the Los Angeles Egg Market

Marketing Research Report No. 440

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Economics Research Division

PREFACE

The effectiveness with which the price-making process operates is of major importance in the marketing of agricultural products. As technological and other developments prompt changes in the location of producing areas and consuming markets, in numbers and kinds of buyers and sellers, in trade channels, and in the organization of markets, analyses are needed to learn what effects these changes may have on prices and price-making processes.

In several commodity markets in recent years, questions have been raised concerning the nature and performance of pricing processes. This report presents the findings and conclusions of a study undertaken to learn how prices for eggs are established in Los Angeles. The report also presents several specific recommendations for improving the performance of the Los Angeles egg market. One of these recommendations concerns the possible development of a new statewide cooperative marketing association. Interest in this type of organization has become widespread among California egg producers and their cooperative associations, owing to the widely felt need for strengthening their marketing position. This report supplements earlier reports which provide analyses of the egg markets in New York, N. Y., Chicago, Ill., St. Louis, Mo., and Los Angeles, Calif. (See references 4, 6, and 7, on page 37.)

The study is part of a broad program of research aimed at improving the organization and operation of markets for farm products. This report is designed to assist farmers, egg handlers, students and teachers of the marketing of farm products, and others to gain a better understanding of the marketing and pricing processes for eggs in a major market.

ACKNOWLEDGMENTS

The author gratefully acknowledges the cooperation and assistance of the 22 egg distributors, 7 chainstore egg buyers, and 15 egg ranchers in the Los Angeles area who provided much of the information needed for this study. Special recognition for similar necessary assistance is due to Harper Clemons, officer-in-charge, Dairy and Poultry Market News Office, Los Angeles, and S. E. Goodall, Council of Poultry Cooperatives, Alhambra. In addition, the author gratefully recognizes the valuable counsel given by D. B. DeLoach, University of California, Los Angeles, Lynn Sanborn, Extension Marketing Technologist, Los Angeles, and Harry Rust and Richard Brueckner, Dairy and Poultry Market News Branch, Agricultural Marketing Service, Washington, D. C.

CONTENTS

October 1960

SUMMARY

The Los Angeles egg market obtains nearly all of its egg supply from about 2,000 nearby specialized egg ranches and distributes most of the eggs through supermarket food stores. These eggs move rapidly and efficiently from farms to consumers through fewer than 70 commercial assembler-distributors to about 60 food chains and to smaller stores and restaurants.

Large volumes of eggs are sold by producers to dealers under annual contracts patterned on those developed by the 16 farmers' bargaining groups operating in the market. Egg production and marketing operations are closely coordinated, but producers and distributors remain essentially independent of each other both financially and managerially.

Prices to retailers are established in a competitive market. In fact, competition among distributors for retail store accounts may be considered intense. These prices are reported by dealers to the Federal-State Market News Service, which has an extremely important role in this price-making process. Compared with most markets, Los Angeles prices change infrequently--only about once every 2 weeks, on the average--but the changes seem to occur frequently enough for the market to avoid unmanageable surpluses or shortages of eggs.

About five-sixths of the eggs purchased locally are priced to ranchers under a quotation pricing system established in producer-dealer agreements. Producers typically are paid for Grade A large eggs, f.o.b. ranches, at 4 cents under the outside (top) price to retailers, loose, f.o.b. distributors' plants, as reported by the Market News Service. The discount on Grade A medium and small eggs under their reported outside prices is typically 5 cents. Under these agreements, however, producers receive no premiums for extra large eggs or for Grade AA eggs. About a sixth of the eggs are bought from producers on a consumer grade-and-size basis. The percentage of eggs purchased by grade has increased considerably in recent years.

Organization of the Los Angeles egg market encourages efficiency and reasonable stability in marketing operations. The quotation pricing system, which tends to fix distributors' margins and to remove nearly all gains from speculative trading, also encourages dealers to concentrate on effective egg merchandising operations. Nevertheless, improvements can be made at several points in the organization of the market and in selected operations.

The principal specific recommendations for consideration by Los Angeles egg producers and distributors and by the Federal-State Market News Service are as follows:

1) Eliminate the present report of prices to retailers, f.o.b. distributors' plants, loose, cases exchanged. The volume of eggs sold on this basis appears to be negligible and the report is not necessary. The report of egg prices to retailers, delivered, in cartons, is an excellent report and appears to meet the needs of producers, distributors, and retailers for price information at this market level.

2) Report prices to retailers on Mondays, Wednesdays, and Fridays instead of daily. The stability of the Los Angeles egg market makes daily price reporting unnecessary.

3) Initiate a new report of prices paid at ranches for eggs purchased on a graded basis. The volume of eggs bought on this basis has increased greatly in recent years and appears to be adequate for accurate reporting. The report would be of substantial value to both ranchers and distributors. Another report that is needed would give data on the discounts provided under the agreements governing the prices established on the bulk of the eggs now moving into the market. This report need not be issued frequently.

4) Expansion of the coverage and other improvements in the report of retail egg prices probably would increase the value as well as the accuracy of this report. Consideration might also be given to issuing this report only on Mondays and Thursdays instead of daily because retail prices seldom are changed except on these days.

5) If producers and dealers continue to use the quality-score agreements for determining prices, consideration needs to be given to finding a means of keeping the value index element of the pricing formula on a more current basis. Failure to do this in the past appears to have cost egg producers heavily in relation to prices that they might have obtained.

6) Both producers and distributors may be well advised to work together toward general adoption of the practice of buying (selling) eggs by grade at the ranch. As a result of recent improvements in plant equipment, it appears that buying by grade may be even more economical than present procedures, mainly through elimination of costly egg sizing operations on ranches.

7) In their continuing search for effective means of implementing their basic market objectives, egg producers may be well advised to consider at least two alternatives to their present bargaining associations. These groups have served both producers and the entire Los Angeles egg market in most useful ways in the past, but changing conditions in the market raise doubts regarding their future effectiveness.

A statewide poultrymen's cooperative marketing association with a large branch operating in the Los Angeles market would have many advantages that recommend it for serious consideration by producers.

A second, and perhaps almost as worthwhile, alternative for Los Angeles egg ranchers is the substantial expansion of the Poultrymen's Cooperative Association. Under either of these two alternatives producers might be able to obtain substantial, positive influence on the market through a marketing cooperative that is one of the few large distributors in the market.

8) Although egg distributors' margins are lower in Los Angeles than in most other major cities, opportunities for further cost reductions are available. In fact, some of the marketing practices about which many dealers complain, such as supplying retail stores with refrigerated egg display cabinets at no direct cost to the stores, may be the result of distributing margins that are more than adequate. Further study of the costs and economies of scale in egg distribution might be of considerable benefit to distributors, and indirectly, to producers and consumers.

THE LOS ANGELES EGG MARKET

Norris T. Pritchard
agricultural economist
Marketing Economics Research Division
Agricultural Marketing Service

PROBLEM

This study is concerned with the organization of the Los Angeles market for eggs, the principal marketing organizations, methods of buying eggs from producers, distributors' practices in selling eggs to retailers, methods of establishing and reporting egg prices, and the pricing results. This is the second study of the Los Angeles market in recent years (6). 1/ The first was initiated in 1954 and completed in 1957. Like the earlier study, this one was undertaken because of the persistent dissatisfaction of producers, distributors, and retailers with pricing and other marketing practices. Some of this dissatisfaction seems to be the result of apparent deficiencies in the organization and performance of the market. However, misunderstanding among the principal participants of the nature of the marketing system and of their essential roles in it may also be a contributing factor.

The main objectives of the two studies have been (1) to describe and evaluate the organization and operation of the Los Angeles egg market, (2) to suggest means of improving it, and (3) to enhance public understanding of the market. In recent years, the relative importance of the third objective has increased not so much for the major participants in the Los Angeles market as for producers and distributors in other marketing areas. Some other markets are now moving toward development of market organizations similar, at least in broad outline, to those in Los Angeles. Thus, this report on the marketing of eggs in Los Angeles may assist producers and marketing firms throughout the United States in the organization of more efficient egg markets.

Finally, although this report necessarily duplicates in part material previously published, it emphasizes selected problems not adequately treated in the first report and specific suggestions for changes in market organization and marketing practices.

The principal sources of information for this study were the major distributors of eggs in Los Angeles, retail store egg buyers, and egg producers. In the spring and summer of 1959 key personnel in 22 egg distributing firms, 7 chainstores, 15 egg producers, and 5 other persons directly associated with the marketing of eggs in Los Angeles were interviewed. Another source of information was a mail survey of egg handlers in March 1959. This survey was part of a study designed to revise and improve the Los Angeles Report of Movement of Eggs into Retail Channels, published weekly by the Federal-State Market News Service.

1/ Underscored numbers in parentheses refer to items in Literature Cited, page 37.

The Los Angeles egg market obtains nearly all of its eggs from nearby large, specialized ranches and distributes them mainly through supermarket food stores. Marketing channels are direct. Eggs move rapidly from farms to consumers, mainly through independent assembler-grader-distributors and locally owned chains of supermarkets. Pricing methods and other marketing practices follow a fixed pattern. Large volumes of eggs are sold by producers to dealers under annual contracts, and egg production and marketing operations are, as a result, more closely coordinated than in most markets. These and other institutional and economic factors have been responsible for an enviable record of efficient market performance. For years, Los Angeles has maintained lower farm-retail price spreads on eggs than most other major cities in the U. S. (5).

Nearby Specialized Egg Ranches 2/

Nearly all shell eggs received by Los Angeles area distributors are produced on an estimated 2,000 ranches within 75 miles of the central city, including many within the metropolitan area. Although few ranches have fewer than 2,000 hens and several have more than 100,000 layers, the typical ranch produces from 40 to 100 cases of eggs a week. The egg producing area in and near Los Angeles is one of the leading areas in the United States in total egg production, in numbers of large, specialized egg ranches, and in the proportion of layers housed in cages.

For years, both producers and distributors in the Los Angeles area have emphasized the production and marketing of high-quality eggs and uniformity in quality and volumes in all seasons. The production and marketing practices needed to achieve these goals are the rule, and not the exception, among both ranch operators and distributors. For example, production schedules on many ranches provide for almost continuous replacement of layers. Most producers, as well as dealers, have adequate refrigeration and other essential facilities. Eggs are gathered several times daily on most ranches and are collected by dealers on regular twice-weekly or thrice-weekly schedules.

Producers and dealers have tried to coordinate their production and marketing operations and have had considerable, but not complete, success in this. Also, this coordination has been achieved without sacrifice of the basic financial or managerial independence of either group (1).

Farmers' Bargaining Groups

Farmers' cooperative bargaining associations have been an important feature of the Los Angeles egg market for about 15 years. About 16 groups were operating in 1959 under written agreements with distributors, and 6 others were inactive, or operating without formal agreements. Most of the groups are small, averaging 15 to 16 members each and ranging from only 4 to more than 35 members. They are voluntary associations operating without salaried officers or employees and with almost negligible expenses. In 1959, their combined sales of eggs averaged about 12,500 cases a week, or roughly an eighth of all purchases of eggs by Los Angeles dealers from ranchers.

2/ In the Los Angeles area, the term "ranch" is commonly used to designate a business which in most other areas in the United States is called a farm. Few egg ranches actually have large acreages or produce any commodity other than eggs; many have no more than 5 to 15 acres.

The groups' primary function is to negotiate with egg dealers for contracts governing for a year or more the sale of eggs from members' ranches. Working together as members of the Council of Poultry Cooperatives, the associations have developed contracts which have set the basic pattern for most oral and written agreements between dealers and producers, including some independent producers.

These contracts establish procedures for determining prices to producers, methods of quality determination, conditions of assembly, services to be performed by each party, method of payment, procedures for settling disputes, and other important terms of trade. The bargaining groups assume the responsibility of assuring compliance by their members with the terms of the contracts and are vigilant in seeing that dealers also abide by the agreements.

Los Angeles Egg Distributors

The total wholesale market for shell eggs in the Los Angeles Metropolitan Area involved 273 firms distributing eggs in wholesale lots to retail stores and other outlets in 1959. The firms included independent and chain-owned assembler-distributors, milk distributing companies, producer-distributors, small independent retailers buying eggs directly from farmers, brokers, and breakers. However, because of the high concentration of distribution operations among relatively few firms, the essentially commercial distributors may be defined to include only the 67, or, perhaps, only the 26 largest distributors.

In February 1959, the 273 firms received an estimated 453,000 cases of eggs, including about 409,000 cases from nearby ranches. 3/ They distributed about 390,000 cases (estimates adjusted to remove duplications) directly to food stores, restaurants, institutions, and milk distributing companies. The remaining 63,000 cases included more than 21,000 cases sold to egg breakers and about 42,000 cases to all other outlets combined, including exports and outlets in other cities. 4/

Among the 273 firms, however, only 67 distributors handled at least 100 cases of eggs a week in February 1959, a volume that may be considered as a minimum for commercial operation. 5/ Most of the smaller firms were producer-distributors or suburban retail food stores that received small quantities of eggs from producers for sale in their stores. These 67 firms received about 390,000 cases of eggs in February, including about 357,000 from nearby ranches, and delivered approximately 361,000 cases to the four principal types of outlets listed above.

Within the group of 67 large firms, the 14 largest distributors (none handling less than 1,000 cases of eggs a week) accounted for 80 percent of the total commercial movement. The 12 firms each handling from 500 to 1,000 cases of eggs a week took care of 9 percent of the commercial movement, and the remaining 41 firms with weekly volumes ranging from 100 to 500 cases shared the other 11 percent.

3/ A few hucksters and producer-distributors not contacted in this survey may also have moved small additional quantities of eggs from nearby ranches to area stores and homes.

4/ The 63,000 cases indicated above for egg brokers and egg breakers undoubtedly understates the total volumes handled by these firms, particularly by the brokers who were involved in many intramarket movements excluded from the net movements reported above.

5/ This is the minimum volume now used by the Federal-State Market News Service to determine if a plant is eligible for reporting of volume data for weekly reports of movements of eggs into retail channels. These reports are now (1960) issued in 5 cities and efforts are being made to initiate reports in more cities.

In addition to the 67 distributors, 3 egg brokerage firms and 3 egg breaking firms handle substantial volumes of eggs and perform valuable services in the market. These firms handle egg movements among distributors within the market and movements to and from out-of-area suppliers and receivers. They may, therefore, be considered as part of the commercial market even though they distribute negligible quantities of eggs to retail outlets. 6/

Sixty of the sixty-seven commercial egg distributors are independent, locally owned firms whose principal business is shell egg handling. Four are milk distributing companies that buy eggs from ranchers and deliver eggs on their milk routes. One is a producers' marketing cooperative--not a bargaining association--which also sells feed and farm supplies. And two organizations are owned by corporate chains of retail food stores. 7/ The 14 largest firms include 11 independents, the producers' marketing cooperative, and the 2 chain-owned plants.

The typical commercial egg distributor in the Los Angeles area is not exclusively a wholesale receiver, a country assembler, or a jobber. He is a combination of such firms. That is, he collects eggs directly from nearby ranches in his own trucks, candles and cartons eggs, and sells and delivers them directly to retail stores and other outlets.

Most distributors operate their egg assembly trucks on regular twice-weekly schedules although collection of eggs three times a week is becoming more common, especially from the largest ranches. One result of this practice is that dealers' receipts are heaviest on Mondays and Tuesdays, moderately heavy on Thursdays and Fridays, and light on Wednesdays and Saturdays. In contrast, deliveries to stores are heaviest on Wednesdays, Thursdays, and Fridays. Saturday deliveries usually are extremely small. This pattern of delivery is primarily the result of the prevailing pattern of retail store sales, which are heaviest on the last 3 days of each week.

Los Angeles Retailers

The Los Angeles Metropolitan Area has about 6,000 retail food stores, which handled more than 80,000 cases of eggs a week in February 1959. 8/ This volume was about 75 percent of all eggs received in the market in that month and about 86 percent of the eggs moving into retail outlets of all types.

Food retailing in Los Angeles appears to be dominated by local chain and independent stores. Of the estimated 6,000 stores, more than 5,100 were small independents and only 868, owned by 60 different companies, were classed as supermarkets and units of corporate chains in May 1959 (9). Of the 60 firms, all except 4 are locally owned. Two are divisions of a regional chain and two others are national chains. However, most, if not all, of the 56 large local firms operating more than 70 percent of the 868 major retail food stores, are members of 5 local cooperative grocery buying groups.

6/ Egg brokerage and egg breaking operations are not uncommon as sidelines among egg distributing firms, but the six firms are those whose primary business is brokerage or breaking.

7/ A third firm, cooperatively owned by a large group of independent supermarkets and small food chains, acts as an egg distributor to its members. This firm, however, is not classified as a distributor, for purposes of this study. Its entire supply, packed in cartons carrying its private label, is obtained from one of the 14 large Los Angeles assembler-distributors. The firm operates, therefore, more like a retailer than like an egg assembler-grader-distributor.

8/ Approximately 70 percent of the stores are in Los Angeles County.

Although the average company among the 60 major retailing firms had 14 stores in May 1959, the 15 largest companies operated 667 stores, and the 15 smallest operated 21 stores. The 15 largest companies had 11 or more stores per firm, and the 15 smallest had only 1 or 2 stores each. The 30 companies operating 3 to 10 stores each owned the remaining 180 stores.

The dominant position of the local chains and supermarkets in food retailing in Los Angeles may largely account for the high proportion of stores buying eggs from local, independent distributors. Fewer than 40 percent of the 868 major stores and probably no more than a handful of the smaller stores buy eggs directly from ranchers. Only one of the two national chains has its own egg procurement and cartoning division, and another large assembler-distributor is jointly owned by the four local chains, which it serves exclusively. Thus, the "captives," as these two firms frequently are called, have an important but far from dominant position in the marketing of eggs in the city.

Market News Service

Los Angeles egg prices at the distributor and retail levels of trading are reported daily by the Federal-State Market News Service in its Daily Report of Dairy and Poultry Market News. Prices to (paid by) retailers are reported at two levels: f.o.b. distributors' plants, loose, cases exchanged; and delivered, in consumer cartons, cases exchanged. Both price series cover Grade A and AA extra large, medium, and small eggs and Grade B large eggs. Prices to consumers are reported for Grade A and AA large, medium, and small eggs in cartons in large retail stores and for Grade AA large and medium eggs delivered in cartons to householders on milk delivery routes. No reports of wholesale selling or farm prices of eggs are issued by the Los Angeles office of the Market News Service.

In addition to price information, the Los Angeles Daily Egg Market Report contains brief comments on local market conditions, brief summaries of prices reported from San Francisco, San Joaquin Valley, New York, and Chicago, and, when available, current statistics on egg and poultry markets of interest to the users of the report.

To obtain information on Los Angeles egg distributors' prices to retailers, the market reporter telephones about 22 major egg distributors daily. His list includes 29 of the 31 largest firms; these firms distribute about 500 or more cases of eggs a week per firm. 9/ Together they handle approximately 70 percent of all eggs moved into retail channels by all commercial egg distributors in the market. The two large firms not called are wholly owned by food chains which transfer eggs on an intra-company basis at prices which may, or may not, fully reflect supply-demand conditions in the market. Calls are made each day to the 20 largest independent firms and systematically, but not daily, to the remaining 9. When market conditions are unsettled and prices are changing, the reporter may call all 29 distributors on his list.

For information on consumer prices the reporter regularly calls the four largest milk companies and seven chains of retail supermarket food stores. The reporter also telephones the egg brokerage and egg breaking companies for information on prices paid and received, volumes of eggs moving through their hands, and evaluations of market conditions. This information supplements similar indications and opinions received in daily conversations with distributors and aids the reporter in making his market

---

9/ Five firms with volumes only slightly under 500 cases a week per firm are included with the 23 largest independents and the farmers' marketing cooperative.

analysis for the daily report. Prices paid by brokers, breakers, and wholesalers are not published because the volume of eggs traded at these levels ordinarily is too small to permit reliable reporting.

Frequently, the reporter telephones a small sample of retailers to verify information received from distributors. Such checking of information is an essential precaution at all times, but it may become highly important when market conditions become unsettled and when dealers begin to make extra price concessions to some outlets.

THE PRICING SYSTEM

The pricing mechanism for eggs in Los Angeles is an unusual mixture of quotation pricing and relatively free competitive pricing. The principal participants in the system are the major independent egg distributors, the producers' bargaining associations, the large independent egg ranchers, the leading food retailers, and the Federal-State Market News Service. A key element of the whole mechanism is the prices to retailers reported daily by the Service, as described earlier in this report. A second key factor in the system is the annual contracts between distributors and either producers' bargaining associations or independent ranchers.

The prices obtained by the Market News Service from the 29 largest independent distributors are the prices they individually, and presumably unilaterally or through direct negotiation with retailers, have placed on the invoices covering deliveries of eggs to retail outlets. That is, the prices collected by the Service are bona fide transaction prices covering upwards of 70 percent of total deliveries of eggs to all retail outlets and nearly 90 percent of total sales to retail outlets by all independent commercial distributors. This is not to say that quotation pricing at the distributor level does not exist. But this pricing practice appears to be limited to the smaller firms whose lack of market power forces them to follow closely the prices determined by their larger competitors acting through the price reporting facility of the Market News Service.

In contrast, producer prices on approximately five-sixths of the total receipts in the market are determined by rigid quotation pricing procedures established and supported largely by producers' organizations with the cooperation of dealers. Contracts between distributors and the producers' bargaining associations set forth in detail the methods of determining producer prices and other terms of marketing. Three principal types of producer-dealer contracts and oral agreements were in use in the Los Angeles market in 1959, plus minor variations within each type. All three groups of agreements are basically similar except for provisions on prices. A copy of one contract is in the appendix.

4-5-5 Contract

Probably the most common type of contract is the so-called "4-5-5" agreement. The numbers indicate the discounts in cents per dozen from the base prices of large, medium, and small eggs, respectively, to be used in setting at-ranch egg prices. The base prices are the outside prices (tops of the ranges) of Grade A large, medium, and small eggs to retailers, f.o.b. distributors' plants, loose, cases exchanged, as reported by the Market News Service in Los Angeles. If the base prices were the reported prices to retailers, delivered, in cartons, the equivalent discounts would be, respectively, 8.5 and 9.5 cents; the two series of reported prices to retailers differ by 4.5 cents a dozen for all grades and sizes.

Variants of the common 4-5-5 contract reported by the distributors and producers interviewed in this study apparently are numerous, ranging from a 2.0-2.5-2.5 contract to a 6-6-6 agreement. The contract providing for the lowest discounts (highest at-ranch prices) also allowed the producer an additional 1-cent a dozen premium on extra-large eggs over the price received for large eggs. This was unusual; most producers received the same prices for extra-large eggs that they received for large eggs. Within this wide range of discount combinations, in addition to the 4-5-5 arrangement, were the following: 4-5-6, 4-4-5, 4-4-4, 3.7-4.2-4.7, 3.5-4.5-4.5, 3.5-4.0-4.0, 3-4-5, and 3-4-4. A more complete survey probably would reveal still other combinations.

Lower discounts (higher prices) were to some extent associated with larger deliveries per producer, but there were many exceptions. In fact, some of the producers' bargaining groups and some of the largest independent producers had much less favorable contract terms than did some of the independent producers that were smaller but still above average size. The producer with the apparently most favorable contract maintained a flock of about 10,000 hens and sold eggs to a relatively small distributor. Other factors affecting the discounts were the percentages of Grade AA and undergrade eggs in a producer's deliveries and his skill in bargaining with his distributor.

Under the 4-5-5 type of contract producers must pack eggs by size. They are paid for all grades of eggs as if they were of Grade A quality, and both large and extra-large eggs are priced as large eggs. Dealers occasionally check qualities of eggs received from ranchers by sampling and grading, but this has no direct bearing on producer prices.

If a rancher, however, delivers eggs with a combined A and AA yield of less than about 90 percent, his dealer is likely to complain. And continued failure of the rancher to improve his pack to this quality level or better may prompt the dealer to initiate more serious action, because under this type of agreement a dealer takes a loss on every egg he receives that is below A quality. 10/ A high percentage of these lower quality eggs may more than offset the extra margins he obtains on A and AA eggs. Therefore, when a dealer finds that the percentage of eggs below Grade A quality is too high, he may refuse to pay the rancher for loss eggs and may discount the checks and cracks about 40 percent from prices for Grade A eggs.

Quality-Score Contract 11/

Five egg distributors in the Los Angeles market now use a unique system of pricing eggs to producers known as the quality-score method. This second type of agreement actually is a variant of the common 4-5-5 contract in that it affects prices and buying arrangements for large eggs only. It is a restricted scheme for rewarding and penalizing producers on the basis of the quality of large eggs shipped.

The monthly quality score which adjusts the 4-cent discount up or down is determined for each producer from an egg grading certificate by a complex formula illustrated by the following tabulation:

10/ Dealers vary considerably in methods of handling this type of problem, and individual dealers do not always have uniform procedures for dealing with their own patrons. The level of A and AA yield also varies among dealers.

11/ A sample copy of a contract is in the appendix, p. 38.

Grade	Percent in grade	Value index	Quality score
AA	60.0	110	66.0
A	31.0	100	31.0
B	5.0	80	4.0
Undergrades	3.5	60	2.1
Loss	.5	0	0
Total	100.0	---	103.1

The grade percentages illustrated in column 2 for each month are determined by grading one shipment of eggs during the month. The sample grading is done by an employee of the U. S. Department of Agriculture at times selected by him and without advance notice to producers or distributors. The fees for grading are paid by producers or are shared by producers and distributors.

The next step in computing the quality score is to multiply the average grade percentages by the value index numbers shown above and to add the scores. Most quality-score contracts equate the 4-cent discount with a score range of 102.0 to 102.9. If a producer's score falls in the range of 103.0 to 103.9, the discount is fixed at 3.5 cents and similarly up and down with 0.5 cent changes in the discount, or price, related to a change of 1.0 point in the score. 12/

The value index, when it first was devised several years ago, approximated historical average relationships in prices to retailers among the several grades. That is, prices of Grade AA large eggs averaged 10 percent above prices of Grade A large eggs, and prices of Grade B large eggs averaged about 20 percent lower than Grade A. However, over time, prices to retailers of both Grade AA and Grade B large eggs have increased relative to market values of Grade A large eggs. Thus, in 1959, the weighted average prices to retailers for large eggs were 41.0 cents a dozen for Grade AA, 36.0 cents for Grade A, and 31.5 cents for Grade B. On this basis the Grade AA value index would be 114 instead of 110, and the Grade B value index would be 88 instead of 80. Application of these 1959 value index numbers in the tabulation above would raise the quality score 2.8 points, from 103.1 to 105.9, or enough to allow a producer an additional cent a dozen on all large and extra-large eggs delivered to his distributor. In other words, failure of producers to keep the value index numbers current has, in effect, permitted distributors to widen their average operating margins on all eggs without changing margins on the basic classification, Grade A large eggs.

Grade-Size Buying

Three large and at least one small dealer, handling about a sixth of the shell eggs received in the Los Angeles area, use a third basis of pricing eggs to ranchers. All four firms have the necessary equipment for economical grading, sizing, and tabulating by grade and size of all eggs received. They, therefore, purchase eggs from producers on the basis of complete consumer grading and sizing of each lot of eggs received. Two of these firms announce prices unilaterally and no rigid pricing formula seems to be used. However, each firm apparently tries to price eggs to its producers so that its average paying price will be close to the average its producers would receive if they were paid on the common 4-5-5 basis. In other respects, these companies follow closely the buying practices common in the market with the important exception, of course, that their producers are not required to pack eggs by size.

12/ The contracts are not uniform on the 0.5-cent change in the discount. In some, the change is smaller.

THE STRATA OF COMPETITION

An apparent stratification of competition among firms of the same general class is one of the most interesting features of the structure of the Los Angeles egg market. It may also be one of the most important characteristics of structure in terms of its implications to egg producers, distributors, retailers, and public agencies in the development of appropriate policies for both individual firms and the market as a whole. It is necessary, therefore, that an attempt be made to understand the nature of the apparent strata of competition and their considerable, yet unmeasurable, influence on market performance.

Under the traditional concept of market competition, it is assumed that all of the approximately 6,000 retailers, for example, in the metropolitan area are in competition with one another, directly or indirectly. However, careful observation of the market reveals that much of this competition is quite indirect and tenuous and has little direct effect on many of the businesses involved. Similar relationships were observed within the group of about 2,000 egg ranchers and among the 273 distributors.

In contrast with the tenuous nature of many of the competitive relationships in the market as a whole, competition within certain subclasses of firms is intense. These subgroups, or strata, cannot be defined with accuracy, but they seem to be determined largely by volume of operations and by location within the metropolitan area. Type of operation may also be a third, but a minor, factor.

Retailers

The Los Angeles Metropolitan Area includes a large geographic territory, and retail food stores are located in all parts of it. They range in size and type from tiny independent family-operated stores to modern supermarkets, both independent and chain-owned, usually located in large "one-stop" shopping centers. Generally speaking, each store is designed to serve a particular neighborhood, rather loosely defined, within the city because consumers ordinarily do not travel far from their residences to buy food. Thus, much competition is highly localized.

Executives of several large food retailing firms in Los Angeles clearly indicated in the course of personal interviews that the small, independent grocer is not, as a practical matter, a competitive force to which much attention needs to be given. Instead, they viewed as competitors in the practical operational sense only those other firms of the same type--supermarkets--so located that the competing retail outlets could draw customers from each other. Every move made by other retailers of their own class who were competitively located was watched by these store executives with intense interest.

This interest in the operations of principal competitors, however, ordinarily was in terms of the possible impacts of their actions on the total competitive relationship. Interest in the sale of, or competition in the sale of, a particular product was definitely secondary. This, of course, is logical because (1) a supermarket sells thousands of items, (2) customers usually shop for a "market basket" of foods, (3) customers probably choose among stores on the basis of usually vague estimates of relative quality, service, costs, and convenience in relation to the whole basket rather than to particular items, and (4) retailers' net profits depend on total store sales and costs. These factors may explain why the price of eggs in Los Angeles stores can differ as much as 20 cents a dozen at any given time and why store executives have considerable latitude in their choice of products for special merchandising attention. Interviews with egg distributors support these observations by indicating that small stores rarely hold special egg promotions and that large stores range from those that use eggs as special low-margin sales leaders often to those that seldom feature eggs.

Distributors

Similar strata of competition and equally pronounced differences in competitive practices appear to exist among the 67 commercial egg distributors. These strata probably are related to the strata of competition among food stores. Among the 67 distributors probably not more than 7 are market-wide in scope of operation, and 2 of these 7 are considered as "captives" of food chains, restricting their egg distribution operations to stores in the chains. The remaining 5 compete vigorously with one another primarily for the egg business of the supermarkets. An obvious indication of this can be seen in the design of their plants and distribution systems, which are geared to rapid, low-cost handling of large volumes of eggs.

Although all of the largest independent distributors have small accounts, they do not aggressively seek such business. In general, they tend to discourage sales to small outlets by means of price premiums, or extra delivery charges, ranging as high as 8 cents a dozen over prices regularly charged large accounts. They may also refer a small-volume customer to a nearby small distributor. Executives of the largest distributing companies readily admit that because of their size and internal organization they have difficulty servicing a small account as cheaply and effectively as most smaller distributors can. Or, to state the matter somewhat differently, their own sales and service efforts are likely to bring a higher return per dollar spent when directed toward capturing more business from large outlets.

At the same time, small distributors hesitate to do business with a chain of stores whose "normal" requirements would be a high percentage of the distributor's total volume. The risk "of having too many eggs in one basket" is simply higher than most small distributors want to assume. In turn, the larger chains indicate that few small distributors are able to give them the services they want and can obtain from the larger egg dealers. For example, a large chain featuring eggs in its weekend advertising probably would find that the small handler simply could not deliver enough eggs to keep the stores supplied.

For these reasons, the large egg distributing companies tend to view small distributors as both necessary and desirable in the market. And within limits, they are not viewed as serious competitors by the big firms. Interviews with several small egg distributors confirmed the impression that the large companies frequently take on the role of "big brothers" in relations with the smaller firms. This attitude, however, can change suddenly, as the smaller distributors know from experience. An attempt by a small firm to capture the egg business of a substantial outlet, even a single "superette," is likely to provoke an immediate and vigorous reaction from the large distributor directly affected.

Locational factors, previously mentioned, tend to restrict numbers of competing egg distributors in any given portion of the city. To achieve economies in egg distribution operations most small distributors tend voluntarily to restrict their areas of operation to a segment of the city relatively close to their plants. The importance of the locational factor was perhaps most clearly illustrated in interviews with small egg handlers by the fact that frequently they were not even aware of the existence of another distributor located perhaps only a few miles away in another section of the city.

Producers and Distributors

The stratification of competition, so noticeable among retailers and among distributors in their selling and delivery operations, is also readily apparent in their egg buying and assembling activities. Furthermore, both location and size seem to be important.

While the largest distributors assemble eggs from ranchers in all sections of the Los Angeles supply area, smaller egg distributors tend to limit their assembly operations to the section nearest their plants. If assembly routes are thereby shortened, the economies from such a limitation may be an important reason for this tendency toward geographic stratification.

More important, perhaps, is the tendency among distributors to limit their assembly operations to some extent on the basis of volume of eggs produced on a ranch. A small egg distributor hesitates to buy eggs from a large ranch. A distributor obtaining a high percentage of his total egg supply from a single large ranch assumes a substantial risk that may not be offset by other factors such as economies in assembly. On the other hand, the large-volume handler ordinarily is not aggressive in seeking the patronage of small egg ranches. Thus, there is a strong tendency among small egg handlers to obtain egg supplies from the smaller ranchers and for the larger distributors to assemble eggs mainly from a relatively few large ranches.

One of the readily apparent results of these strata of competition in egg procurement is that the largest producers' bargaining associations and independent ranchers find that they cannot market their entire output of eggs to a single dealer unless the dealer is one of the few largest. In a few cases the number of alternative dealers may be as few as two or three. This limitation on outlets may be partially responsible for the somewhat lower at-ranch prices received by some of the large independent ranchers and bargaining groups in comparison with those received by slightly smaller ranches included in this study. However, another contributing factor is the possibly higher average selling prices of the smaller distributors who, because they deal with a few large retail outlets, sell a higher percentage of their total egg volumes at reported outside prices, or at unreported premiums over the top of the price range.

IMPROVING THE MARKETING SYSTEM

The marketing system for eggs in Los Angeles is relatively simple in structure. Trade channels are quite direct. In operation, the system is both orderly and efficient. Gross farm-retail price spreads on Grade A large eggs of 20.2 cents a dozen in 1959, although higher than in other recent years, were lower than in any of the other 9 large U. S. cities for which data are available. 13/ As a result, egg producers supplying the Los Angeles market receive more for eggs at the same time that consumers pay less than in these other cities.

Although prices to retailers are established under competitive conditions, they do not fluctuate as widely or as often as in most other markets, and the direct tie between the selling prices of producers and distributors also provides highly stable at-ranch prices and dealer margins. On the whole, product quality is high, and production and marketing operations are generally well coordinated without sacrifice of fundamental financial and managerial independence of producers, distributors, and retailers.

Finally, the market seldom must contend with serious shortages or surpluses. Producers, as a group, have developed production practices that allow relatively little seasonal variation in outputs. Dealers, especially the largest ones, generally are

13/ Margins reported on Grade A large eggs in San Francisco and St. Louis were only slightly higher than margins in Los Angeles (5). Furthermore, if margins could be computed on all grades and sizes in each of these three cities, the differences among them might be negligible. The other cities are Boston, Mass., New York, N. Y., Baltimore, Md., Washington, D. C., Atlanta, Ga., Cleveland, Ohio, and Chicago, Ill.

aggressive in merchandising extra supplies of eggs through regular retail channels using price concessions and other techniques. And the few brokers still active in the market provide generally satisfactory services, according to most of the dealers interviewed in this study, by moving eggs at reasonable cost into, within, and out of the market.

Nevertheless, as the first report (6) indicated, several complex marketing problems remain unsolved. The structure and performance of the Los Angeles egg market can be improved in several important ways for the benefit of all the principal parties concerned. The remainder of this report deals with these unsolved problems and with possible means of resolving them. The discussions that follow will be of primary interest to producers, dealers, and retailers in the Los Angeles egg market. But these discussions should also be of interest to producers and marketing firms elsewhere because other egg markets in the United States are moving rapidly toward marketing systems similar, at least in broad outlines, to the system in Los Angeles. In fact, it is hoped that this report will assist those who are attempting to make the basic institutional and economic adjustments so greatly needed in many egg markets.

Market News Service

Because the Federal-State Market News Service is an integral part of the egg pricing and marketing system in Los Angeles, the manner in which the Service performs its main functions materially affects the performance of the egg market. In evaluating the role of the Service in the market a distinction needs to be made between its primary function and the principal means used to fulfill it.

The primary function of a market reporting service is to facilitate the processes of pricing and marketing by promoting communication among buyers and sellers. The principal means by which this is accomplished are the collection, analysis, and publication of current and useful market information. Usefulness, here, means information which private businesses, public agencies, and individuals are able to use in making economic decisions affecting production and marketing of specific commodities.

Economists frequently have noted the importance of communications among buyers and sellers and even have insisted that a market may be evaluated in terms of the closeness of the communications among the traders in it (8, 15-25). In the past, and in some markets today, auctions, or exchanges, have provided essential communication facilities, but the trend has been away from central market exchange trading. Better transportation facilities and other factors have made it more economical to bypass the central markets in moving many farm products from farms to consumers. At the same time, with improved communications systems, traders no longer need to assemble at a single place to achieve the communication necessary for price-making and efficient and orderly marketing. In fact, the high cost of frequent assembly of traders, as well as the high cost of concentrating large volumes of goods in the central market, is avoided in the modern decentralized market.

But as central market trading and distribution have given way to the decentralized market an efficient market reporting service has become increasingly important. In fact, without it, buyers and sellers might not actually constitute a market, and trading and price-making could be accomplished only with difficulty. As described earlier in this report, the Los Angeles egg market, in spite of its relatively small geographic limits, operates essentially as a decentralized market in the economic sense. Therefore, the role of the Federal-State Market News Service in the operation of the market, especially in the pricing process, is an important one.

Prices to Retailers, Cartoned Eggs

Among the four series of egg prices reported daily in Los Angeles, prices to retailers for consumer grades and sizes of eggs, in cartons, delivered, cases exchanged, undoubtedly are the most accurately reported and the most useful. The reporter systematically calls all independent egg distributors with weekly sales to retail outlets of about 500 or more cases of eggs per firm. Together these companies make nearly 90 percent of all bona fide sales to retail outlets, exclusive of intracompany transactions, and the firms include all distributors regularly and actively participating in the process of establishing egg prices at this trading level. In other words, the smaller dealers not called are mainly price followers and are not active participants in the price-making process.

Another major advantage of this price report is that it covers all of the principal grades and sizes of eggs on which price data can be obtained with reasonable accuracy. The volumes of sales of other grades and sizes are small. Furthermore, because of the precision and accuracy of the price report on the major classifications, users of the report can estimate with relative ease the appropriate prices for the other classes. This same precision and accuracy also simplifies accurate estimation by traders of egg values when the nature of marketing services are altered as, for example, in pricing eggs delivered loose in cases to restaurants.

Monday-Wednesday-Friday Reporting

Only two relatively minor changes in the reporting of prices to retailers seem desirable at this time. One of these involves elimination of reporting these prices in the Daily Report on Tuesdays and Thursdays. The time the reporter could save in collecting and evaluating prices on these 2 days could be used to expand other useful services without reducing, in a practical sense, the usefulness of the present report. The Los Angeles egg trade could, and probably would, quickly adjust its operations to regular Monday-Wednesday-Friday reports, which probably would meet trade needs for price information about as well as a daily report.

In the 5 years 1955 through 1959, prices of Grade A large eggs changed only 159 times, or on about 12 percent of the trading days. Only 130 of these changes affected prices to farmers; prices of most other grades and sizes of eggs changed less often. 14/ Price changes were made least often on Thursdays (only 20 times in 5 years) and most often on Mondays (39 times) and Fridays (41 times). The remaining 59 price changes were about equally divided between Tuesdays and Wednesdays. Of these 2 days, the more important one for price reporting is Wednesday. More eggs are sold and delivered to stores on Wednesdays than on any other day because stores need large inventories of eggs at the start of the 3 following days of greatest retail sales.

Compared with most other major urban egg markets, prices in Los Angeles change infrequently. For example, egg prices in Chicago and New York change about 4 to 5 times as often as in Los Angeles (7 and 4). A tabulation of market reports shows that prices to retailers in San Francisco have changed in recent years roughly twice as often as in Los Angeles. However, under the present structure of the Los Angeles egg market, there seems to be no compelling reason why more frequent price changes should be made. There is also little evidence that more frequent price fluctuations would promote better performance of the market. And with the likelihood that even with Monday-Wednesday-Friday reporting of egg prices substantially more than 75 percent of the reports will show no change in egg prices from the next previous report, daily reporting seems unnecessary and wasteful.

14/ The total numbers of price changes in the 5-year period were 159 in each of the four classifications Grades A and AA large and Grades A and AA medium eggs, 140 on Grade AA extra-large eggs, 143 on Grade A extra-large eggs, and 142 on Grade A small eggs.

The remaining change in the report of egg prices to retailers, delivered, in cartons, involves a refinement of definition in the interest of accuracy and usefulness. Most of the egg distributors interviewed in this study said that they received prices above the reported outside (top) prices on deliveries to retail outlets whose purchases averaged fewer than three to five cases of eggs a week. An indication in the report that the outside prices generally apply to the three- to five-case outlets might aid dealers who frequently are under pressure from small accounts to eliminate premiums charged, say the dealers, to cover the generally higher costs per dozen eggs of serving such small outlets.

Prices to Retailers, Loose Eggs

In contrast with the excellence and usefulness of the report of prices to retailers for eggs delivered, in cartons, the second report of prices to retailers, f.o.b. distributors' plants, loose (30-dozen cases), is neither an excellent nor a necessary report. Therefore, it should be discontinued.

Except on rare occasions, according to the 22 Los Angeles egg distributors interviewed in this study, they do not sell eggs to retail outlets, f.o.b. their plants, loose. As a result, in reporting these prices to the market reporter, dealers said that they simply deduct an arbitrary amount from the prices to retailers for eggs delivered, in cartons. In a sense, this practice makes the computed prices unreal. For many years this difference between the two series of prices to retailers for all grades and sizes was 4 cents a dozen. On July 23, 1956, after many discussions between dealers and organized producer groups, and with the apparent consent of the latter, the difference became 4.5 cents to allow dealers a wider operating margin. Every day since then the two price series have differed by exactly this amount in all nine grade-size classifications.

Nevertheless, organized egg ranchers have objected to efforts of the Market News Service to eliminate this second price series on the ground that their contracts with dealers use the reported prices to retailers, f.o.b. dealers' plants, loose, as base prices in determining prices paid producers. But, as noted above, these base prices are quite arbitrary because they are only the reported prices to retailers for eggs, delivered, in cartons, minus 4.5 cents. That is, a formula calling for a differential of 4.0 cents under the arbitrary base prices in reality is a formula requiring a differential of 8.5 cents under the real base prices. Furthermore, there appears to be no reason why producers and dealers cannot use the real base prices in their contracts. Therefore, the Federal-State Market News Service has ample justification for eliminating this second report of prices to retailers, f.o.b. distributors' plants, loose.

Consumer Price Reports

The daily report of egg prices to consumers in large retail stores appears to be used as a pricing guide by many egg producers, distributors, and retailers. Producer-distributors apparently find this price report especially valuable. Nevertheless, the report can easily be modified to make it more accurate and useful.

Retail price data are collected by the market reporter from seven companies operating not quite half of the 868 supermarkets in the metropolitan area. Despite such substantial coverage of supermarkets, the sample of stores is not representative in the statistical sense. Accuracy of price reporting, therefore, probably could be improved by using a stratified-random sample of the 60 supermarket companies. Such a sample might include, for example, the 5 largest firms (420 stores), 50 percent of the 10 next largest, with 11 to 50 stores per company (247 stores), and 20 percent of the remaining 45 companies (201 stores). Such a sample would require only 19 calls each time retail price data are collected. This is not a burdensome number, and yet it would assure that the retail price coverage was representative.

The second principal weakness of the present consumer price report is its failure to indicate the prices at which most retail sales are being made. This would not be a serious defect if the reported range of prices were small, say, 2 or 3 cents a dozen. But when ranges frequently exceed 10 cents a dozen and have, at times, been as large as 20 cents, a report of the high and low prices actually does not provide much useful information. Ideally, the solution to this problem is a volume-price report similar in design to many issued by the Market News Service in other markets at other levels of trading for eggs and poultry. For a retail price report, however, this method of reporting probably is impractical because retailers could not provide the necessary sales data in time to permit current reporting. Fortunately, a reasonably satisfactory substitute weighting basis is available. This is simply the number (or percentage) of stores in which each reported retail price prevails at the time the report is issued. The number of stores can be determined easily and well in advance of reporting dates. Also, the problem of keeping current the list of firms and the numbers of stores operated by each is simple. That is, the relative weights to be given each firm in the sample and to be given each of the several strata can readily be computed well in advance of reporting dates.

Finally, a report of retail prices probably need not be made more often than twice weekly, on Mondays and Thursdays. In the 5 years 1955 through 1959, retail prices of Grade AA large eggs were changed 357 times, including 152 times on Mondays and 183 on Thursdays. A few of the changes made on other days resulted from holidays falling on a Monday or a Thursday, thereby altering the customary pattern of retail store operations.

New Report of Prices at Ranch

The last, but not the least important, improvement needed in egg market news in Los Angeles is development of a report of prices paid at nearby ranches. More specifically, this should be a report of prices paid at ranches, cases exchanged, graded basis, minimum of 50 cases of eggs weekly. No such price report is now issued; until recent times none was urgently needed, because nearly all eggs were purchased from area ranchers at fixed discounts from the outside prices to retailers reported daily by the Market News Service. But in recent years the number of distributors buying eggs from ranchers on a graded basis has increased from only one firm to four firms. Together they handle roughly a sixth of all eggs received in the market. Furthermore, other distributors have indicated that they are seriously considering changing to this basis of buying. In other words, the volume of eggs bought on a graded basis is now sufficient to permit reasonably accurate reporting on this basis, and the volume may increase.

Both ranchers and distributors would benefit from the additional information made available in a report of at-ranch prices. Probably the principal benefit would accrue from knowledge not now readily available of the relative at-ranch values of the principal grades and sizes of eggs. Although prices to retailers currently are reported by grade and size, under the present marketing and pricing system, the relative values among grades and sizes need not, and probably frequently do not reflect relative at-farm values. The relative constancy of some grade-size differentials and the widely different margins among the several classifications of eggs suggest a common policy among dealers of establishing price differentials among grades arbitrarily to recoup losses on some highly competitive classes by favorable margins on other grades.

Another benefit would accrue from the information on the general level of prices. Although the firms buying on a graded basis tend to set their prices so that a typical (for them) shipper will receive average prices fully competitive with average returns under the common 4-5-5 contract, small deviations between returns on the two bases of pricing are common. They may even persist for short periods. Thus, a report of farm prices can add to other useful information on market values.

A third advantage of a farm price report is that it would permit one of the two large chain-owned distributors to participate directly, along with other dealers, in establishing market values. The other chain-owned firm could be given a similar opportunity if it began buying eggs from ranchers by grade. At present neither of these two major handlers is called by the Market News Service for price information because their deliveries to stores are, in effect, intracompany transfers, not negotiated market prices.

A report of farm prices probably need not cover all grades and sizes of eggs purchased, only the major classifications. And daily reporting probably is not essential either. These and other minor problems, however, can be determined without great difficulty through further study of reporting problems and procedures.

Finally, the Los Angeles egg market needs an occasional report on the numbers of producers selling eggs to distributors under each of the many discount combinations of the 4-5-5 type of agreement. Such a report might not be required more than about once a year and might be issued by the Market News Service or some other State or Federal agency.

The report would give egg producers information on terms of trading that might be useful in negotiations with distributors, because, as noted earlier in this report, some variations in discount combinations seem to be the result of differences among producers and distributors in bargaining ability. This ability, in turn, is a result, in part of knowledge of market conditions. For example, among the 15 egg ranchers interviewed in this study several expressed the opinion, apparently based on incomplete knowledge, that they had the "best deal" in the market. In fact, two ranchers of about equal size, located only about a mile apart, and selling to the same dealer made this same assertion based on information apparently obtained from their dealer who was paying one rancher 0.5 cent more per dozen than he was paying the other for eggs of apparently the same quality. In other words, even though an annual report of this type might not enable many producers to raise their average returns, some of the prevailing inequalities not based on measurable quality and volume differences might be reduced. This result alone would warrant the small cost of collecting the necessary data for the report.

Bargaining Groups

The structure and performance of the Los Angeles egg market at the time of this study was, in part, the result of the efforts of the several farmers' bargaining associations and their Council of Poultry Cooperatives. The primary objective of these organizations always has been to raise producer prices as high as possible relative to prices received by dealers. This is equivalent to reducing distributors' margins as much as possible. The fact that the average spread between farm prices and prices paid by retailers for eggs is lower in Los Angeles than in most other major U. S. cities indicates that the bargaining groups have made substantial progress toward this basic goal. On the other hand, association leaders interviewed in this study readily agree that the bargaining groups cannot claim all of the credit for reducing dealers' margins. The intense competition among egg distributors and the development of more efficient assembly, handling, and distribution practices have helped to reduce the margins.

The second objective of the bargaining groups has been to promote more orderly and efficient marketing through development of workable "fair play" rules governing producer-dealer relations. This is a goal in which both dealers and producers have a strong interest because the benefits of orderly marketing processes accrue to all parties in the market. The contracts developed by the associations and their Council of Poultry Cooperatives, and modified in many bargaining sessions with distributors, have become the basic pattern for nearly all agreements between dealers and both organized and independent producers.

In the early years of the bargaining associations they could offer dealers several valuable inducements in return for higher prices and other benefits that few, if any, independent producers could match. These inducements included: (1) Generally higher and more uniform egg quality; (2) seasonally less variable volumes of eggs; (3) assurance of a substantial volume of eggs for a full contract period of a year or more; (4) a reduction in dealers' buying costs through "self-policing" of members on contract compliance, especially on the egg quality provisions, and through reduction in the number of producers to be contacted to obtain a given volume of eggs; and (5) agreement on a set of mutually satisfactory rules of conducting routine business.

In recent years, the relative value of these benefits that the associations could offer has declined. As a result, the growth of the bargaining groups has stopped and the bargaining power of the groups has diminished. At least three factors seem to have been primarily responsible for these changes in the status and influence of the associations.

First, egg production in southern California has increased substantially in recent years, and the relative market power of all producers, organized or not, probably has declined.

Second, independent producers also have increased average egg quality materially, reduced seasonal variations in output, and increased in size. Some independent egg ranchers individually can now deliver more eggs than can some associations. These developments naturally have reduced dealers' needs to negotiate with the bargaining groups to "tie up" a substantial volume of eggs of the quality dealers can market most easily.

And third, Los Angeles dealers have adopted most terms of the contracts negotiated with the bargaining groups in their agreements with independent producers and thereby effectively eliminated a major incentive for independent ranchers to join the associations. This strategy of the dealers probably has been a major factor restricting the growth and power of the associations. The associations have several inherent difficulties which also limit their growth and influence. A small association obviously is in a weak bargaining position. But an association may also become too large. If possible, an egg dealer will avoid the substantial risk in obtaining his entire supply of eggs, or even a large part, from a single source that can be lost at the end of a contract period. As a result, large groups and a few of the large independent producers have found themselves limited, as a practical matter, to negotiating with only the few largest dealers.15/

A general merger of the associations might aggravate rather than solve this problem. A merger probably would create management problems not now encountered and would require salaried officers and higher operating expenses of other kinds. These difficulties and costs might be more than sufficient to eliminate the present small net advantages of association membership for individual ranchers. Furthermore, to discourage future growth of the bargaining association, dealers are likely to extend to independent producers any benefits the groups may in the future be able to obtain.

Another weakness of the bargaining associations as they now operate is that they cannot exert their influence on market prices, costs, margins, and practices except primarily through periodic negotiations with egg distributors. But, as noted above, this is a limited role, and with the market power of the associations likely to decline this role seems likely to become less important. In contrast, a marketing cooperative engaged directly in the physical assembly, cartoning, pricing, and distribution of eggs

---

15/ A large bargaining group can divide its members into subgroups and negotiate separate contracts, one for each subgroup, with several distributors. This has been done, but it also can create some difficult problems, especially if the terms of the several contracts are not, in a practical sense, uniform.

to retailers and other outlets can have a positive influence on an egg market on every trading day. It can do this by negotiating directly with retailers, participating in the process of establishing prices to retailers and prices to ranchers, and competing directly with other distributors for both outlets and supplies.

Alternatives to Bargaining Groups

The principal conclusions to be drawn from the foregoing are (1) that the present bargaining association approach, in spite of its effectiveness in the past, is no longer a fully adequate means of achieving Los Angeles egg producers' basic market objectives and (2) that a large operating marketing cooperative may be the best alternative available to producers. If these two conclusions are accepted, at least for discussion purposes, Los Angeles producers seem to have about 3 alternatives to simply taking no action at all. These include: (1) Expansion of the Poultrymen's Cooperative Association, (2) organization of another egg cooperative, and (3) organization of a statewide cooperative to replace all active egg marketing cooperatives in California.

Expansion of PCA

The advantages of the first of these three alternatives are substantial. The PCA already is a large organization with the necessary facilities and staff for efficient operation and for expansion. It has good outlets for eggs and an established position as one of the large distributors in the Los Angeles market. In recent years it has grown rapidly and it appears to have strong support from its own members. In short, the PCA now constitutes the nucleus, or base, Los Angeles egg producers might use to their economic advantage in achieving the improved market position essential to the furtherance of their apparent basic market objectives. The primary disadvantage of this alternative is that the necessary expansion of PCA may require much greater active support than Los Angeles egg producers, PCA members excepted, appear to be willing to give to the association at this time.

A New Cooperative

In contrast, a second egg marketing cooperative might not be organized easily or without heavy organizational and promotional expenses. The problem of acquiring satisfactory market outlets might also be difficult to overcome except through purchase of a private distributing firm, possibly at considerable cost. Furthermore, the time required for a new cooperative to achieve even the present volume and market influence of PCA might be considerable, and the investment in new facilities necessarily would be large. Finally, the competition between two farmers' egg marketing cooperatives in the Los Angeles market probably would not be in the best interests of egg producers as a group. For these reasons, expansion of the PCA is far preferable to organizing a new cooperative.

Merger of California Cooperatives

The third alternative involves the merger of PCA, the Council of Poultry Cooperatives, five other large California egg marketing and feed supply cooperatives, and three poultry feed and farm supply cooperatives into one large California poultrymen's cooperative. Organized egg producers throughout the State are now giving this alternative careful study, and preliminary steps to facilitate such a merger have been taken. 16/

16/ The Farmer Cooperative Service of the U. S. Department of Agriculture and the University of California have been active in this merger effort, primarily in a research and counseling capacity.

Under certain assumptions such a statewide poultrymen's cooperative could achieve for Los Angeles egg producers all of the advantages outlined above for the first alternative plus several possible additional benefits. These assumptions include: (1) Branches of the statewide association would operate in each of the major California cities. (2) The PCA would become the nucleus of the Los Angeles branch. (3) Each branch would be of sufficient size to achieve the economies of scale which modern technology affords in assembly, plant operation, and distribution. 17/ (4) Each branch would be permitted substantial autonomy and flexibility with respect to its basically local operations. And (5) the State association would coordinate the operations of its branches with only a small administrative and technical staff that would not be a burden on the local units.

Perhaps the most important advantage of a State association might be obtained through increasing the efficiency of handling local surpluses of eggs and in relieving local egg shortages that from time to time develop. Intermarket egg transfers within California now must be handled by independent brokers or by each local cooperative making its own sales and procurement contacts outside its own market area. It seems reasonable to expect that such movements could be handled more expeditiously and at lower cost by a State association through intrafirm transfers than by present methods. A reduction in costs might also be anticipated on movements into California from the Midwest and on shipments out of the State mainly to Southwestern cities.

Coordination of efforts to remove surpluses and to cover deficits within a single State office probably could (1) eliminate duplication of procurement and selling efforts, (2) reduce transportation costs, (3) reduce the total volume of sales outside the State and the volume of inshipments by better intrastate equalization of supplies among markets, and (4) assure each local branch adequate, but not burdensome, supplies of eggs at all times. This last advantage is also important for reasons other than reducing aggregate marketing costs.

If each local cooperative unit can be assured at all times of adequate supplies of the quality of eggs needed in its market area, an effective local merchandising program can be developed and sustained more easily than if considerable uncertainty of supply or quality prevails. Planning can be done with greater confidence and higher predictability of results, and market outlets can be given better assurances of performance by the local cooperative unit. The importance of these factors to the success of merchandising a product is generally well recognized by businessmen even though adequate techniques for measuring their value are not now available.

An improvement in the relation between supplies and deliveries to retail outlets in each of the major California egg markets might also contribute to a lessening of intermarket price differences and to increasing returns to egg producers throughout the State. In 1958 and 1959 prices of Grade A large eggs delivered in cartons to large retail outlets in San Francisco averaged about 1.5 cents a dozen higher than in Los Angeles, but prices of Grade AA large eggs averaged nearly 0.6 cent lower. 18/ These

---

17/ Underlying assumptions (2) and (3) is the additional assumption that most, if not all, of the present bargaining associations would become inactive, and their members would become members of the State association and the Los Angeles branch.

18/ In general, price differentials between Grade AA and Grade A eggs for all sizes have been greater in Los Angeles than in San Francisco. For example, in 1958 and 1959 whereas the differentials in prices to retailers in San Francisco between Grade AA large and Grade A large eggs were mostly 1 cent to 3 cents a dozen, the comparable differential in Los Angeles typically was 5 cents. Similarly, in San Francisco while the price differential between Grade AA medium and Grade A medium eggs usually was zero or 1 cent a dozen, the similar differential in Los Angeles usually was about 3 cents to 4 cents a dozen.

average price relationships, coupled with substantially greater sales of Grade AA eggs in relation to sales of Grade A eggs in both markets, indicate that average differentials on all eggs probably have been too small to encourage sustained efforts to move large volumes of eggs from one market to another or to develop continuing retail outlets in the other market.

On the other hand, during short periods in 1958 and 1959, ranging from only a few days up to 14 weeks, prices to retailers in San Francisco and Los Angeles have differed as much as 9 cents a dozen before returning again to approximate equality. In such periods, with a well-coordinated and low-cost system of transferring eggs from one local unit to another, a State association might be able to market a larger percentage of eggs at higher average prices (net of transfer costs) than the several local associations now are able to do. Furthermore, if the transfers could be made primarily through changing the direction of outflow of eggs received at a local unit of the State association located somewhere between the major urban markets, for example, in the San Joaquin Valley, the total transfer costs might be held at relatively low levels.

Another advantage of a State association is that it might be able to attract, and hold over a period of years, somewhat better management personnel than any local association can. A State association could offer the inducement of greater advancement within the organization to positions in the State office with possibly both higher salaries and greater prestige. More specialists might be used effectively. For example, a State association might become large enough to make economical the establishment of its own research and extension staff to assist local units in solving marketing problems and in furthering member education and relations. Finally, a State egg marketing association might have some advantages over a local cooperative in obtaining satisfactory financing arrangements for essential expansion of operations.

In summary, egg producers seem likely to be served best by an egg marketing cooperative that can exert a substantial and direct influence on practices in the market and on prices and returns to ranchers. Furthermore, it now seems probable that this can be better accomplished by a single, large State association with a relatively autonomous branch operating in Los Angeles (and each of the other large markets) rather than by any of the other alternatives discussed above. Nevertheless, expansion of the Poultrymen's Cooperative Association may be considered an excellent second choice for Los Angeles egg producers. In any event, it seems doubtful that producers should rely on the bargaining groups longer than is necessary to take concrete action on another alternative.

Selected Problems in Pricing

Regardless of the developments that may take place in the basic structure of the Los Angeles egg market in the years ahead, both producers and distributors are likely to continue to be confronted with several complex problems in egg pricing. Although considerable progress has been made toward the development of better pricing techniques, several troublesome questions remain. One of these involves the means by which ranchers can and ought to be rewarded (and penalized) on the basis of the quality of eggs they produce. A second question relates to the possibility of substituting retail prices for prices to retailers as base prices in the formulas establishing at-ranch prices. And a third question is the problem of selecting the time when producer prices shall be established. All three of these problems are important because they have a direct bearing on returns to producers and on other aspects of market performance.

Paying Producers for Egg Quality

Although Los Angeles egg distributors sell nearly all eggs in consumer cartons, only a few dealers buy eggs from ranchers on a grade-size basis. More than 70 percent of the market supply is bought on the basis of size only, about an eighth is bought under quality-score agreements, and about a sixth on a graded basis.

Dealers buying eggs under the common 4-5-5 agreement (and its variants) claim that buying on the basis of size only permits simpler, more flexible, and lower cost plant operation than is possible under the graded basis of buying. When eggs are sized on ranches, the costs and difficulties of inplant sizing and accounting to ranchers on each lot of eggs, by grade and size, are avoided. On eggs delivered to other distributors and some other outlets on an "as received" basis all candling, cartoning, and packing costs are eliminated.

The problem of quality maintenance is handled with relative ease although not with completely satisfactory results. Quality checks on ranchers' egg deliveries, it is claimed, are made easily and at low cost by occasional sampling and grading. The object of these checks is simply to determine whether a rancher is maintaining the percentage of undergrades at, or below, the maximum the dealer will tolerate without complaint or other action.

Most dealers buying eggs strictly on size appear to maintain somewhat flexible quality tolerance limits. That is, tolerances vary somewhat among producers and through time. Some producers may appreciate this flexibility in quality standards because their dealer ordinarily does not penalize them if for some reason--say, an accident or simple neglect--the average quality of their egg deliveries falls for a short time. Some distributors seem to prefer flexibility in quality standards primarily because it affords an area of uncertainty, under otherwise quite rigid terms of trade, in which they can negotiate with individual producers. In these negotiations the distributing firm can be personalized and differentiated in the eyes of ranchers for the purpose of increasing their loyalty to the firm. There are also other advantages for dealers in having flexible and uncertain quality tolerances.

Large producers and those ranchers who are particularly adroit in negotiation can be given slightly more favored treatment, if necessary, in a manner which hides the concession, or benefit, and reduces the likelihood that it will have to be extended to all ranchers. At the same time, the small, unwary, or easily pressured rancher can be given less favorable treatment usually without his knowing that this is the case.

Flexible quality tolerances can also be used as a device for making price concessions to ranchers quickly and without the difficulties of formal negotiation. The dealer can relax pressure on ranchers on egg quality maintenance when egg receipts from nearby ranches are short relative to demand from retail outlets. Similarly, when egg supplies are plentiful, pressure for higher egg quality can be increased readily.

Finally, say the dealers buying on the basis of size, they actually reward and penalize producers for quality indirectly through their insistence on certain average quality levels and through lower discounts from base prices than they could otherwise afford. That is, like other operating costs, losses on undergrade eggs are covered, in part, by the standard 4-cent (8.5 cent) and 5-cent (9.5-cent) discounts from Grade A prices and, in part, by the higher margins received on all Grade AA eggs and on Grade A extra-large eggs which are not directly shared with producers.

Dealers and producers operating under quality-score agreements claim most of the advantages of the 4-5-5 contracts plus at least one other merit. The quality-score method directly rewards and penalizes producers for egg quality without requiring grading and sizing eggs, lot by lot, in dealers' plants. The cost of sample grading is low, and the computation of the quality-score each month is simple. Although the quality-score basis of determining ranch values does not apply to medium or small eggs, the method presumably indirectly allows for this. Its supporters claim that the rewards and penalties provided seem fully ample and that ranchers in general, have responded to them in the manner intended.

A corollary to this argument for the quality-score method is that it is a step toward elimination of the basically inaccurate method of grading by visual candling of eggs. The facts of usage of the quality-score technique, however, raise doubts about this claim. First, the dealers who pay producers by the quality-score method actually candle in the common visual manner all eggs placed in cartons for retail outlets. They simply make no accounting to producers on the quality of eggs purchased. Second, the U. S. Department of Agriculture grader whose grading determines the quality-score of a producer under this program employs the common visual candling method. Furthermore, even though the practice of having only one highly skilled grader to do all candling reduces variations in grading results, the practice of candling only a sample of each rancher's total monthly output naturally compounds the errors inherent in visual candling by the errors inherent in sampling.

In contrast, dealers and producers trading on the grade-size basis argue that this method is the most equitable and effective means now available of rewarding and penalizing producers on the basis of egg quality. This method is a positive approach and contrasts sharply with the essentially negative approach of the 4-5-5 agreements. That is, producers are paid only for the quality of eggs they produce and deliver. Each week every producer receives a complete accounting on his deliveries of the previous week by grade and size with his check from the dealer. In other words, he is notified and rewarded, or penalized, almost at once for quality changes, compared with no more than monthly or even less frequent notifications under the other methods. Furthermore, the four dealers using the grade-size method of buying say that the absence of flexible quality tolerances reduces opportunities for producer-dealer arguments and the time-consuming negotiations necessary to resolve them. This buying method also reduces the area in which one party to the arrangement can secure an advantage, either through superior knowledge or through greater bargaining power or skill, over the other. This is especially true when egg grades and sizes are tabulated by automatic machinery.

But the primary advantages of buying by grade are that it eliminates the costly egg sizing operation on ranches and permits some flexibility in grade-size differentials in prices paid ranchers. The producers interviewed in this study were unanimous in their estimates of sizing costs of 1.0 to 1.5 cents a dozen whereas the four dealers indicated that with the egg handling equipment in their plants the additional cost to them of egg sizing and accounting to producers for all eggs by grade and size, lot by lot, was at most only a small fraction of this amount. This means that the plants buying eggs on a graded basis can pay their ranchers slightly lower average prices than the 4-5-5 contracts would yield and can still allow both themselves and their producers higher net returns. In fact, data obtained from three of the four plants buying on a graded basis indicate that this is now happening. It was also verified by producers selling eggs to these plants.

The key to these savings in marketing costs appears to be the equipment for candling and cartoning eggs in dealers' plants. This factor, as Los Angeles distributors generally agree, is also basic to the continued use of the common 4-5-5 buying method and to the original development and use of the quality-score method of buying eggs from ranchers. In other words, to adopt the graded basis of buying eggs without increasing marketing costs materially, most Los Angeles egg distributors would have to make substantial changes in plant equipment and operating practices. Many are understandably reluctant to take such action so long as present operating practices and technology permit reasonably satisfactory returns and so long as available evidence on the advantages of recent developments in plant technology remains somewhat doubtful to them.

Although rough estimates of total operating costs obtained from most of the distributors interviewed in this study indicate that those firms with the modern equipment necessary for buying eggs on a graded basis have lower plant costs, further study of this matter is needed. 19/ But, if additional research verifies the apparent experience of the dealers buying on a graded basis, the primary objection to this buying method will be removed.

The second major advantage of buying by grade is that flexibility in price differentials among the important grades and sizes can be achieved more easily. This might have considerable value in the Los Angeles market in promoting more orderly adjustment of receipts and movements into retail channels. Under current buying methods, particularly the common 4-5-5 agreement, relatively rigid price differentials unquestionably are encouraged. For example, during the 5 years 1955-59, extremely few instances can be found when prices to retailers for Grade AA large eggs were not 5 cents a dozen over prices for Grade A large eggs. Differentials between other grades and sizes also have remained remarkably steady over the years, except for a gradual widening of price differentials between Grade A and Grade AA eggs and between large and extra-large eggs. In addition, a change in grade standards, such as a change to the U. S. Fresh Fancy Quality, probably would not affect the advantages of buying by grade.

In conclusion, egg producers and dealers could benefit from general adoption of the graded basis of buying eggs from ranches for the following reasons: (1) In a market which emphasizes quality in selling eggs to consumers, a positive and comparable approach in pricing eggs to producers is logical and preferable to other methods of buying; the other methods are mostly negative in their approach to this important problem. (2) Inplant sizing probably is less costly than sizing eggs on ranches. The resulting savings in total production and marketing costs can be shared by all parties involved in the market. (3) A positive approach in paying for egg quality can reduce the time spent in negotiations between dealers and producers because it reduces the area of possible disagreement. And (4) flexibility needed at times in grade-size price differentials can be increased markedly to meet changing market supply-consumption conditions.

Timing Payments for Eggs

Most egg producers in the Los Angeles area are paid once a week for eggs assembled from their ranches during the preceding calendar week. These payments are computed on the basis of the prices reported by the Federal-State Market News Service for the day of assembly (delivery) and on the volumes delivered. With most collection routes operating on a twice-a-week (Monday-Thursday and Tuesday-Friday) basis and with price changes taking place on a different within-week pattern, this common method of timing the computation of returns to producers has been questioned. Some producers wonder if a different timing pattern, including a weekly pool, would increase or decrease their returns.

19/ Studies by the Marketing Economics Research Division in progress in 1960 in a number of Georgia and Oklahoma egg assembly-cartoning-distributing plants are expected to provide partial answers to this question.

Two of the largest dealers in the market have, in fact, adopted a different time schedule for computing weekly payments to producers, each in the belief that his method is better than the more common method. The Poultrymen's Cooperative Association pays producers on a pool basis, a simple average of the prices prevailing in the week, and the day of delivery does not affect a producer's returns for the week. The other large firm pays producers for eggs assembled on any given day at the reported market prices for the second day following. For example, Monday's receipts are valued at the following Wednesday's prices, and so forth. One reason advanced for this lagging process is that it is fairer because the dealer sells most of his shell eggs about 2 days after they are assembled from ranches. The correspondence in timing of outgo and income from eggs presumably reduces the dealer's chances of gains or losses on inventories resulting from a price change.

In an attempt to determine if differences in returns to producers result from the timing of value determinations under the three methods, estimated returns were computed for a 64-week period beginning June 2, 1958, under each method. This period is long enough to eliminate most of the differences that might result from simple chance or abnormal deviations of the pricing time pattern in the market. It is also a period during which prices rose, fell, and rose again and ended with the same prices in the final week that prevailed in the first.

In about two-thirds of the weeks the prices reported for Monday continued unchanged for the balance of the week. As a result, in these weeks all three methods provided identical payments to producers. In the remaining weeks, small differences in returns to ranchers were found. In individual weeks, the differences were as high as 2 cents a dozen, but for the 64-week period the average return to producers on a Monday-Thursday collection basis was only 0.03 cent a dozen higher for producers paid on the basis of prices prevailing on day of delivery than on the lagged method and only 0.01 cent higher than on the weekly pool basis. Estimated returns for producers on a Tuesday-Friday collection schedule in the same period were higher on the lagged basis by 0.1 cent and on the pool basis by 0.07 cent a dozen than on the common basis.

These differences among the three methods of computing payments for eggs to producers seem too small to have practical significance either for dealers or ranchers. Therefore, any one of the three methods seems likely to be about as satisfactory as another.

Selecting a Base Price

Because Los Angeles is one of the few large egg markets using prices to retailers, as reported by the Federal-State Market News Service, as base prices in setting prices to egg producers, questions have been raised regarding the advisability of continuing the practice. More specifically, would either wholesale prices or retail prices be better alternatives for the Los Angeles market, or any other egg market similarly organized?

In the first report on the Los Angeles egg market the relative merits of wholesale selling prices and prices to retailers as base prices were discussed at length, but the third alternative, retail prices, was not mentioned (6, pp. 18-20). The conclusions presented in that report on the weaknesses of wholesale selling prices for use as base prices continue to be valid for the Los Angeles egg market. The volume of trading in shell eggs in the market is so small that the Federal-State Market News Service cannot regularly obtain sufficient price data to meet reasonable standards for accuracy in reporting. In short, a report of wholesale selling prices simply is not available in Los Angeles. Similar reports have also disappeared in recent years in all markets except New York City, for the same reason, and doubts have been raised regarding the advisability of using New York wholesale selling prices as base prices (4, pp. 24-26).

In contrast, prices to retailers have many advantages as a base price. The primary advantage is that market reports of prices to retailers are based on large volumes of transactions involving many independent distributors and a much larger number of retail outlets. Price-making is performed under conditions that may be characterized as competitive, and the prices are the actual prices paid and received for a high percentage of the total market movement through all trade channels. Prices to retailers tend to have considerably more stability than prices at other levels of trading, at least in Los Angeles, yet they seem to change frequently enough to avoid excessive surpluses and deficits.

Among other important factors which are favorable to the continued use of prices to retailers as base prices under a quotation pricing mechanism for setting prices to producers are the following: (1) Egg distribution in Los Angeles is dominated by specialized, relatively efficient, independent egg distributors (including a large farmers' egg marketing cooperative) who handle all marketing operations beginning with assembly of eggs from farms and ending with delivery of eggs to retail outlets. (2) Locally owned chains and independent supermarkets are dominant in retailing food in the metropolitan area. (3) The major retailers and both organized producer groups (including the marketing cooperative) and the larger independent producers actively participate in at least one phase of the pricing process.

This third factor seems particularly important because it so directly affects the pricing process. Retailers exercise substantial influence on market prices and marketing practices. The contractual arrangements between distributors and producers have at least equal impact. The agreements, in effect, establish relatively rigid dealer margins. Dealers remain free to alter prices to retailers either unilaterally or by negotiation with retailers, but their merchandising margins are not materially affected by these price changes. This means that speculative gains from price manipulation have been nearly eliminated and dealers' primary interests in establishing prices must be to seek reasonably orderly movements of eggs into retail outlets and regular "clearing of the market." The lack of opportunities for speculative gains (and losses) also encourages dealers to concentrate their efforts on increasing net incomes by improving plant operations and procurement and merchandising programs. From the viewpoint of producers this can hardly be considered undesirable.

Turning to the alternative of using retail prices as base prices, it appears that the primary appeal of this idea to producers is that it might facilitate their efforts to increase and stabilize their average share of consumers' expenditures for eggs. This is a legitimate objective, but the suggested method for achieving it has several major deficiencies.

Under the present marketing system in Los Angeles the principal participants in the pricing process are the larger independent egg distributors. They are not only specialists in their field with their primary source of income in the marketing of eggs, but their primary interest in establishing prices is restricted, in the main, to achieving orderly movements of eggs into retail outlets and to regular "clearing" of the market. In contrast, food retailers with many products to handle cannot be expected to maintain a primary interest in any one of them or to become expert in establishing appropriate market prices. Worse yet, retailers often use prices of a limited number of products, including eggs, as promotional devices to attract customers into stores. Such special prices need have no logical relation to supply and demand conditions in the market for the product, at least for limited periods of time. In addition, retailers tend to be oriented more toward consumers than toward suppliers and to reflect the basic interest of consumers in buying at the lowest possible prices.

Thus, the use of retail prices as a base in establishing egg prices to ranchers could result in a downward pressure on farm prices and in unreasonable and harmful fluctuations in egg prices at the ranch level. These fluctuations would seriously interfere with production planning, might create, at times, pronounced shortages and surpluses of eggs and, in turn, might adversely affect both production and marketing costs and efficiency. In this connection, in the 5 years 1955 through 1959, retail prices in Los Angeles in selected large supermarkets changed 357 times on Grade AA large eggs while prices to retailers changed 159 times. Nearly all retail price changes were made on Mondays and Thursdays with 105 of the 152 Monday changes upward and 126 of the 183 Thursday changes downward. At times, retail prices even moved counter to changes in prices to retailers and to ranchers.

The second basic reason for rejecting use of retail prices as base prices is that independent egg distributors probably could not long tolerate a system which allowed retailers, in effect, to set retail and farm prices and farm-retail price spreads. On the other hand, small retailers might easily find the reverse situation developing. The outcome of a struggle to partition a fixed gross marketing margin might well be the disappearance of independent egg dealers and the integration of their functions into retail store operations. That is, a different type of marketing structure might emerge which would not necessarily be advantageous to producers.

Retailers and Egg Prices

An adequate evaluation of the Los Angeles egg market necessarily must include some consideration of the role of retailers in the determination of market egg prices, product quality, egg consumption, and marketing practices. Many egg dealers and producers seem convinced that, in the final analysis, retailers can and do dictate market prices and marketing practices either directly or indirectly. Retailers, however, generally disagree. Many argue that, in practice, they do not participate aggressively in the marketing process, but rather that they are passive customers who simply choose among the terms of trade offered by competing dealers. In other words, the power of retailers to influence the Los Angeles egg market, including producers' returns, is uncertain and several facets of the problem need exploration.

Among the supermarkets, both independent and chain-owned, food retailing in Los Angeles is highly competitive. This competition naturally has its impacts on retail egg prices and merchandising practices. But these vary widely among stores. Among the reasons for this are the following: (1) Eggs are only one of the 5,000 or more products handled by a supermarket. (2) Consumers usually shop for not one product, but a wide range of products and are influenced by many factors in addition to prices. (3) Costs of retailing a particular item are extremely difficult, if not impossible, to determine. (4) Store profits depend on total store sales and costs for all products. And (5) the combinations of successful merchandising policies are numerous. It is not surprising, therefore, that retailers' practices vary from consistently high markups and little promotion of eggs to consistently low margins and frequent use of highly advertised special sales of eggs, or that some retailers place much emphasis on the promotion of a particular brand while others emphasize the U. S. Department of Agriculture grade labels in selling eggs. Perhaps the most common feature of retail merchandising practices is the emphasis on selling eggs of uniformly high quality.

The major retailers interviewed in this study indicated that markups of about a sixth of the retail price are considered "normal" with lower margins common on special sales. For the year 1959, retail store margins in a larger sample of Los Angeles supermarkets and small, independent food stores averaged 12.1 cents a dozen, or nearly a fourth of the average retail price of 51.3 cents. These two estimates of average margins, although quite different, are not necessarily inconsistent. The average for the larger sample may have been affected considerably by the generally higher margins in small food stores, and the "normal" markups in the supermarkets interviewed in this study may actually be somewhat below the normal for all such stores. In any event, as the tabulation for the year ending August 22, 1959, shows, the price and markup policies on eggs in Los Angeles supermarkets vary widely among stores, and, perhaps, also over time:

Grade and size	Days	Range of margins (cents/dozen)	Average margin (cents/dozen)
AA Large	Mon. - Wed.	4.3 - 13.7	9.0
AA Large	Thurs. - Sat.	- .4 - 13.8	6.7
A Large	Mon. - Wed.	3.8 - 13.0	8.4
A Large	Thurs. - Sat.	1.6 - 12.8	7.7

In individual weeks, differences in retail prices and margins among supermarkets were even larger than the above averages indicate, going as high as 20 cents a dozen. In one week, some stores appeared to be selling Grade AA large eggs at an apparent loss of about 7 cents a dozen. 20/ In another week, some large stores had apparent gross margins as large as 18 cents a dozen.

In addition to their influence on retail prices and merchandising policies, retailers in buying eggs directly and indirectly affect dealers' prices, margins, and practices. The competition among egg dealers for sales and outlets, particularly for the attractive supermarket accounts, is intense. This means that retailers need not be as aggressive as they might be under conditions less favorable to them to extract concessions from dealers on prices, product quality, and services.

In practice, the nature of retailer-distributor relations varies greatly. Although a few owners of small retail food stores and restaurants are highly conscious of price, quality, and service, according to the dealers serving them, most are inclined toward passive acceptance of the product quality, prices, and services offered by dealers. Small retailers have little economic power. Few have the time to become expert in buying more than a few of the many products they handle, and not many are aggressive merchandisers. As a result, their principal means of influencing egg dealers is by changing from one to another. This, however, is a type of economic weapon that cannot be used frequently, and most retailers tend to remain with their egg dealers for extended periods until some event of considerable seriousness spurs direct action.

On the other hand, some retailers, mainly supermarket operators, negotiate directly with egg dealers quite frequently. Most of this bargaining concerns prices to stores for eggs to be delivered for weekend special sales. Ordinarily such negotiations require no more than a brief telephone conversation early in the week before the sale. Retailers indicate their plans for a special promotion on eggs but do not mention

20/ The actual loss, if any, may have been less because the price paid by the supermarket at this particular time might easily have been below the lowest price reported by the Market News Service. For example, one retail food chain executive said that his egg distributor ordinarily allowed the chain an additional discount for special promotions, bringing the price paid by the chain to about 2 cents a dozen below the inside price reported by the Market News Service.

planned retail prices. However, distributors know from experience approximately how each store will price and promote eggs during a special sale and about how much of an increase in egg deliveries will be required. The dealer frequently, but not always, will grant the store a special price concession for the sale period and will guarantee that price.

This practice of setting and guaranteeing prices several days in advance of deliveries does not involve as much risk for Los Angeles egg distributors and retailers as the practice might create in some other markets in which egg prices normally fluctuate much more often and more widely than do Los Angeles prices. The egg distributor is willing to make such arrangements because, as a rule, egg sales increase sharply in a store whenever it conducts a special sale and advertises the sale in local newspapers. One chainstore executive estimated that sales of eggs in his stores frequently double on a special sale compared with a comparable period without special promotion.

Dealers also initiate these short-run negotiations, usually when they are trying to reduce excessive inventories. In some seasons, they encourage stores to conduct special promotions only on those sizes of eggs that are in unusually large supply at the time. Several Los Angeles dealers indicated that their first action after an actual or impending surplus of eggs became apparent was to call those stores which they knew from experience would be willing and able to increase egg sales markedly for a short period of time through a special promotion.

Egg dealers in Los Angeles are constantly engaged in selling their firms as well as their products and in so doing offer a "package" of terms of trade involving prices, product qualities, and services. On the whole, because of the competition among distributors these are remarkably uniform and, therefore, at times the ability to secure a new account, or to hold a present one, may depend as much on intangibles, such as personal relationships, as on other factors.

Long-term price relationships may or may not be negotiated by egg dealers and retailers, but in any case, volume discounts are common in Los Angeles. Few egg dealers appear to have precisely defined volume-price schedules, but probably most stores and restaurants regularly buying about 3 to 5 cases (90 to 150 dozens) of eggs a week pay the outside (top) price reported daily by the Federal-State Market News Service. Smaller outlets frequently pay more than the reported prices. One dealer regularly charges customers buying less than a case of eggs a week a premium of 5 cents a dozen over the reported outside price. Premiums of a cent and more a dozen on small accounts are common simply because costs per case of servicing a small outlet usually are higher than costs of servicing larger stores and restaurants. On the other hand, the supermarkets and chains can ordinarily expect to pay no more than the reported inside prices which usually are about 2 cents to 3 cents below the outside prices. For special sales additional (not reported) price concessions may be granted. One large distributor estimated that more than 80 percent of his total sales regularly are 2 cents or more below the reported outside prices on which his paying prices to egg producers are based.

Other, more troublesome, questions that frequently arise in negotiations between egg dealers and retailers concern split accounts, financing, and equipment for displaying eggs in stores. Split accounts is a term used to describe the service of a single store, or chain, by two or more egg dealers. This practice is intensely disliked by most dealers, partly because it permits a store to bargain more effectively and partly because it raises egg delivery costs through a reduction in average volumes per delivery. The practice arises in part from the desire of retailers for greater bargaining advantage but mainly from competition among egg dealers. For example, an aggressive dealer trying to expand his volume may accept a split account in the hope that later he can induce the store to give him all of its egg business.

Free installation of egg display cabinets in stores is another device used by some dealers to obtain additional outlets and the right to be the sole supplier of eggs to the stores. It is a practice which has been growing in recent years. Apart from the advantages claimed for the cabinets in reducing merchandising costs and increasing egg sales, there is no doubt that the practice provides retail stores with some valuable equipment without an initial investment. 21/ That is, it is a form of financing retail store operations as well as a potent competitive weapon available to those egg dealers financially able to purchase the cabinets.

Direct financing, however, apparently is a more widespread practice. If they could, most egg dealers probably would limit extension of credit to retail outlets to not more than 7 days--generally considered almost the equivalent of cash on delivery--or to 2 weeks at most. But credit of 30 days and more to stores and restaurants is common. Some dealers interviewed in the study also named competitors whom they claimed regularly extended credits of as much as 90 days or who had become stockholders in local chainstore companies as a means of acquiring or holding a valuable account in an intensely competitive market.

Opinions on the effects and ethics of financing of retail stores by egg dealers vary widely from vigorous condemnation by some to tolerance by others of an aspect of competition deemed undesirable but unavoidable and to active promotion by a few. Small egg dealers with limited financial resources are most likely to be opposed to store financing, but some large retailers are also against it. For example, two groups of local chains own and operate their own egg distribution plants partly, they claim, to avoid egg dealer financing. As one store executive stated, an egg dealer must recover his costs of store financing some way. He might do it by a slight reduction in product quality or in services, a technique difficult to detect or correct. He might not grant the financed stores as many price concessions for special sales as he grants to other accounts, thereby increasing his average margin on sales to the financed stores. Similarly, a store heavily obligated financially to an egg dealer probably is not in a strong bargaining position and may not be free to change suppliers if the need for this should arise.

On the other hand, no concrete evidence is available indicating that financing or other common marketing practices adversely affect the Los Angeles market as a whole. Eggs while moving through marketing channels must be financed by someone and from the viewpoint of consumers and producers it may not matter greatly which marketing organization actually pays the small cost involved. In view of the low farm-retail price spreads on eggs in Los Angeles compared with other large U. S. cities, resulting entirely from relatively low distributor margins, it would be difficult to show that a particular marketing practice has had adverse impacts on consumer or producer prices or on marketing margins.

21/ Two reports on use of the refrigerated display cabinets holding cartoned eggs in reusable wire cases in Los Angeles and Minneapolis indicate the following advantages over common methods of displaying and handling eggs in stores: (1) Because eggs can be handled by the case (15 or 24 dozens) at a time instead of by individual 1-dozen cartons, labor costs of in-store handling are reduced, displays are easier to restock and rotate, and egg breakage is decreased. (2) Sales of eggs generally increase. For distributors there are also savings in labor costs in handling both in plants and on delivery routes, savings in materials costs because the wire cases can be reused many more times than fiber cases, and savings in total delivery costs if store sales increase and average volume per delivery rises. The investment per cabinet installed in a store currently exceeds $1,000 for most sizes (3 and 2).

The willingness of some dealers to finance retail stores through open accounts, free egg display cabinets, and other means may be an indication that the competitively established dealer margins in Los Angeles are more than adequate for these firms. For example, one of the dealers most aggressive in promoting sales through installation of egg display cabinets in stores indicated that his costs were well below prevailing gross margins and probably below the average of egg dealers in the market. A major, and perhaps the primary, reason why some chainstores own and operate their own egg distribution facilities is their expectation of capturing the profits of the distribution operation as well as the profits from retailing.

Although the influence of retail food stores, especially the supermarkets, on market prices and practices, is not fully clear, it does not seem to be strongly adverse to producers or to the market as a whole. While retailers' insistence on buying uniformly high-quality eggs has created many problems for both dealers and ranchers, few will argue that this policy is not in the best interests of all concerned, including consumers. To the extent that retailers have promoted eggs aggressively on special sales, particularly when available supplies were excessive, they have contributed to the stability of the market and even, perhaps, to larger returns to producers. Retailers, or at least some of them, participate in the basic price-making process. This, too, may contribute, although in an indeterminate manner, to the efficiency of the marketing system. In short, evidence of need for marked changes in the relations of retail stores to egg dealers and producers is not now available.

LITERATURE CITED

(1) Baker, Ralph L.
1959. Integrating Egg Production and Marketing. U. S. Dept. Agr. Mktg. Res. Rpt. 332, 46 pp., illus.

(2) Drews, H. E.
1959. Increase in Re-Use of Improved Egg Cases a Strong Trend in Egg Handling. Amer. Egg & Poultry Rev. 21 (6): 32-34 pp., illus.

(3) Flynn, Gordon.
1959. Wire Baskets Help to Market Eggs at Retail Level. Agr. Mktg. 4 (10): 11, illus.

(4) Gerald, John O., and Pritchard, Norris T.
1958. Pricing Eggs at Wholesale in New York City. U. S. Dept. Agr. Mktg. Res. Rpt. 210, 31 pp., illus.

(5) Gray, Leo R.
1960. Marketing Spreads for Eggs and Frying Chickens in the United States and Selected Cities. U. S. Dept. Agr. AMS-296 (1960), 27 pp., illus. (Reprinted from The Marketing and Transportation Situation, Jan. 1960.)

(6) Hester, O. C., and Pritchard, Norris T.
1957. Pricing Eggs in Los Angeles. U. S. Dept. Agr. Mktg. Res. Rpt. 161, 20 pp., illus.

(7) Pritchard, Norris T., and Hester, O. C.
1957. Pricing Eggs at Wholesale in Chicago and St. Louis. U. S. Dept. Agr. Mktg. Res. Rpt. 173, 26 pp., illus.

(8) Shepherd, G. S.
1955. Marketing Farm Products. Ed. 3, illus. Iowa State College Press, Ames.

(9) Southern California Grocers Journal.
1959. Salesmen's Calling List. South. Calif. Grocers Jour., May 22.

APPENDIX

EGG MARKETING CONTRACT 22/

THIS IS A CONTRACT made between ______________, a dealer in eggs in the ____________________ marketing area and holder of State of California Department of Agriculture Produce Dealer License No. __________ Expiring ________ hereinafter called "Dealer"; and ____ a farmers' non-profit cooperative marketing association organized under Division 6, Chapter 4, Agricultural Code of California, hereinafter called "Association", which is composed of producers of chicken eggs hereinafter called "Members";

WHEREBY Dealer and Association mutually agree as follows:

Sec. 1. Purchase and Sale

Dealer agrees to purchase from Association and Association agrees to sell to Dealer all eggs produced and marketed through Association by the Members listed in Section 11 hereof subject to the right of Members to withdraw from Association in accordance with the by-laws thereof; provided, however, that Association may, when agreed to by Dealer, add new Members to the list and all eggs of any such new Member shall be included under this contract.

Sec. 2. Cases, Fillers, and Flats

Dealer shall supply each Member with good, strong, serviceable thirty dozen pre-assembled egg cases with fillers and flats, of such construction and in such condition as will protect the eggs and preserve their quality; and sufficient in number to fulfill all requirements at all times for handling, packing, and shipping the eggs produced by Members of Association and purchased hereunder. Such cases, fillers, and flats shall be the sole property of Dealer at all times.

Sec. 3. Sizing, Casing and Marking--All Sizes

Prior to pick-up, Member shall sort all eggs into Large (which also shall include Extra Large and Jumbo), Medium, Small, and Peewee standard sizes. All eggs shall be packed in cases, and each case shall be packed full and contain only one size and quality of eggs; provided that whenever at the time of shipment, there are insufficient eggs of the same size and quality to fill a case, eggs of different sizes or qualities may be packed in the same case when the case tag is so marked, but only one size or quality of egg shall be placed on the same flat.

Association or its Members shall not be obligated to candle or otherwise grade eggs sold hereunder. However, Checks, and Dirties, and any eggs not Practically Normal may be separately packed, provided they are sorted as to size as set forth above. All such grades must be marketed hereunder, except Checks and any eggs not Practically Normal may be otherwise disposed of,

22/ This is a copy of a contract typical of those in force between Los Angeles dealers and egg bargaining associations in 1959. Contracts between dealers and many independent producers are basically similar. The blank lines indicate deletions essential to prevent identification of the parties involved.

at option of Association. Any eggs which have been washed or mechanically cleaned shall be separately packed and so marked on case tag when requested by Dealer. To each case shall be attached tag to be furnished by Dealer, showing the name of the Member, the date shipped, and the quantity in dozens of each size and quality therein.

Sec. 4. Delivery at Ranch

Dealer at his own expense shall pick-up at ranch premises of Producer, all eggs purchased hereunder at least twice per week on ________ and ________ mornings or on such other days as mutually agreed by Dealer and Producer. Dealer shall assume ownership of the eggs when he takes possession of them on ranch. Dealer shall haul all eggs promptly and directly to his plant at (   ) and shall place same in proper egg cooling room immediately. For each lot of eggs received Dealer shall leave at ranch a copy of a Receiving Memo showing all eggs received and the grade and size thereof.

Sec. 5. Payment - One Check to Association

For all eggs purchased hereunder and picked up in each week ending with ______________________, Dealer shall pay Association the purchase price on or before the following ______________________.

Said payments shall be made by check delivered by Dealer to Association at ______________________, or at such other location or under such other conditions as specified by Association.

With each payment Dealer shall provide separate accountings for each lot of each Member setting forth the date of pick-up, quantities of each size and quality of eggs received, with prices for each, and with extensions and totals.

Sec. 6. Base Reported Price

The Base Reported Price per dozen for the different sizes and grades of eggs purchased hereunder shall be the price as set forth each day in the "Federal State Market News Service." "Daily Market Report" of "Egg Prices" published at Los Angeles (Delivered 1¢ higher) (Cases Exchanged - Cartons 3¢ higher) for "Grade A" eggs, using the high figure of the range shown and dated the same day on which eggs are picked up from Members. If the above price is not published on any day on which eggs are received by Dealer, then the one last previously published shall be used. If at any time during the life of this contract there is any change in the method of determining, calculating, expressing, releasing, or otherwise reporting the price as set forth above, from that used on the date of this contract, then the paying price shall be adjusted in accordance with and to the extent of such change.

Sec. 7 - (a) Paying Price - Quality Score System - Grading and Adjusted Grade

1. The Association shall employ at its own expense the Poultry Grading Service of the U. S. Department of Agriculture to officially sample and determine the grade and the accuracy of the minimum size of the Large eggs sold hereunder. Once during each grading month, as defined below, the official Egg Grader shall grade a lot of Large eggs shipped by each Member of the Association and issue Official Egg Grading Certificate thereon.

2. Samples taken from any lot for grading shall be drawn solely by the Official Grader at a time during each grading month as determined by the Official Grader himself and shall not be reported to the Association, any member thereof or the Dealer, until after the close of the grading month.

Any information as to time of or results of grading which may be known by the Official Grader, any employee or officer of Association or Dealer or any other person shall be held strictly confidential to himself until after the close of the Grading Month.

3. The term Grading Month as used herein shall be the period from the 26th of the previous calendar month to the 25th of the current month and the grading made during such period shall be known as the grades for the current calendar month. All grading certificates for each month shall be retained by the Official Grader until after the 25th of the current month.

Grading certificates made during a grading month shall be delivered by Official Grader between the 26th and 28th of each month, one copy to Dealer, and two copies to Association.

4. Grading shall be done in alternate Grading Months, first on day prior to pickup at a point within the area of production which is described in paragraph 4 at a place provided by Association, and second, at the receiving dock of the Dealer.

When Grading is done in area of production Association agrees to provide a proper place for sampling and for Grader to work.

5. Either party hereto or any Member may request an additional grading of the Large eggs of any Member at any time during any grading month. Such re-gradings shall be done at the receiving dock of the Dealer if request is by the Association for Member and in the area of production if request is by Dealer. The expense of additional gradings shall be billed to and paid by party who makes request. The Adjusted Grade for the month shall be the average item by item of the grades as set forth on grade sheets of all gradings made in the grading month.

6. When Egg Grading Certificate shows more than ____% of Large Eggs weighing at rate of less than 23 ounces per dozen, then the amount of the excess percentage shall be multiplied by .15 and the result shall be subtracted from the percentage of Grade A Large as shown on Grading Certificate. The remainder shall be the percentage of Grade A Large eggs which shall be the Adjusted Grade for the month.

Sec. 7 (b) 1. Paying Price - Quality Score System - Quality Value Index Points - All Grades

Quality Value Index Points, based on the Market Value of the different grades of Large Eggs shall be assigned to each grade of eggs as follows:

QUALITY VALUE INDEX POINTS SCHEDULE

Grade	Market Value	Points Assigned
A	Base - Market	1.0
AA	Worth 10% more than base	1.1
B	Worth 20% less than base	.8
C	Worth 40% less than base	.6
Check	Worth 20% less than base	.8
Dirty	Worth 40% less than base	.6
Loss - Leakers smashed and inedible	Of No Value	.0

EXAMPLE

		Market Price		Index	Grade	Points
A	=	100%	=	1.0	25%	25.0
AA	=	110%	=	1.1	65.	71.5
B	=	80	=	0.8	3.0	2.4
C	=	60	=	0.6	1.0	.6
Check	=	80	=	0.8	3.5	2.8
Dirty	=	60	=	0.6	1.0	.6
Loss	=	0	=	0.0	1.5	.0
					100.0	102.9

Sec. 7 (c). Paying Price - Quality Score System - Quality Score - All Grades
A Value Score for the eggs of each Member of Association shall be computed each month as follows:

First: Multiply the percentage of each grade of eggs on the Official Grading Certificate, or on the Adjusted Grade as determined in Section 7 (a) 6 above, by the Quality Value Index Points for the grade as set forth in Section 7 (b) 1 above.

Second: Compute the sum of the points for all grades. This sum is the Quality Score of the Member for the month.

Decimals in Value Scores shall be carried to only two places. More digits than two beyond the decimal point shall be dropped and the second decimal number shall be adjusted upward one digit if there is a third digit of 5 or over.

Sec. 7 (d) Paying Price - Quality Score System - Current Month Score
The "Current Month Purchasing Value Score" of each Member, to be used as the basis of determining the Purchase Price for the eggs of each Member during any calendar month, in accordance with Section 7 (c) shall be the average of the Value Scores of such Member for the previous ________ months.

Sec. 7 (e) Paying Price - Quality Score System - Handling Margin in Cents
The "Paying Price" per dozen to be paid Association by Dealer for the different sizes and qualities of eggs of each Member during each month shall be determined for each day eggs are picked up from Member.

The Paying Price for Large Eggs shall be the Base Reported Price adjusted in accordance with the current month Quality Score of each Member, as follows:

ADJUSTMENT TABLE FOR PAYING PRICE - DIFFERENTIAL IN CENTS ONLY

Previous Month Value Score	Price Adjustment (or)	Current Month Purchasing Value Score	Price Adjustment (or)
110.00	B.R.P. ______¢	99.00 to 99.99	B.R.P. ______¢
109.00 to 109.99	B.R.P. ______¢	98.00 to 98.99	B.R.P. ______¢
108.00 to 108.99	B.R.P. ______¢	97.00 to 97.99	B.R.P. ______¢
107.00 to 107.99	B.R.P. ______¢	96.00 to 96.99	B.R.P. ______¢
106.00 to 106.99	B.R.P. ______¢	95.00 to 95.99	B.R.P. ______¢
105.00 to 105.99	B.R.P. ______¢	94.00 to 94.99	B.R.P. ______¢
104.00 to 104.99	B.R.P. ______¢	93.00 to 93.99	B.R.P. ______¢
103.00 to 103.99	B.R.P. ______¢	92.00 to 92.99	B.R.P. ______¢
102.00 to 102.99	B.R.P. ______¢	91.00 to 91.99	B.R.P. ______¢
101.00 to 101.99	B.R.P. ______¢	90.00 to 90.99	B.R.P. ______¢
100.00 to 100.99	B.R.P. ______¢		

and ______ cents less for each one point of Value Score less than 90.00.

And the "Paying Price" for the other sizes and grades shall be as follows:

2. Medium ______ cents less than the Base Reported Price for Medium
3. Small ______ cents less than the Base Reported Price for Small
4. Peewee ______ cents less than the Base Reported Price for Small
5. Large Check ______ percent of B.R.P. for Large
6. Medium Check ______ percent of B.R.P. for Medium
7. Small Check ______ percent of B.R.P. for Small
8. Large Dirty ______ percent of B.R.P. for Large
9. Medium Dirty ______ percent of B.R.P. for Medium
10. Small Dirty ______ percent of B.R.P. for Small

Sec. 8 Standards and Specifications - Federal

The standards and procedure for determining quality, size and other specifications for eggs, for all purposes of this contract shall be those set forth in "Regulations Governing the Grading and Inspection of Shell Eggs and U. S. Standards, Grades and Weight Classes for Shell Eggs" effective July 13, 1956.

Sec. 9 Notices

All notices given by either party to the other hereunder shall be in writing or if by telephone or otherwise be confirmed in writing to address as follows until otherwise directed:

DEALER - NAME ______________________

ADDRESS ______________________

TELEPHONE ______________________

ASSOCIATION - NAME ______________________

ADDRESS ______________________

TELEPHONE ______________________

Sec. 10 Term of Contract - Five Year with Annual Cancellation Period

The term of this contract shall be for five years commencing on ________ ____________________ and ending on ______________________, providing Dealer or Association may by written notice to the other party prior to ____ of any year, terminate this contract on the following ______________________.

Sec. 11 List of Members

The names and ranch locations of the Members of Association, as referred to herein are as follows:

NAME	ADDRESS	LOCATION OF RANCH PICK-UP	LAYING HENS THIS DATE
1.			
2.			
3.			
4.			
5.			

Sec. 12 General Provisions

Time is of the essence of this entire contract and each of the provisions herein. The successors and assigns of both parties shall be bound hereto. If any of the provisions of this contract shall become in violation of any law of the United States, the State of California or any political subdivision or any regulation hereunder, such provisions of this contract shall continue in effect.

THIS CONTRACT is hereby executed in duplicate by the duly authorized representatives of Dealer and Association.

Signed this _______ day of _______ 19____ ______________________________
DEALER

BY ______________________ ITS ______________________________

Signed this _______ day of _______ 19 ____ ______________________________
ASSOCIATION

BY ______________________ ITS ______________________________