PRICING PROBLEMS IN THE FOOD INDUSTRY
(With Emphasis on Thin Markets)

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EGG PRICING IN A THIN MARKET

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Webster defines thin as: sparsely supplied or provided; lacking force or substance. He defines market as: an open place or building where goods are offered for sale. When egg pricing is defined within the definition of thin markets, there would be general agreement in the egg trade that there is no place, or building, where eggs are offered for sale to all buyers, and that open trading is sparsely supplied. The present exceptions would be the Chicago Mercantile Exchange futures market, and the Egg Clearinghouse, Inc. which we will discuss later in the paper. The subject of egg pricing and market quotations has been debated for many years, typically resulting in disagreement within the egg industry.

The egg market has been a thin market for years, perhaps since the time that the sale of eggs moved away from exchange for other goods at the general store. Egg market quotations for many years have been made by U.S.D.A. and the Urner Barry Company, a private company that has been making a market quotation for over 125 years. The U.S.D.A. quotation is basically a report of what eggs have sold for during the previous period. U.S.D.A. is not really making a market, rather, they are quoting a market. The Urner Barry Company, on the other hand, collects information from many sources and establishes a market price. Most of the market pricing problems in the past few years have centered around the Urner Barry Company and their establishment of a market.

The New York Merchantile Exchange, during its operation, was a base of public egg trading that Urner Barry used for its market quotation. The volume of trading on the exchange decreased to a point where the exchange of 50 cases of eggs in a trading day established the market. The exchange was eliminated because of low volume and few buyers and sellers. We could debate why there was a lack of trading, but the predominant problem was the contract specification requiring the eggs to be in bulk form and located in a warehouse in New York City. The exchange did not keep current with changing methods of marketing eggs.

With the demise of the New York Exchange, the Urner Barry Company lost their bench mark for quoting an egg market. Probably most of the controversy in egg pricing and egg quotation has occurred since the New York Merchantile Exchange went out of existence. There has been some past discussion of using the U.S.D.A. market for the basis of selling eggs. There is general agreement that U.S.D.A. is a reporting service, and not a market maker, and in fact some of the information that they may obtain may be highly prejudiced or false. A majority of the industry, except for the west coast, has not recognized the U.S.D.A. report as a bench mark for selling and buying eggs. The egg futures trading on the Chicago Mercantile Exchange has almost gone the way of the New York Merchantile Exchange. The volume of eggs traded has dropped to a point where there are several contract months not presently traded, and I am sure that the Chicago Mercantile Exchange will eliminate some contract months if there is not an increase in trading. The eggs traded on the futures market are of questionable quality, and there is no certainty on when and from where the eggs will be delivered. The futures market, because of low trading volume, is subject to manipulation and in most cases does not have any correlation with the cash egg market.

Urner Barry is presently making many phone calls to processors, dealers, and chain stores to obtain market information to be used in establishment of their market quotation. Most eggs sold east of the Rockies are based on the Urner Barry quotation, but the quotation is not a price for product traded at any level of the market system; rather, it is a bench mark to use in negotiating prices with the customer. The present egg market is quoted two times each week: Tuesday and Thursday. There have been recommendations to Urner Barry to reduce this quoting to only one day a week. Egg market prices, like those of other perishable commodities, are determined by supply and demand.The question is: at what price level will all the eggs be cleared in the marketing system?

In 1972 Egg Clearinghouse, Inc. became a public trading exchange. The volume of eggs traded is increasing every year, but still represents less than 1% of the total volume sold in the United States. E.C.I. has become a factor considered by Urner Barry when establishing a quotation. There are many egg market participants, mostly producers, that would like Urner Barry to base their quotation solely on E.C.I. trading. Urner Barry has refused to base his quotation solely on the E.C.I. trading because it may not reflect the true market situation at all times. Some days no eggs are traded on E.C.I.

An Egg Market Evaluation Committee reviews the trading on E.C.I., and reports a market on Tuesday and Thursday. Their market is a nest run quotation in contrast to Urner Barry's graded egg quotation. E.C.I. has trading rules for bids and offers of graded eggs, but there are very few loads of graded eggs exchanged during the year. Most of their volume is nest run, and this limits trading to sellers who can assemble nest run eggs and buyers having equipment to process and grade the eggs, and place them in a consumer package. The elimination of most distributors and chain stores from purchasing on E.C.I. may create a serious void in the total market system. The trading of cartoned eggs on E.C.I. would fill the void if the industry could agree on a common brand or unbranded egg carton as opposed to the present market practice of thousands of brands.

The membership rules of E.C.I. will allow anyone in egg production, processing, and marketing to become a member, but presently processors are the primary members of E.C.I. Most of the trading volume is from one processor to another. Many producer members of E.C.I. are interested in obtaining the highest possible quotation at all times to increase the profitability of their egg production enterprise. It is possible to bid higher on E.C.I. than current market conditions would warrant, thus raising the market price. The market will not retain the increase if it is not warranted, but if the market can be maintained at a high level for only a few days it has increased the profitability of production.

Many producers and marketers of eggs are not members of E.C.I. due to a lack of understanding of E.C.I. or a fear of trading when you do not know the buyer. The quality of the eggs traded on E.C.I. is above the average quality of eggs produced. This is by design; the contract includes penalties for not meeting quality requirements at delivery point. A fear by the seller to ship anything less than top quality product can reduce sales on E.C.I. There is general agreement in the industry that eggs purchased on E.C.I. usually cannot be processed and marketed at a profit, but are only purchased to fill an immediate customer need. There is a serious question whether the price for most of the eggs in the country should be based upon the prices of less than 1% of the eggs produced in the country, marketed at a public trading point where buyers only come as a last resort.

E.C.I. trading prices can vary greatly in surplus or shortage situations. When surpluses are developing, you will find more sellers than buyers; in a shortage situation, you find more buyers than sellers. A member of E.C.I. can bid the E.C.I. price up when there are no eggs offered without fear of receiving a load of eggs. This can force the market higher at a faster rate than may be necessary or desired. When there are many sellers, the bidder can force the market lower at a faster rate than may be appropriate. An understated or overstated price quotation tends to bring about a rapid, severe adjustment. For example, when the market quotation is too low, this stimulates promotional advertising and consumer purchasing that tends to bring about a short supply, thus causing the market to react upward. A market quotation that is too high will cause consumer resistance and discounting to move products, resulting in a rapid price decline.

Wide market fluctuations can be very costly to the egg marketer due to inventory loss. On the surface it might appear that your inventory loss on the down side would be regained when the market moved upward. This is not true in reality. When the market is moving up because of a short supply, there is very little inventory on hand to profit from the price increase. When the market moves down because of a surplus and inventory buildup, discounting may cost as much as ⅓ of a cent a dozen on all eggs marketed.

The current market price is changing more often, and the change is greater than in past years; this may be due to the market becoming thinner, or by Urner Barry being more responsive to price changes on E.C.I. During 1976, the egg market changed 48 times (47% of the quotation days) including a 3¢ change 12 times, 4¢ change 4 times, and 5¢ change 4 times. During 1977, the market changed 65 times (64% of the quotation days) including a 3¢ change 12 times, 4¢ change 8 times, 5¢ change 7 times, and a 7¢ change 1 time. During 1976, the market changed 4¢ or more 25% of the weeks. In 1977, the market changed 4¢ or more 42% of the weeks, and moved 10¢ during 2 weekly periods. 1977 and 1976 were years of prices above the cost of production; during January of 1977 the egg market was at an all time high.

The largest problem of the past 25 years in egg marketing has been price discounting in relation to a market quotation. On the average, the selling discount to the quotation over the past 20 years has been increasing at a rate of over ½¢ per dozen per year, when compared with the market quotation. There have been many reasons given for price cutting, but the fact is that the processor/seller has caused the price erosion by attempting to attract new accounts based on a greater discount. It may be possible that the market quotation has reflected the price cutting by increasing; the egg market does not reach the low levels that it used to.

A second major problem is increased costs of processing and marketing that are passed back to the producer rather than added to the price paid by the consumer. Eggs will be processed and produced in this country if there is a fair return on investment. When the return becomes high there will be expansion of production that will reduce prices. The egg industry has proven time and time again that they cannot stand prosperity for any length of time.

The making of the egg market continues to be severely criticized. Egg Clearinghouse trading volume will continue to increase. The Urner Barry Company should recognize E.C.I. trading as their major source of information for market quotation when trading increases to a level that will accurately reflect a market-clearing price. Additional trading volume will decrease the manipulation risk. There will be continued refinement of methods of obtaining market information to provide a more meaningful market quotation. Change needs to occur at a speed that will be understood and accepted by the egg industry. Changes in price and market determination are occurring, and have probably occurred at the most rapid pace than can be accepted by most participants in the egg marketing system.