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FINANCING ARRANGEMENTS FOR SALES OF FEED in six Midwest states have been described recently by Iowa State University. There has been much speculative comment suggesting that farming was rapidly coming under control of the business firms which provide supplies to farmers or process and market agricultural products. In some areas this trend has been clearly evident.

The Iowa study indicates there is some movement in this direction in the Midwest, but that it has not gone very far. For example, less than 20 per cent of sales of the commercial feed industry in this region in 1959 were financed by feed dealers and manufacturers under contractual arrangements with farmers and less than 3 per cent of the sales were under contracts which passed to the feed supplier a portion of the risks normally carried by the farmer. In contracts accounting for 11 per cent of the feed industry sales, farmers agreed to follow prescribed feeding and management programs.

Even for poultry, less than 7 per cent of the sales were under risk-sharing contracts and another 20 per cent included supervision by the feed supplier. In contrast, less than 1 per cent of cattle and hog feed was sold under risk-sharing contracts and less than 2 per cent of the cattle feed was sold under contracts providing management supervision.

The study included some 120 different contract programs used by the feed industry. All had a common characteristic: the feed distributor agreed to supply feed on credit for a specified time period (or livestock production cycle) and the farmer agreed to purchase feed only from that supplier.

Contracts involving financing arrangements were classified into three broad types: informal arrangements where the farmer is merely required to purchase feed from the manufacturer or dealer; formal contracts where the farmer agreed to follow a feeding and management program under the supervision of the manufacturer or dealer and may have agreements concerning purchase and sale of the livestock; and risk-sharing contracts where the feed company shares in the production and/or price risks of the livestock as well as provides feed on credit. Only the risk-sharing contracts are properly classified as "integrated" programs using outside risk capital.

To a large extent, the kind of financing arrangement and degree of supervision or control over the livestock is related to the importance of purchased feeds in the livestock production program. Most cattle feed financing covers only purchases of feed supplement and are under informal agreements whereas nearly all of the turkey and poultry arrangements provide financing for equipment, grain, poults or chicks, etc., in addition to the commercial feed and are largely formal or risk-sharing contracts.

Feed Sales Financed by Dealers in 6 Midwest States

		Type of Contract			
		Informal	Formal	Risk-sharing	Total
		(per cent of industry sales)			
Hogs	1958	6.3	4.5	–	10.9
	1959	7.1	5.6	–	12.8
Cattle	1958	5.8	1.2	–	7.0
	1959	8.6	1.1	–	9.7
Poultry	1958	1.5	14.4	5.4	21.3
	1959	1.8	20.2	6.4	28.4
Total	1958	4.1	8.4	2.5	15.0
	1959	5.2	10.7	2.7	18.6

Note: Adapted from Iowa State University, Special Report No. 28, April 1961.

About three-fourths of the informal and risk-sharing contracts and about half the formal contracts were made by feed manufacturers; the remainder were made by feed dealers. Responsibility for bad debts was carried by the manufacturer in about three-fourths of the programs under all types of financing and was shared between the dealer and manufacturer in 11 per cent of the formal and risk-sharing programs. Over half the risk-sharing programs had no interest or service charges other than those included in the price of the feed while all of the other financing provided specifically for such charges.

In contrast with the contract programs used by the feed industry in other areas of the nation, the Midwest contracts provided relatively little sharing by the dealers and manufacturers in the livestock production risk. Only one of 18 contracts classified as risk-sharing assured the farmer of a specific annual income. The remaining programs were mostly "partnership" arrangements with two-thirds of these programs including minimum loss provisions or production incentive payments and the remaining programs having provisions for both.

Research Department