher amongst farmers selling more than 200 cattle per year. However, their willingness to carry through actual change in ration, feeding rate etc. was much higher. Therefore if the purpose of the contract is to induce and guide change to meet market requirements it is more likely to achieve this amongst the larger farms.

*The scope for the contractual matching of stores bought and fat cattle sold obviously exists.

- c. Price incentive emerged as a key inducement to change. In the present state of the meat market it is difficult to determine where extra money might be generated to pay such a premium. The only possibility would seem to be the isolation of markets for particular types of meat and then fulfilling these requirements exactly. This development implies the sale of meat—a quality product rather than carcasses—a variable commodity.
- d. Forward pricing is also mentioned as being important, particularly by those selling less than 200 cattle per year. In the present situation the setting of fixed forward prices would be a difficult and dangerous procedure. It had been an important source of friction amongst those dissatisfied with the existing contracts for other commodities. However if markets can be developed and meat sold more as a product rather than a commodity this will reduce the fluctuations in market price. If this stabilisation of market prices could be carried through it might lead eventually to the situation where "target" or forward indicator prices might be developed for the producer contract. This would, however, be a long term objective.
- e. The need for a satisfactory pricing mechanism was raised by a number of producers, and the discussion elsewhere in the report has highlighted this as a critical factor in the success or failure of contracts. If the meat plant is to sell specified meat packs rather than variable carcasses then its success, as pointed out in (c) above, will depend upon procuring carcasses with high yields of the requisite cuts. This development may well make the price quotations of the local marts and main wholesale markets less meaningful. In the absence of a futures market or commodity exchange it means that an alternative system of price discovery will have to be established. This may simply involve using the retailer's buying-in price less costs, but care would have to be taken that this price was not being adversely influenced by the retailers other marketing strategies.

Existing Contracts Sixty-one of the farmers in the survey had experience of contracting for commodities other than cattle, many of these in a fairly formal written form. Level of satisfaction with these contracts was also high (70 per cent) with the benefits of advanced pricing and a guaranteed outlet specifically mentioned. Those farmers who were dissatisfied or had given up contracting mentioned grading and prices/payment as key areas of friction. Personal contact was very important in establishing a contractual arrangement. All but one contract had been established by initial personal contact either through a representative/fieldsman or group. As might be expected experience of general contracting was higher amongst those selling more than 200 cattle per year, 75 per cent compared with 55 per cent. Also there was a higher level of satisfaction and/or operational contracts in the larger size group.

Attitudes to the idea of fatstock contracting were evenly balanced between the interested and disinterested. Amongst those not interested in contracts the inability to fulfil delivery quotas was more important. General satisfaction with the status quo and a desire for freedom of action were also important factors.

Farmers interested in the possibility of fatstock contracting mentioned specifically the benefits of a guaranteed outlet and a suitable pricing arrangement.

The level of positive response was generally slightly higher amongst farmers selling more than 200 cattle per year. They were certainly far more prepared to accept the idea of a delivery bonus payable only if contract delivery quotas were met.

There was only one interviewee who was already contracting for fat cattle and he sold between 500 and 999 cattle per year. He had a very well established relationship with his buyer who paid him a base price plus a share of the realisation if this was greater.

Conclusions drawn:—

- a. Level of contracting experience for other farm produce was high and general reaction to contracts was favourable.

- b. Main areas of mistrust were over pricing and grades—so obviously these need careful attention.
- c. Only one contract had been established without initial personal contact. So any new scheme obviously requires careful presentation at a personal or small group level if it is to gain acceptance.
- d. The possibility of a guaranteed outlet, and an understandable and acceptable pricing arrangement emerge as important factors. These would be key areas in the development of any contract.
- e. The larger beef enterprises once again emerge as more open to the possibility of contracting.
- f. It would be dangerous to draw general conclusions from the case of the single fatstock contractor in the survey. However it is reasonable to point out that:—
 - i. He has a large beef enterprise (500 to 999 beef cattle sold per year).
 - ii. The contract is based upon a very good relationship with the buyer.
 - iii. There is no fixed forward price but a base price plus share of realisation is paid.

Co-operatives Sixty-two interviewees indicated that they were members of meat marketing co-operatives. Reasons for joining the co-operative were varied, but bonus payments and the provision of an alternative outlet were the most important factors. Only three farmers had joined specifically because it was a farmers' co-operative and only two sent cattle through it on this basis. When asked if they regarded the co-operative differently from any other commercial meat enterprise only eight (13 per cent) said that they did. There was evidence, however, of a greater level of contact between co-operative deadweight centres and farmers, plus a greater awareness amongst these farmers of price lists and how these were worked out.

Conclusions drawn:—

- a. If co-operatives are to be successful in meat marketing then they must be as competitive as any commercial meat plant. There is little evidence that farmers will support them simply because of their special status.
- b. Competition with commercial firms means adopting the same standards of efficiency, managerial expertise and marketing skills.
- c. It also means that the service provided for the farmer has, in the long run, to be charged for at the market rate. The member should not look to his co-operative for a cheaper than average service but a competitive and cost effective service. The existence of viable and commercially successful co-operatives in the meat trade is one of the best protections for the producer against possible domination by a relatively few large oligopolistic firms.
- d. With or without contracts, co-operatives, by their very structure, should provide the medium necessary for the transfer of market information between buyer and producer. It is only on the basis of such mutual understanding that meat plants can make adequate plans for future investment or the farmer adapt his management techniques to produce the cattle the market requires.

3.3 A POSTSCRIPT

The purpose of this postscript to the main study is to combine the results of the survey with ideas developed in the course of background reading and subsequent discussions with colleagues, members of the trade and the staff of MLC and CCAHC. The objective is to provide both a development of the arguments put forward in the main study and to act as a stimulant for further discussion.

1. **Contracting for Meat** Margins within the traditional livestock and wholesale carcase exchange sector are such that the extra contractual payment which might be offered to producers would be insufficient to obtain their long term commitment. Therefore contracting is not considered to be feasible if the objective is purely to obtain numbers of cattle. Instead the contracting must be in terms of quantity and quality of meat required. This approach implies that the meat plant has secured outlets for meat in at least primal cuts to improve estimation of meat yields. The customer is assumed to want regular deliveries in terms of:—

1. Quality
2. Specific cuts
3. Quantities

This type of regular trade means that the meat plant not only builds up a seasonal pattern of cattle requirements but can also decide which type of cattle give the most cost effective way of fulfilling these specifications. Also the best outlets for any unwanted cuts can be determined and regularly supplied, thus improving overall returns.

In other words, the objective should be to contract for meat and not for cattle numbers. For a given regular outlet a specification as to breed, age weight etc. can then be drawn up and cattle procured on a regular basis.

2. **An Adequate Reward** Reference has already been made to the difficulty of making an extra payment out of the margins in traditional carcase wholesaling. The question of payment is a key area upon which the feasibility of contracting for cattle turns—the sceptics would say hangs. There are no easy answers but several components of the problem can be isolated.
 - i. The classification of carcasses according to an understood and well defined system is of critical importance to the producer's returns. Whether the scheme operated is MLC or private the producer must be assured that it measures his cattle properly and that its application is not varied from week to week. The returns made to the producer and the price incentives offered should reflect both the commercially desirable carcase characteristics and the farmer's performance relative to these. The importance of this aspect is exemplified by the fact that a 2.4 carcase has 2 per cent more lean meat than a 3L,3. Worth some 4½p/kilo at current retail prices.*
 - ii. There must also be an acceptable pricing arrangement linking price to yield of saleable meat. Such an arrangement obviously has two parts:—
 - a. price setting b. relating this to yield of meat. These items will be dealt with in turn.
 - a. In the past the practice has been to relate price to that ruling in both auction and wholesale markets. Whilst these markets can never be totally ignored, for reasons that were examined in the study they may well become less and less appropriate as centres for price discovery. If this is the case then a suitable substitute price finding mechanism must be found. One possible solution is the type of forum found in Germany. If this were the case then there would have to be:—
 - The provision of impartial economic analysis, including medium to long term forecasts.
 - A forum of "experts" representing all parties.
 - The proper atmosphere for frank and reasonable discussion.
 - Rapid dissemination of price information.
 - The prevention of domination by one pricing sector e.g. retail.

*November 1978.

b. Estimation of the meat yield of individual carcasses within a modern meat plant also poses considerable problems. The key to the issue must lie in the initial classification of carcasses into groups using an agreed scheme. The categories within this scheme must be sufficiently closely specified so as to give a good indicator of meat yield. The initial price would then be calculated on this basis. Clearly the yield of each carcass could not be checked as it passed through the boning room, but it should prove feasible to check the performance of whole groups of carcasses. This would be achieved if they were run as batches through the boning room. The operators would know the target yield from say SS or 3L, 4 cattle and could then compare actual performance against this. The initial price could then be adjusted on this basis before payment was made.

3. **Large v Small Producers** It is assumed that contracts are only feasible with either:—

- a. Large producers (say 300 + cattle).
- b. Groups of smaller producers working closely together.

As contracts will not be easy to establish it is suggested that they should be directed towards the larger producer in the initial stages because such farmers are:—

- i. Better able to fulfil contract requirements.
- ii. More experienced in contracting for other commodities.
- iii. More flexible in their farming system and able to change to meet contract requirements.
- iv. Contract costs per animal are minimised.

The need is for careful evaluation of potential contractors and a suitable presentation of the case for contracting. Actual contractual relationships will only grow and develop within groups with a good level of feed back information as to performance, market trends etc.

From this basis of contracts "being seen to work", and using the accumulated experience, the more difficult task of involving smaller farmers can then be tackled.

4. **Communications** The economic arguments for large centralised meat plants are clear but such developments do tend to distance members from the co-operative. There is therefore a need for the co-operative to examine ways of recreating the group identity associated with smaller more localised enterprises. A higher level of identification would offer the following advantages:—

- i. An improved level of communication would enable the management to get across to membership the importance of new projects. Members would therefore be more closely involved in both the development and success of their co-operative.
- ii. It would provide an atmosphere in which contracting might more easily develop.
- iii. Transport might be organised on an area basis with collection points, thus reducing transport costs and providing a real service to the smaller farmer.

5. **Commitment** Available evidence indicates that a suitable time to establish contracts is when some new investment is contemplated, particularly if the investment requires both financial support and market throughput for its success. The indications are that farmers will respond positively if they can be persuaded of the worthwhileness of the venture. It can in fact be argued that the investment should not take place if the unequivocal support of farmer members is not forthcoming.

APPENDIX I

Table 1.1 Size distribution of farms—total crops and grass
(excluding rough grazing)

	Size groups (hectares)						Total	
	20-39	40-59	60-99	100-149	150-199	200-399		400 plus
No. of farms	3	15	27	21	5	17	12	100

Table 1.2 Size distribution of rough grazing
size group

	Size groups (hectares)						Total	
	1-9	10-19	20-39	40-59	60-99	100-149		150 plus
No. of farms	24	5	7	3	3	0	3	45

Table 1.3 Size distribution of cereal area

	Size groups (hectares)						Total	
	1-9	10-19	20-39	40-59	60-99	100-149		150 plus
No. of farms	1	12	26	21	16	7	16	99

Table 1.4 Size distribution of beef breeding herds

	Herd size group							Total	
	1-24	25-49	50-99	100-149	150-199	200-299	300-499		500 plus
No. of herds	18	5	10	2	2	2	0	2	41
Average herd size-79									

Table 1.5 Feeding cattle over one year

	1-24	25-49	50-99	100-149	150-199	200-299	300-499	500 plus	Total
No. of herds	4	13	29	19	11	5	10	7	98
Average herd size-165									

Table 1.6 Estimated age distribution of interviewees

	Age group				
	20-29	30-39	40-49	50-59	60 plus
No. of interviewees	3	18	40	32	7