"Focus on Pricing"

SEVENTH ANNUAL

AGRICULTURAL MARKETING CONFERENCE PROCEEDINGS

MARCH 25, 1965

Sponsored by:

DEPARTMENT OF AGRICULTURAL ECONOMICS AND RURAL SOCIOLOGY
COOPERATIVE EXTENSION SERVICE
THE OHIO STATE UNIVERSITY
COLUMBUS, OHIO
The publication reports the major discussion of the Seventh Annual Agricultural Marketing Conference held March 25, 1965, at The Ohio State University. As in the past, the conference was planned by the faculty of the Department of Agricultural Economics and Rural Sociology and sponsored by the Department, the Cooperative Extension Service and the Ohio State University. More than 250 people from Ohio and other states participated in the program.

The Agricultural Marketing Conference series is designed to provide an annual opportunity to examine in depth some problem or opportunity. The purpose is to go beyond day-to-day operational problems in looking at factors affecting decisions made by individual firms, farmers and consumers; but which are not under the direct control of any of these. The themes of previous conferences illustrate the nature of this educational endeavor:

- Vertical Integration in Agriculture
- Let's Look at Our Business Strategy
- Market Power
- Government and Marketing
- Bargaining in Agriculture
- Forecasts for Decision-Making

This conference with the theme "Focus on Prices" explored how prices are determined and the economic environment in which we must operate. Clearer recognition by firm management of the overall environment in which the firm operates is essential in individual decision-making and conducive to the health and vigor of our private enterprise economy. Within this overall framework, the goal of this conference, and those that have preceded it, was promotion of better understanding and clearer perspective of one of many problem areas of agricultural marketing, a vital part of the total economy.

Charles Ingraham - Registration
John Bottom - Proceedings

M. E. Cravens
Thomas Stout
Vern A. Vandemark
Conference Chairman
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WELCOME
by
John T. Mount
Vice President, Educational Services
The Ohio State University

It is a pleasure for me to meet with you this morning and extend a most
sincere word of welcome on behalf of the University. It's always a privilege
for me to meet with my friends in the Departments of Agricultural Economics
and Rural Sociology and the Cooperative Extension Service. It is really a
heartwarming feeling to see so many of you come out on a morning like this
to give your time and your intellect to work at one of what I believe to be
the most significant problems of this era—that of agricultural marketing.
I see swine growers here and we know that there are producers, meat packers
and bankers here. Also we know there are people here who are food wholesalers
and retailers, food supply operators, rail elevator operators, and representa­
tives of farm organizations and marketing associations. This cross section
of our agricultural industry brings to this conference the practical expe­
riences and know-how that when put together in a learning situation certainly
should bring some significant results.

We in Central Administration of this University feel that there is no
area on our campus to equal the College of Agriculture in its rapport with
people who work in the field—you people. Rapport with those who are right
on the firing line. This is what we believe makes a University great. We
wish we had it in each of the 87 departments of our University. One only
has to go to another country to see economists who have very little contact
with the real world. You do not see the people who are in the classroom
teaching students, and those who are in the research laboratories with rapport.
They have a research institute out here some place, and a teaching class some­
place else, and then they have an extension service which in that country is
tied up with the government politically. Obviously they do not get together
with the educators or researchers; but, here you come together and you have
resident teaching and research and extension people working along with those
that are in the field and in conferences like this. This is what makes
for a great country in my judgment and we must make this stronger and continue
to let it grow.

Many people know about the enrollment we have on the Ohio State Univer­
sity campus. For your information, we have 15.2% of the college students
enrolled in Ohio at the Ohio State University. Over 6% of the high school
graduating seniors will come to our Columbus campus. We know about the
large enrollment, but many times we do not realize that during this past
year we had 125,000 people on our campus in symposia, workshops and conferences
such as this—doctors, dentists, lawyers, economists, agriculture economists,
and marketing people coming together in a continual learning situation. And
we do that along with the growing student population and we want you to know
that we are going to continue to do everything we can to increase not only
our effectiveness as teachers in the classroom and researchers, but also this
continuing education effort.
We are planning, and I am working personally in leadership with a new facility—a more than four million dollar facility—which will have conference rooms because in the very near future we won't be able to be in rooms like this because students will be here. We have to have more facilities if we are going to continue our responsibilities. We are going to be opening this in the fall of 1967 with conference rooms. Yes, we're going to have what Purdue, Michigan State and others have and better. We should; we're doing it after they; we should learn from them.

As we welcome you to this campus we want you to know that each and every one of you participating in this conference brings to this campus something that helps us to have a more effective teaching program. The faculty through working with you will be better teachers in the classroom. Your questions will lead to more dynamic and practical research projects. Our answers will make our teaching more meaningful and give more substance to the questions that students in the classroom ask because we will have learned from you. In this day and age we are sure of about three things. You know it used to be that we were sure of just two—death and taxes. Today we're sure of a third—obsolescence. I am not sure whether obsolescence is going to take over the other two or not, but I doubt it. You know that today each and every person, if he is going to make a contribution in society, must come back for continual learning. We must work at perfection.

The margin is very, very thin in the marketing of agricultural products. We know this. But I cannot help but think as we remind ourselves of the millions of Americans that watched the Gemini flight on Tuesday, and then yesterday watched Ranger 9 as it approached the moon taking the pictures—I cannot help but ask myself, "What do you suppose would happen if we took all of that energy, that dedicated effort, and those hours and put it to the task of trying to solve our agricultural marketing problem in this country?" Do you think we could do it? Do you think we could reach the perfection, the excellence that they have reached as illustrated by a person who was just on our campus recently to talk about this space program and he gave an illustration? He said, "The perfection necessary for a moon shot might be illustrated by this: Let us suppose you took a bow and arrow and you stood at a goal line and ten football field lengths away was a target, the keyhole of a sliding door on a boxcar being pulled by a locomotive at 2,000 miles an hour. That's your target, ladies and gentlemen, if you want to put Ranger 9 on the moon over 300,000 miles away within a few miles of the target. They have reached some perfection. Now if we in the area of marketing will spend the time and effort, do you think we can reach such perfection? I think it's a great challenge and that's why you are here today.

We wish for you a most profitable conference on our campus and we're sure that if you enter into free dialogue with our faculty, there should be some good come out of it.
PART I

How Prices Are Determined
FACTORS INVOLVED IN PRICING OF FARM PRODUCTS
by
Wallace Barr
Associate Professor of Agricultural Economics
The Ohio State University

Each year 3.5 million farmers decide what to produce on the 450 million acres of cropland and 700 million acres of pasture and when and how to market the products. About 195 million consumers decide what to buy at food outlets—supermarkets, restaurants, and eating places—in clothing stores and tobacco counters. Between the farmer and consumer are thousands of firms which buy, store, transport, process, package, grade, finance and sell farm products. All assume risk in the hope of some profit. The billions of decisions by farmers, businessmen and consumers influence the prices farmers receive for their products.

Because prices are not simply and easily explained, there is probably more controversy, more misinformation, more concern, and more speculation about prices than any one phase of our economy or about any market economy. Price is almost a daily concern to the farmer. Businessmen handling farm products have an important interest in the behavior of farm product prices. The legislator and administrator wants and needs guides for programs, policies and legislation. Thus the farmer, the cooperative, the supplier, the food distributor, the consumer, the legislator are all interested in consumption and production and probably behavior of prices.

ROLE OF PRICES

These comments will be directed primarily to a free enterprise exchange economy since this is the institutional arrangement used to organize our economy. In our economic system, cooperation among individuals is achieved primarily by voluntary exchange of goods and services for money. These exchanges take place between one enterprise and another enterprise, between one individual and another, between an individual and an enterprise. Sometimes government is involved in the exchange. The term "free enterprise" should mean the freedom to establish an enterprise rather than the freedom to do anything one wishes with his enterprise—including preventing others from setting up an enterprise.

According to Leftwich there are five interrelated problems in all types of societies.1/

1. What is to be produced?
2. How production is to be organized?
3. How the products are to be distributed?
4. How goods are to be rationed over periods during which their supplies are fixed?
5. How the productive capacity of the economy is to be maintained and expanded?

What is to be produced is primarily a problem of determining the wants of consumers. Wants are practically insatiable and the picking and choosing of the wants reflects the values of society or the relative desires of society for various goods and services. In a free enterprise exchange economy this task is accomplished essentially through voting in the market place with dollars. The votes with dollars in a free enterprise market economy are exhibited through prices. The prices or values placed upon various goods depend upon how badly people desire them, their ability to back up their desires with dollars, and the supplies available.

The choices or values of society must be translated to productive activity in bringing about the desired production among and within industries. This is accomplished by the price of two things--prices of consumption goods and prices of resources (land, labor, and capital) needed to produce them. Prices of consumption goods in relation to their production costs determine the distribution of resources among industries since the more profitable industries offer higher prices for the resources than those with low profits or losses. There is a constant channeling of resources from the goods and services consumers want least into production of goods and services consumers want most.

Every society must provide some means of dividing the total goods and services among individuals in the society. In a free enterprise economy this job is accomplished by the price system simultaneously with determination of what is to be produced and how production is organized. The division of the goods and services among society depends upon the income distribution within the society. Income depends upon the amount, kind and quality of resources one puts into the productive process and the prices received for the resources. The prices received for the employed resources are highest for the goods and services society wants most. These forces have provided the "pull" to non-farm employment.

Some provision is necessary to allocate commodities over the time period during which these supplies cannot be changed. The rationing in an economy must allocate the supply among consumers and stretch the given supply over the time period. In a free enterprise economy the device that rations the commodity over the short run is price. In a very real sense prices guide both production and consumption of farm and other products. Perhaps soybeans are a good example. Production increases each year and prices have been relatively strong. Prices each year ration soybean products so that only two or three weeks' supply are on hand at the end of the year.

Economic maintenance and progress is necessary to maintain and expand the level of living. Prices are only one element in whether or not maintenance and growth take place. Other factors like education, population increases, capital accumulation, research, profits, etc., influence maintenance and progress.

Thus prices serve as a guidepost in that they transmit information effectively although not always perfectly. They provide an incentive to consumers, and they provide incentives to owners of resources. This is one of the major differences between a free enterprise and communist economic system.
The proposition that price is determined by the interaction of demand and supply forces is merely an attempt to provide a filing system within which can be place under headings of "demand" or "supply," any one of the forces that affect price. Two major problems arise from this--oversimplification and the description may sound like justification. The price system is extremely complicated, involving the coordination and activities of millions of people--U. S. and world--and their adjustment to ever-changing conditions. The price system is an extremely subtle and complex device. Casual observations lead one to an underestimation of the complexity and the device (prices) used to solve it. The complexities are brought to our attention when something goes wrong. Often what is only partially understood is feared, and price making forces and the market institutions are feared.

The foregoing assumes (1) the existence of some type of competition in translating consumer wants into productive activity, and (2) the voting is in proportion to the number of dollars one has. If there is inequality, it arises in the control of resources. On the other hand, the degree of inequality is much more serious in a country governed by status or tradition or in countries that do not rely on market forces than in those that do.

The foregoing tells us how goods tend to be valued by a price system--not how goods ought to be valued. The price system may lead to social consequences which are considered undesirable and which we attempt to rectify through the political process. Anti-trust legislation is an example of attempts to maintain competition and prevent monopoly or oligopoly. The social security system and progressive income taxes are examples of income redistribution. The formation of the National Food Commission to study the market structure and practices in the food industry is further evidence of national concern on food pricing.

THE FARM MARKET

The total market for farm products is the sum of domestic and export use. In 1964 total farm marketings amounted to $36.7 billion. Sales to non-farm people in the U. S. are estimated at $19.4 billion or 53% of the total marketings. The next largest domestic market were other farmers. Feed and livestock purchases were about $9 billion or 25% of the total. Ranking third as a source of receipts to farmers were exports which amounted to $6.1 billion or 16% of the total marketings. The government was the fourth largest source of cash receipts: Loans minus redemptions and payments accounted for $2.2 billion or 6%.

The prices of most farm products are highly variable. They change from year to year, from month to month, and from day to day. Some may change from hour to hour or even shorter periods of time. Changes also take place continuously between prices of farm products and prices of other products. These changes at times appear irrational, beyond the realm of reason, and beyond the power of man to control. The causes or forces are numerous and complex. We will attempt to briefly point out many, but not necessarily all of these forces.
Price Levels

Sharp changes in general price levels have been associated with and following war periods. Rising price levels benefit some but injure others, and is likely to be followed by declining prices which injure most everybody. Farmers generally benefit during periods of rapidly rising prices since agricultural prices rise faster than agricultural production and costs of production. Fixed costs increase relatively slow, thus farmers’ net incomes increase faster than gross incomes.

From 1940 to after World War II retail food prices doubled, prices of farm products more than doubled, gross farm income more than tripled, and net farm income quadrupled (see Chart I). In the period after 1951 a downward adjustment in farm prices occurred. Prices of farm products at the farm level have generally trended upward over the last 50 years. By the same token, prices of non-agricultural products have trended upward, but less erratically.

CHART I

Farm and Wholesale Prices

% of 1910-14

Farm Prices

Wholesale Prices (Non-Farm)

Transportation

The U. S. is one market. Farm prices at any point in the U. S. are roughly equal to the prices at any other point plus or minus transportation. However, over time transportation charges may change as improvements and competition develop between various methods of shipping. Improved highways, larger capacity and refrigerated trucks are an alternative to rail transportation. The St. Lawrence Seaway and river barges with lower costs have affected both rail and truck shipment. Railroads have developed the "whopper" car as an answer.

Airlines have entered into the agricultural product transportation picture, particularly for perishables. The recent development of "calf in crate" for use in shipping 10 day old dairy calves to Italy is an example. As huge airplanes become feasible, there undoubtedly will be growth in this method of transportation. Transportation can expand the outlets of agricultural products from surplus areas and the quantity in deficit areas or countries and thus influence price.

Technology

New technology usually has the effect of increasing output, increasing total costs per acre, and reducing costs per unit of output. With the larger profit margins in the short run period, producers using the new technology respond by expanding their total acreage and output. As other producers adopt the new technology over time further output increases occur. This generally leads to lower prices due to the competitive nature of farming.

For example, average corn yields in the U. S. have increased about 30 bushels or nearly doubled in the last 30 years. If one-third of the 30 bushels increase is due to hybrid corn technology has increased the supply by 10 bushels per acre. Another very important factor in increased output on U. S. farms is the use of additional capital inputs. Additional rates of seeding per acre, quantity of fertilizer per acre, weed killers, pesticides, and other input purchases have contributed to additional output and thus effected price.

The point has been made that new technology generally leads to increased output and lower prices due to the competitive nature of farming. It does not mean that lower incomes are the natural result. For corn, it has been calculated using 1925 production practices, yields and today's prices that the cost of producing a bushel of corn would be in the vicinity of $1.75 per bushel. This compares to about $ .80 total production cost per bushel with 80 bushel corn per acre today. The profit margins per bushel might well be about the same.

Labor

The availability and cost of labor over time or seasonally can have an influence on the acreage planted and output of a product and thus price. The concern of farmers over the "bracero" program in the vegetable and fruit producing areas is a current example. It affects the amount of labor, the cost of the labor for specialized jobs, the total costs
of production, and the amount produced. A recent release by the USDA indicated California fresh tomato acreage would be reduced by about 40% this year due to the lack of labor and increased cost of the labor. The current efforts to develop a tomato picker are the result of availability and price of labor. In the U. S. the mechanization of farms over time has been largely due to the fact that capital invested in machinery is cheaper than human labor.

FACTORs INFLUENCING PRICES FROM YEAR TO YEAR

As a rule of thumb, when the supply of a farm product goes up, the price tends to go down. But this rule won't give us what we need; sometimes it is misleading and is not exact enough. Most people want to know how much and under what conditions. If production goes up or down 1%, what percentage change occurs in farm prices? For some things, relationships are fairly clear and for others "cloudy."

Commercial onions provide a fairly clear, simple illustration. When production rose or fell from the preceding year, prices went in the opposite direction with the percentage change in prices greater than the percentage change in production. The average annual change in price was 3% for each 1% change in supply. Over a number of years production changes accounted for 65% of the average annual price change. Other factors accounted for the remainder of the average annual change.

However, measuring the effects of output on price for many other commodities is much more complicated. Let's look at some factors.

Production in That Year

Production changes from year to year are a major factor in prices as illustrated by onions. Weather is a major factor in year to year change in output of crops. Yields and sometimes acreage harvested can vary so much from year to year that farmers may produce considerably more or less than they intended. Output changes are particularly evident in the fruit and vegetable crops and potatoes. Sheep, beef and hog output changes are evident in the cyclical numbers and price patterns. Livestock price cycles are related to the reproduction and replacement periods.

Government Programs

Acreage allotments accompanied by loans and purchase agreements have been in effect for some commodities. When price supports are in effect, prices don't fall as low as they might otherwise. Prices do fall below the loan rate, usually at harvest, because all producers may not be eligible for loans, have storage, meet quality standards, and must pay marketing charges.

Price support levels along with acreage restrictions to reduce output have been established sometimes to raise prices and income. When the CCC accumulates large stocks of goods, such as wheat, feed grains,

cotton, tobacco, and milk, they not only place a floor under the price, but also tend to place a ceiling over price due to their disposal policies.

**Carryover Stocks**

Soybeans and many other products can be stored for fairly long periods of time. Meat and its products can be stored for somewhat shorter periods. Storage of commodities may be by farmers or by firms and may be released at various times. In the low price and storage accumulation period, storage relieves the market. When released, usually in rising price periods, the effect is to temper the price rise until storage stocks are depleted. Regardless of who stores the products, the effects are the same—increases or decreases in storage stocks have the same sort of effect on prices as similar changes in production.

**Production and Stocks of Competing Products**

Many farm products are interchangeable with others. At the farm level, corn competes with oats, barley, rye, grain sorghum, and wheat. Soybean meal competes with other protein feeds and can be substituted for some feed grains or vice versa. Using corn as an illustration, one study showed that a 1% change in production of corn plus free carryover stocks tended to change price 1.5% in the opposite direction. 3/ When related to the supply of feed grains, wheat, rye and by-products fed to livestock, it was found that a 1% change in supply of all concentrates changed the price of corn nearly 2% in the opposite direction. This general principle applies to many farm products; that prices are affected by the quantity of competing products or substitutes.

**Imports**

Surprising as it may seem, agricultural imports have trended downward from near the $5 billion level in the early 1950's. Of the $4.1 billion of agricultural products imported in 1963-64, about $1.9 billion were products not produced in the U. S.—coffee, cocoa, natural rubber, tea, silk, etc. This leaves $2.2 billion that competed one way or another with U. S. farm produced goods and thus influenced price levels. However, our farm exports were valued at $6.1 billion, thus the benefit cost ratio would be nearly 3:1 from our foreign agricultural trade.

Beef imports were an issue of some magnitude. In 1963 the quantity of frozen boneless beef imported amounted to 1.7 billion lbs., or an increase of 16% or 1.2 lbs. per person from 1962. Prices of choice cattle in Chicago fell $3.74 from 1962 to 1963. If one assumes imported beef to be fully comparable to fed beef produced in the U. S., the net effect of the increase in imports on choice steer prices was about 75 cents per cwt. If it were comparable to grass, cow, and bull beef, the increase in imports accounted for about 50 cents of the decline in choice steer prices. The major causes of the $3.74 decline between 1962 and 1963 were increased total domestic marketings from larger numbers and heavier weights.

In world trade, generally, a product moves to the highest priced market. Imports into a country tend to occur when prices are relatively favorable and decline when relatively unfavorable. Today Europe is the highest priced market for beef as a result of the 1963 European crop failure and cattle liquidation. In fact, our exports of live cattle and some meat to Europe have nearly doubled while our imports have diminished substantially. This points up the fact that imports and exports of a commodity tend to stabilize prices or prevent as wide a fluctuation between the extremes as would occur in their absence.

Policy determination by Congress has an influence on imports. Quotas were legislated on meat imports, thus restricting future quantities imported and effecting beef prices. Tariffs are in effect on many agricultural products imported. When our domestic price support levels are above world prices, import restrictions are mandatory.

**Effects of Supply on Price**

**CHART II**

Changes in Supply Affect Farm Prices

<table>
<thead>
<tr>
<th>Supply Changes 1%</th>
<th>Prices Tend to Change in Opposite Directions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potatoes</td>
<td></td>
</tr>
<tr>
<td>Whole Milk</td>
<td></td>
</tr>
<tr>
<td>Eggs</td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td></td>
</tr>
<tr>
<td>Hogs</td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td></td>
</tr>
<tr>
<td>Fed Cattle</td>
<td></td>
</tr>
<tr>
<td>Apples</td>
<td></td>
</tr>
</tbody>
</table>

In Chart II are some estimates of the response of prices for several commodities to changes in total supply (Production plus stocks). A 1% increase in the supply of potatoes, with other commodities remaining constant, tends to reduce potato prices to producers by an average of 4%. Apple prices, on the other hand, tend to change 0.6% for each 1% change.
in supply. In most cases, a change in supply of 1% for an individual product results in price changing more than 1% in the opposite direction.

The above are short run or the immediate effect of changes in supply on prices. They do not necessarily indicate the long run effect. Studies indicate that prices are much less variable in the long run than in the short run. If the supply of a commodity were reduced for a number of years, the price would not be expected to stay at its higher level. Three major things happen. One is that the higher price would cause consumers to shift to other products. Another is that new synthetic products would be developed. The third is that as new producers would likely enter into production of the product.

Farmers' Reactions to Price Changes

There seems to be a chain reaction between prices and output. The total amount of a product available affects prices received; the price received affects the quantity produced and thus the price received. There are many difficulties in judging these effects. Weather upsets output, technology and additional capital inputs obscures the effects of price changes, price levels change over time, the time required for farmers to make changes in production, expectation as to future prices, and other factors make it difficult to assess the affects.

Many people feel that production is largely independent of prices. With low prices some farmers may increase output in an attempt to maintain income, but in the aggregate total output will decline. The interaction and consequences can be illustrated by the hog or beef cattle cycle. Currently the number of hogs marketed are lower and prices about $2 per cwt. higher than a year ago. Decisions to breed fewer sows in 1963 and early 1964 have affected hog marketings and price in the fall of 1964 and early 1965. Future breedings will increase with prices starting to decline about 10 months later. The cattle cycle is in the opposite position with numbers at record levels. In Chart III are some changes in output that occur following a change in price.

CHART III
Supply Changes with Price Changes

<table>
<thead>
<tr>
<th>Commodity</th>
<th>% Change in Supply for Each 10% Change in Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>+ 2.5</td>
</tr>
<tr>
<td>Wheat</td>
<td>+ 3.0</td>
</tr>
<tr>
<td>Eggs</td>
<td>+ 3.0</td>
</tr>
<tr>
<td>Hogs</td>
<td></td>
</tr>
<tr>
<td>Spring Farrowings</td>
<td>+ 6.0</td>
</tr>
<tr>
<td>Fall Farrowings</td>
<td>+ 3.0</td>
</tr>
<tr>
<td>Feed Grains</td>
<td>+ 4.3</td>
</tr>
<tr>
<td>Meat</td>
<td>+ 3.4</td>
</tr>
<tr>
<td>Tobacco</td>
<td>+ 3.8</td>
</tr>
</tbody>
</table>
Farmers have much more difficulty finding alternatives to the production of corn, cotton, wheat, and other large acreage crops than alternatives to the livestock commodities or some of the less important crops. The relative stability in average and total agricultural output from year to year indicates that farmers seldom leave important segments of their farm idle. If they reduce output of one product, they use the land, labor and capital for the production of another. There are good reasons for this. An individual farmer's production is so small relative to the total that his output has no effect on price. If he reduces production he loses income.

Farmers do shift from one enterprise to another over time to take advantage of differences in price, income, age, likes and dislikes, etc. Farmers make changes on their farms, but the effects on total output are less and slower to appear than the production changes for individual commodities. Some land is being shifted to less intensive uses such as forestry, pasture, and recreation. Cotton production has shifted from the South to Southwest.

**SEASONAL CHANGES**

Up to this time we have discussed primarily changes from year to year. Price changes within a year are equally important. Price changes seasonally may be as great or greater than from year to year. Some of the previously mentioned factors can also influence seasonal price changes as can changes in consumption. Farm prices of most products reflect the seasonal cycle of production. Crops are usually harvested in the summer or fall. Thus the bulk of the year's supply becomes available within a short period of time. For example, about 30-40% of the soybean crop is marketed in October with the lowest seasonal price usually occurring at this time. Some other crops are marketed more uniformly throughout the year. Livestock products have seasonal characteristics too. Milk output is usually lowest in November and highest in June. For hogs, the largest marketings are in the fall and next largest in the spring.

The degree of seasonal variation in prices depends to some extent upon perishability and storage. Grains can be stored for long periods of time at relatively low cost and usually show less seasonal variation than perishable fruits and vegetables and meat products.

Earlier or later marketings of crop commodities is influenced by weather conditions at planting or harvest. The timing of farrowings, chick hatch, and freshening dates of dairy cows will influence seasonal marketings and price. In beef, not only the number on feed, but also time and weight when placed on feed, length of feed and weight when marketed all are important factors in seasonal marketings and price.

Prices farmers expect to receive may cause them to hasten or delay marketings. Their expectations may be influenced by past experiences, last year's price patterns, outlook information and reports, tax obligations, and other psychological factors. But many unexpected things can happen that tend to raise or lower prices. An unexpected foreign demand can raise price, or expected foreign or domestic demand that does not materialize can lower price.
Exports

Exports have been growing rapidly for agricultural products. Last year $6.1 billion or 16% of the total value of our agricultural production moved through foreign outlets. As shown in Chart IV, in 1963-64 we exported by commodities: 3 out of 4 acres of wheat; 1 out of 3 acres of cotton; 1 out of 4 acres of soybeans; 1 out of 5 acres of tobacco and 1 out of 12 acres of corn.

CHART IV
Exports and Imports As a Per Cent of Output For 1963

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soybeans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beef</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pork</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Agriculture</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

Because we export large quantities of crop commodities rather than livestock, it has been calculated that one out of four acres of our total production moves into the foreign market. This compares to about 1 out of 10 acres just 10 years ago. This expansion in foreign outlets has held domestic prices above what they would be otherwise.
Of the total exports, about 75% are commercial sales for dollars--subsidized in some cases by the difference between our price supports and the price sold in the world market. About 25% of our total agricultural exports moved into foreign markets through P. L. 480.

An interesting study by the USDA has just been released on how added incomes in foreign nations is spent. In the 25 countries classified as "developed," a 10% increase in income per person resulted in increased U. S. agricultural imports of 6.9%. In the 56 nations classified as "developing" the increase in agricultural product purchases from the U. S. increased 8.1% with a 10% increase in income per person.

The USDA has estimated that by 1970 we will likely export $7.0 billion of agricultural goods and by 1980, exports could amount to $9.0 to $9.5 billion. This depends upon rising population, employment, and incomes in many nations and our aid programs. The USDA and private commodity groups such as soybean, feed grains, cotton, wheat, poultry and others are making increasing efforts to promote through trade fairs, education and other means the use of our commodities and commercial sales of such products. If this increase in outlets was not expanding, prices in the U. S. would be lower in the absence of even larger land retirement programs.

In regard to general price effects, the USDA estimates a 10% increase in the value of exports causes 1.5% increase in farm prices. The lack of precise information on foreign production, stocks, levels of income, business conditions, various trade barriers, size of future P.L. 480 shipments make it difficult to estimate the effects of foreign demand. However, in a negative way, if the market for 1 out of 4 acres were lost, how much additional land would need be retired above the current 57 million acres to maintain current prices? What would our domestic prices be if we had to absorb the production of 1 out of 4 acres in the domestic market?

**Technology Changes Demand**

New products and new uses transform the market for farm products. Sometimes these developments strengthen the demand for farm products. Frozen orange concentrate has expanded the demand for oranges, making them available in an additional convenient form all year round. This makes oranges more competitive with other fruits. The chipping potato industry is another example. New uses for commodity by-products can be an influence on the demand and price of farm products as illustrated by the use of by-products from the livestock packing industry. Another is the increased use of soybean products as food, industrial products and plastics, and adversely effecting other oil producing crops and some metal industries.

On the other hand, technological changes weaken the demand and prices for some products. Synthetic man-made fibers have taken part of the market for cotton and wool. Margarine has reduced butter consumption. Tobacco has been affected by the "binder sheet" which uses some of the scraps to replace natural binder leaf in cigars, and has altered the price relations of various grades of tobacco. A current example of
much interest is the rapidly increasing use of urea as livestock protein supplement substituting for soybean meal. Urea, a petroleum product, has been substituted by livestock farmers primarily because the cost of urea has been less than soybean oil meal.

The existence of synthesized meats (from soybeans, dry milk, etc.) in Columbus retail markets should serve as a warning to livestock producers. These synthetics are being made although their current retail price is higher than the price of the natural products. However, their costs over time may be reduced with increased technology and volume.

Population

The growth in population is the chief factor in the increased total consumption of agricultural products. The rate of population growth has changed over time. In the 1870's the growth was nearly 3% per year; was less than 0.7% in the 1939's; and averaged about 1.5% since 1940. The average U. S. citizen consumes about 1,450 lbs. of food per year. This amounts to about 500 lbs. of dry matter per year or less than 1 1/2 lbs. of dry matter per day. The relationship between population and food consumption is roughly 1 to 1 or 10% more people consume 10% more total food. Of course, the changing age composition of the population--increasing numbers and percentages under 20 and over 65--influence the amount and type of foods eaten.

Income

Another reason for shifts in food consumption is the change in the amount of money consumers have to spend for food. When incomes go up, consumers spend more dollars for food. When incomes decline, less dollars are spent for food. According to Brandow, for each 1% increase in total disposable income, about 1 1/2% more will be spent for all foods. However, different food products are affected differently as incomes change. As incomes increase, people tend as the old saying goes "to eat higher on the hog" or more correctly today, "eat higher on the beef." For example, with a 1% increase in real income, the demand for beef and turkey can be expected to increase about 3/4%; pork and chicken about 1/3%; eggs and fluid milk, 0.15%. With the price of all commodities changing in the same direction together, the demand changes less, but in the same relative relationship (i.e. more beef and turkey demanded than pork, eggs and fluid milk).

We need to recognize that as incomes increase, families spend increasing quantities of money on food, but a lower percentage of their disposable income. Low income families spend a much higher percentage of their disposable income on food than do high income families.

Preferences

Preferences of consumers often change over time. These changes may be the result of new processing or production methods, induced by

advertising, declining importance of physical labor, dieting, fewer losses in processing, distribution, and home use. Declining numbers of farmers, changing age composition of population, more uniform heating and other reasons.

CHART V
Trends in Food Consumption
(Population, Income, Preference, etc.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>3 - 4%</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>1 3/4 - 2 1/4%</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>2 - 2 1/2%</td>
</tr>
<tr>
<td>All Food</td>
<td>1 3/4 - 2 1/4%</td>
</tr>
<tr>
<td>Poultry Meat</td>
<td>1 1/2 - 2%</td>
</tr>
<tr>
<td>Potatoes</td>
<td>1 - 1 1/2%</td>
</tr>
<tr>
<td>Cereals</td>
<td>3/4 - 1 1/4%</td>
</tr>
<tr>
<td>Pork</td>
<td>1/2 - 1%</td>
</tr>
</tbody>
</table>

Composite (Population, Income, Preferences Over Time)

Future long time demand for various food items is of concern and interest to farmers, processors and distributors. According to Brandow, with population growth per year at 1.5%, income per capita increasing at 1.8% annually, the trend of consumer tastes and preferences continuing as in the past, and the same relative prices, we can expect the largest increase in beef consumption at 3 to 4% per year in the near future. (See Chart V) A 2.0 to 2.5% increase in ice cream; a 1 3/4 to 2 1/4% increase in fluid milk; 1.5 to 2.0% increase in turkeys and broilers; 1.0 to 1.5% increase in potatoes; and 1% or less for cereals and pork. The increases in domestic supply of the various products can be absorbed at current prices. Any increase in output above those indicated will be reflected in lower producer prices.

Government Demand Programs

Certain government programs have had the goal of increasing the total use and improving nutritional levels. The school lunch program and the school milk program are examples. Special purchase programs have been used in periods of heavy marketings and relatively low farm product prices. At sometime or other government direct purchase programs have been in effect for pork, turkeys, broilers, and beef. A recent example was the purchase of choice beef last summer in an attempt
to bolster fed cattle prices. Government purchase programs were taking about 3-4% of the choice beef for welfare and the school lunch program. Of the price improvement of $4.75 from May to August in 1964, government purchases alone would account for about $1 of the price improvement in choice steer prices in Chicago.

CONSUMERS' REACTION TO CHANGES IN PRICES

When retail prices change, consumers tend to purchase more or less depending generally upon the direction of the change in price. Brandow has shown that when retail prices change 1% that consumption of various agricultural products also changes. This occurs because people in addition to eating more or less will substitute, to differing degrees, one food for another. The changes vary greatly from commodity to commodity in Chart VI. The changes in consumption indicated occur when the retail price of the product changes 1%, but the retail price of other products do not change.

CHART VI
Changes in Retail Prices Affect Consumption

<table>
<thead>
<tr>
<th>Price Changes 1%</th>
<th>Consumption Changes %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>1.4%</td>
</tr>
<tr>
<td>Chickens</td>
<td>1.2%</td>
</tr>
<tr>
<td>Beef</td>
<td>.95%</td>
</tr>
<tr>
<td>Margarine</td>
<td>.80%</td>
</tr>
<tr>
<td>Pork</td>
<td>.75%</td>
</tr>
<tr>
<td>Lard</td>
<td>.4%</td>
</tr>
<tr>
<td>Eggs</td>
<td>.3%</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>.3%</td>
</tr>
<tr>
<td>Potatoes</td>
<td>.2%</td>
</tr>
</tbody>
</table>

5/ Ibid.
If retail prices of all red meats should change 1%, the changes in consumption would be smaller because the incentive to substitute one meat for another would not be present. If all retail meat prices dropped 1%, according to Brandow, the expected increases in consumption of the meats would be considerably lower. His estimates with a 1% drop in price of all meats at the same time, indicate consumption would increase for beef, 0.67%; pork, 0.47%; chicken, 0.54%; and turkey, 0.70%. If all meat prices increased at retail 1%, then consumption of the meats would decline by the same percentages. This illustrates that the quantity consumed and prices for a group of competing products change less for the group than for the individual products.

MARKETING MARGINS

There are conflicting notions between the demands at the farm and retail level. Some believe that food prices are made at the farm, and retail prices are the farm price plus marketing charges. If this were true, there would be no marketing problem. There would be no need for a National Food Commission to investigate marketing practices and structure or no need for this conference.

The other thought is that wants and preference of consumers together with income, prices, supplies of competing products and other factors are the major influence over food price. If this is true, the price at the farm must equal retail price minus marketing changes.

When a consumer buys eggs, beef or a cotton shirt, he pays for a good deal more than the farm product. He buys a bundle of goods and services. He pays the local markets, trucks, rail or boat, that haul the goods, the firms that manufacture the finished products and wholesale retail outlets. Marketing margins which include all costs between farmers and consumers take over 60% of what consumers spend for food. However, these margins vary by products tremendously from about 35% for eggs to 85% for wheat and depend to a large extent on the amount of processing required to get into an acceptable consumer product.

Any farmer that sells beef or wheat and buys beef or bread in the grocery knows that prices of products he sells fluctuate more than the prices in food stores. The reason is that marketing margins are influenced by factors different from those that influence farm prices. Marketing margins are influenced by the costs of labor which make up around half the cost of marketing foods. Wage rates, freight rates and costs of rent, electricity, telephone and packaging show little tendency to fluctuate in a short run period. They do tend to increase over time. The costs of these factors are influenced very little by changes in the consumer market for farm products.

How do retail demand and farm level demand for domestic food use compare? In Chart VII, a 1% change in the farm price has less influence on the volume moving into consumption than does a 1% change in retail price. In other words, if consumer demand strengthens or weakens, or farmers supply more or less, the impact on prices will be greater in farm markets than at retail. Note that the difference of a 1% change
in price between the farm level price changes and retail price changes on consumption differs greatly from product to product. In addition, there is often a lag between changes in price at the farm market and retail. These differences are one of the major concerns of producers.

CHART VII

Farm and Retail Price Changes Compared

<table>
<thead>
<tr>
<th>Product</th>
<th>Change Price %</th>
<th>Consumption Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td></td>
<td>.92</td>
</tr>
<tr>
<td>Chicken</td>
<td></td>
<td>.75</td>
</tr>
<tr>
<td>Beef</td>
<td>.64</td>
<td>.95</td>
</tr>
<tr>
<td>Pork</td>
<td>.45</td>
<td>.75</td>
</tr>
<tr>
<td>Lard</td>
<td>.4</td>
<td></td>
</tr>
<tr>
<td>Eggs</td>
<td>.2</td>
<td>.3</td>
</tr>
<tr>
<td>Fluid Milk</td>
<td>.15</td>
<td>.28</td>
</tr>
<tr>
<td>Potatoes</td>
<td></td>
<td>.2</td>
</tr>
</tbody>
</table>

SUMMARY

Prices received by farmers tend to swing up and down with prices generally, but they tend to fluctuate more than prices of other commodities. Farm prices are influence by numerous factors. Each agricultural commodity has its own peculiar characteristics in production and consumption and price reactions. For example, beef prices have increased since 1937 more than the average of all farm products while wheat and eggs have gone up less. The major reasons vary. The rise in cattle prices is largely the result of growing preference for beef, while the demand for wheat per capita has declined. Egg prices have gone up less compared to farm prices generally because not only is preference down, but also costs of production have been cut so that eggs can be produced and sold at relatively lower prices than formerly.
PRICING AT THE PROCESSOR LEVEL
by
John W. Allen
Director, Department of Sales and Merchandising
American Meat Institute, Chicago, Illinois

The subject of processor pricing is enormously complex when viewed in its broadest context. It is too complex to be satisfied by the simple answer, Supply and Demand—the answer which most economics professors will accept for a passing grade. Positive though I am that this answer is accurate, it omits so many essential elements as to render it not very meaningful to you and me who are attempting to improve our understanding of our changing agricultural and food industry.

In an attempt to find a more complete explanation, the National Commission on Food Marketing has been established by congressional action. I hope it does not seem presumptuous of me to address myself to some of the issues that will take a budget of millions and a staff of 40 persons two years to try to find some answers. Of course, the commission seeks understanding of considerations beyond price, but it was price that motivated the formation of the commission, and it will be price that will be investigated more than any other single factor.

I am grateful for Professor Barr's discussion of the role of prices in our economy and the factors that influence prices. A more widespread understanding of these principles is essential as our economic system comes under scrutiny by government and public citizens who can influence changes in it.

But why this great interest in prices? As farmers, agribusinessmen, educators and government leaders, we are not primarily interested in an academic explanation of the pricing mechanisms. Rather, we ought to admit that our preoccupation with price is with respect to what prices are doing to each of us. It is only human that our principal angle of vision primarily is with reference to the profits that prices create and the resulting political repercussions. When profits are squeezed, we say prices are too low. When the farmer's income is squeezed, he wants to examine the prices paid to him by the processor, and those received by the processor when they are resold. The producer also wants to be aware of the price spread between what retailers pay at wholesale and what they get at the checkout. Others in the food industry raise questions of a similar kind. This is what the National Commission on Food Marketing is all about. This is what today's meeting is all about. And this is what I intend to talk about.

Many of you whose experience spans a greater number of years than mine actually have lived through the vast changes that have transpired in the agricultural and food industries. I have witnessed, during five summers as a youth working on a dairy farm along the St. Lawrence River, a portion of the transition from horse agriculture to one now that would grind to a quick halt without the steady flow of increasingly complex and varied purchased inputs. Each of us has witnessed the growth of food processing industries that leave very few farm products to go to the consumer in the form in which the farmer sells them. We live today with a food distribution system that
is characterized by great and efficient supermarket complexes offering to
the customer an almost unbelievable array and selection of processed and
packaged foods. I have marveled often at the changing scene in our food in-
dustry as I have observed it personally while working part-time in the gro-
cery store my father managed for five years; selling and distributing Coca
Cola to stores for three summers; working for a Nevada rancher one summer;
and bottling milk for a summer. During these years, I continued to study
and teach in the area of food distribution.

Nothing possibly could have changed so much and so fast as our methods
of food distribution have without having created problems that in some re-
spects, and certainly in the thinking of some people, are almost as big as
the benefits such changes have delivered to our economic society.

Dr. DeGraff, President of the American Meat Institute, has phrased quite
aptly his observation of these changes. He said in a talk delivered last
week to a meeting not too dissimilar to this gathering:

"If there is one thread more clearly distinguishable than any
other that runs through the whole of our agricultural and food
industries, that thread bears the name of 'economic efficiency.'
It is a thread that has been dominant for at least the whole of
my conscious lifetime, and of course for longer than that. It
is the characteristic of our economic society that has reduced
our farm population from more than one-quarter of the total to
something like 7 per cent in barely more than one generation.
It is the circumstance that has displaced millions of farm fam-
ilies, that has attracted vast new capital into food processing
and distribution, that has destroyed other capital invested in
facilities and activities that were displaced or replaced. It
is the circumstance that has made obsolescence an ever-larger
proportion of all depreciation charges. It is the factor that
has progressively reduced the proportion of our national effort
devoted to food production, processing and distribution."

And who has been the greatest beneficiary? The typical working family
now buys its food for less than 19 per cent of its after-tax-income. This
means with less than one day of work out of a five-day week. And this is
the fantastically processed, packaged, and convenient food supply that
your families and mine now enjoy—an almost unbelievable change from the
basic-ingredient food items with which homemakers worked in the earlier
years of the century. The figure 19 per cent can be put in greater perspec-
tive by noting that the average Englishman spends 29 per cent of his income
for food, the Frenchman 31 per cent; and the Russian 53 per cent.

But with all these changes, margins and profits have been altered with
the result that some people have benefited greatly and others have been hurt.
What we have today is economic indigestion and a demand by those who are hurt-
ing to know the reasons why. The most vocal of groups calling for an explana-
tion is the farmer group.

The food industry in all its parts is going to be asked to relate how
it functions and just how well it is faring in the midst of all these changes.
Unfortunately, even before the explanations are given, the most prosperous
segments and those segments reflecting the largest profit margins are being
looked upon by many persons as being responsible for the economic plight of

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those persons who have been unable to make the adjustments necessary in our changing agricultural and food industry.

I question the way some persons use price and margin data as a measure of economic efficiency and degree of responsibility for farmer's economic problems. Cause and effect is being confused.

Let's look at perhaps the most popular of all such examples—the interpretation of the way the consumers' food dollar is shared by the farmer and the marketing segments. In 1945, farmers received over half of every retail dollar. But now they receive about 37 per cent. Many believe that the larger share going to the marketing and processing functions somehow is taking from him dollars he would otherwise receive. It is not appreciated fully that the farmer would be infinitely worse off if 100 cents of the consumer's dollar were to come back to him. It must be recognized that the consumer has no use for most of the products as they come from the farm. The consumer has demonstrated clearly that she wants to purchase foods that have undergone greater processing and selection so as to appear in more attractive and convenient packaging, and available to her at the time and place she desires, all of which means more services combined with the raw material product after it leaves the farm.

People do not want to buy wheat; they want bread or refrigerated brown and serve rolls which are packaged in foil. People do not purchase peas in the pod; they want tiny peas selected for them and cooked and packaged in butter sauce, put in a poly bag that can be heated in a pan of boiling water. People do not want to buy meat as meat alone; they want hot dogs and bologna that comes to them cooked, spiced, and in packages containing enough for one or two meals. Indeed the consumer purchases—or would purchase—marketing services, not simply food commodities. And it is the monthly statistical report showing the farmer's share of the consumer's food dollar that more than any single factor contributes to a lack of understanding of this point. Professor Max Brunk, one of this nation's most able agricultural economists, has put it this way: "If we must talk about cost, the real question which should concern all people of this nation is 'does marketing really cost enough?'"

As a representative of the meat industry, I would like to take issue with those critics who condemn processors because their share of the consumer's food dollar may be greater than that of the farmer. The meat industry ranks relatively low among processing industries in the service-added functions built into farm commodities. Actually I believe it would serve the interests of farmers better if the industry used a larger share to build a greater value into their products. When your wife or mine purchases a steak for $2 at her retail store she is already paying for more than just the commodity beef. But I believe our wives would have been willing to spend much more for marketing than we have allowed her to buy. Professor Brunk has put it this way:

"What profit-generating services are your consumers looking for? This is the fundamental question that stands before a market-oriented industry. I get the impression that this question (generating services for your consumers) has not been of sufficient concern to the meat business. Not when I can walk into a modern supermarket and see pieces of an animal—legs, ribs,
and livers spread all over the counter. Here in the middle of the twentieth century you are still selling anatomy!"

"Now you might say that this is carrying things a little too far—that there's not much you can do to improve on a good juicy steak or a standing rib roast. I'll have to admit they are both good eating particularly if I get a good tender one, if it has been cut and trimmed the way I want it, if it has been cooked right, if I have the desire, if, if, if! What have you done to eliminate the ifs? Here is the opportunity to exercise your skill, your ingenuity, your market know-how. These are the ingredients that generate profit dollars. Every if in the consumer's mind, every if in the retailer's mind, every if in the wholesaler's mind offers profit opportunity."

If I were a farmer, I would want a full explanation of how the processor who attempts to build into my product all the services a consumer wants is of benefit to me. There are at least a few important ways that occur to me. First, the farmer who produces a given commodity offers it into a food industry where the competition for the consumer's food dollar is utterly fantastic. The consumer, if she were to shop in six stores would find herself confronted with over 30,000 items representing either a kind of food, size, brand and the like. If the farmer's potatoes are not forcefully and attractively presented as chips, instant mashed, selected and washed baking or boiling types or frozen au gratin or french fried—the potato farmer has had it. Why could not the ordinary unwashed, ill-sorted potato of 20 years ago, which arrived at the store in 50 pound bags, be substituted for by rice, noodles, dinner rolls or a second serving of meat, or even by an idea someone has advanced to the effect that a trim figure is worth the price of overcoming the urge to eat a serving of potatoes.

There is no farmer today who can go it alone. The interdependency of producer, processor and retailer is more important today than at any other time in history. And the term, food team, is more than a mere slogan. As a farmer, I would rather be part of a team that had the necessary skill and financial resources to use the product of my farm as a vehicle to add as many services, conveniences and values as the consumer wishes to pay for.

A processing industry contributes to the producer in another way when the industry is profitable, viable and intensely competitive. If the opportunity for profit exists by combining needed consumer services with a farm commodity, the nature of our economic system sees to it that processors will be in aggressive competition for the farmer's product. Firms which perform the greatest amount of processing of a product in general seem to be able to perform these marketing activities at a profit because of their ability to differentiate products, and their skill at labeling and advertising them. Consumers are persuaded to purchase such products at a slightly higher price in return for the added value they receive. Added profits thus obtained will be passed along to farmers—at least in part—if competition for the farmer's product is vigorous. And, speaking for the meat industry, I can assure you that competition for livestock is intense.

How are prices made at the processor level? Processors—all processors—buy agricultural commodities as cheaply as possible, limited by competition. Let's face this fact at the outset. But on the other hand, every farmer
attempts to sell at as high a price as possible. But what actually determines the price to the producer? At this point, I will comment only from the viewpoint of the meat industry. I suggest that those of you in the audience representing other industries may wish to comment during the discussion session with respect to how appropriate it is to generalize from the specific example I present.

The number one factor in making price for meat is what the aggregate of all consumers will pay, in total number of dollars, for the total supply of meat offered to them at any one time.

This aggregate number of dollars that consumers do pay, or can be induced to pay, determines the price per unit—that is, per pound—for meat at retail. The average retail price has to include all cuts and all qualities, and cannot be higher than the level at which a total existing supply can be moved into consumption before it spoils. No person, no firm, or group of firms, and no marketing agency from rancher all the way through to the retailer, can escape these forces.

In a sense, then, prices for which livestock will sell is a derived price. In actual practice, neither livestock supplies nor consumer demand are fixed factors more than momentarily. Both are changing from day to day. These changes, plus other changes in grazing, feeding, processing, and marketing costs; plus changes in availability and demand for competing products; plus the fact that many sales of livestock are negotiated days, weeks, or months before animals will become meat in the retail case—all these add complexities to the price-making process. They indicate that livestock prices are made largely in anticipation of what the price will be that will just clear the market of available supplies at some later date. It is fair to state that price making is not yet an exact science.

Price-making is a bargaining function between opposing interests. Agreement usually comes about when the two parties are ready to walk away from each other in disgust, when the producer realizes he can get no more and the buyer realizes he can pay no less. And, too, there is something akin to price haggling in our retail stores, although not very obvious, where prices are already marked and where the consumer's choice is limited to taking a product or leaving it. The customer who looks at beef and then takes cheaper chicken as an alternative is price haggling.

With respect to pricing on the retail side, the preference and the price willingness the shoppers have expressed add up to the instructions which the retailer-buyer takes with him into the wholesale market where he replaces his stock. The price haggling that actually came from the consumer is thus more apparent one step back in the marketing channel, at the wholesale level, than it is at retail. The retailer will try to buy as cheaply as possible, knowing that to pay too much will result in consumer rejection of the product. And yet there is a point below which the retailer cannot offer a price if he is to get the supply he needs. Today, we have a wholesale market where there is now an increased number of packers, averaging smaller in size than formerly, and a much-reduced number of retail buyers, averaging much larger than formerly.
What goes through the mind of the packer sales executive as he makes product offerings to the wholesale trade? He begins by recalling what yesterday's price on specific wholesale meat cuts brought in the market. He sees what prices were during the same week a year ago and analyzes how circumstances are similar or dissimilar. He evaluates the total supply of meat and livestock in the industry and observes the rate at which it is moving through the distributive channels. He looks at today's weather and tomorrow's forecast and wonders if the weather will affect livestock availability for immediate production requirements, and if the weather is likely to affect consumer purchases of meat at retail. He listens to the brokers and retail buyers. He asks himself other questions: Which retailers are running weekend features on what meat items and in what geographical regions? How much product is in his own coolers? Does he have to sell product to empty the coolers for scheduled production or can he wait a bit longer in the hope of getting an extra half-cent per pound? Does he have need for quantities of specific retailers' type of meat? Are holidays affecting procurement functions and meat sales at retail? And there are still more questions. No matter how these questions are answered, the sales executive is held responsible for meeting specific sales plans in terms of quantity and profit margin. Profit margins take into account product cost and acceptable profit goals. When he misses, he hopes that it is not by much—and he tries to do better the next time.

The sales executive has a sincere respect for the retail buyer with whom he deals. Many of the retail buyers are former packers, and the sales executive respects their ability. The sales executive is concerned about trends emerging in buying and selling practices which he feels limits his ability to sell fresh or processed meat on its merits or in terms of the economic contribution those products can make to the retailer. He refers specifically to the growing trend among retailers to have the prices established as some formula based upon a national wholesale price reporting service. He is concerned about the continuing trend toward the emphasis on retail private label merchandise. Further, he is aware that the greater use of private label merchandise leaves an ever-decreasing available market for the expanding number of packers who wish to compete for it in the market for sales of branded, processed meat items. While he admits product marketing techniques are possible, he knows it is becoming more difficult to achieve consumer franchises. Thus, the sales executive moves large volumes of meat but has greater difficulty in achieving budgeted profit margins. He feels almost guilty that prices established relate much more to what his competitors are doing than to his ability to manage price in accordance to product cost and value.

There are notable examples in the meat industry of firms which are able to create consumer preference for their product, and thereby return reasonable profits. Therefore, the sales executive approaches tomorrow's selling task with greater resolve and devotes himself to planning sounder marketing management policies for the longer run.

Of special interest to producers is the effect of the pricing practices of retailers and packers. In today's mass production and mass distribution economy, profits of both retailers and processors are under constant pressure. This means, then, that profits in our industry are squeezed to the point where it ranks among the lowest among all major industries. Only the most efficient packers are able to enjoy profits that are considered reasonable by generally
accepted standards. The retailer does this because his competitive situation demands that he must.

Low profits at the packer level certainly have an effect upon producers, but the effect is greatly reduced by the competition among packers for livestock in order to maintain volume of production. The effect on producers is excessive only when the supply of slaughter livestock is excessive. Capacity of packing facilities and minimum work guarantees keep most packers in the market as aggressive bidders. The producer has the challenge and opportunity of maintaining supplies at abundant levels to sustain a vigorously competitive meat industry and yet to avoid the adverse situations resulting from over-production.

I have stressed the point that the dynamics of the food processing industry in which the farmer has so much at stake depend upon the ability of firms to innovate better food products for tomorrow's consumer needs. If I were asked to voice my principal concern over the implications of the price-making system of the meat industry, I would have to say that packers and retailers with their preoccupation on low prices may be facing a future where needed meat product innovation will have difficulty in keeping pace. In a preoccupation with price that has characterized the industry, some suppliers believe there has been a tendency to overlook other consumer desires. Surely one cannot minimize the general interest in price. But price and quality are partners. One tends to build the other, in a direct up-or-down relationship. Greater awareness of this point is essential, in my opinion.

It is fundamentally important to the producer of livestock or any commodity that the processing industry which handles his product be run efficiently. Meat packers are aware of this. The average efficiency of plants is rising and will continue to do so. To the degree packers achieve greater efficiency depends on their ability to pay more for livestock. In the March 16 Chicago Daily News, it was reported that a major packer is investing $10 million in a plant to process lard, shortening and cooking oils and will spend $100 million during the next two years as compared with $136 million in the previous five years. Another packer is planning to open a new cattle and hog slaughtering plant at an estimated cost of $4 million and will spend as much as $52 million by 1969 on plant and equipment improvements. Still a third company which spent $180 million in the last five years expects to spend $195 million during the next five years. These investments of funds to improve efficiency, most of which are directed into the food end of the business, are representative of the industry's efforts to remain competitive. Fortunately, there are enormous direct benefits accruing to the producer of meat as a result of this continual drive toward efficiency.

It seems appropriate to me to conclude with this reference to efficiency, for efficiency is the fundamental key to producer survival as it is to the processor and retailer alike. Beyond efficiency is the need for producers to obtain sound market news and outlook information to permit adjustment to changed market prospects.

If these conclusions are not satisfactory, the alternative is in the direction of a price-supported and government-directed meat industry. The price to be paid for this alternative is the loss of individualism and a level of price improvement that in all probability would be less than
satisfactory to most producers. It also would involve a severe risk to the development of improved livestock and improved meat products to satisfy the wants of tomorrow's consumers. This might result in meat losing ground to other food lines that were showing improvements as a result of the competitive force inherent in a free enterprise system.

All of us should recognize the pressing need for better understanding and communication among all segments of the agricultural and food industry. Out of this can come the beginning of more effective ways to gear production to market requirements to the advantage of all, including the consumer. I would like to think our discussions today will have contributed to this end.
HOW OUR RETAIL PRICE IS DETERMINED
by
John Story
Director of Meat Operations
IGA International Headquarters, Chicago, Illinois

The production and marketing of meat animals to serve basic consumer needs is one of the oldest occupations in the history of the world. For 2,000 years, man has endeavored to produce and market products with the hope of receiving a reward for his efforts.

Even today, the mysteries of production and marketing processes are not fully understood by all segments of the industry. More people in this country make their living through some specific activity in the food industry than any other industry operating today. Yet complete understanding of operations does not exist, and meetings of this kind are held continually to further explore the practices in an effort to determine just what makes the food business tick.

It gives me a wonderful feeling to be able to participate in an event with you who have such a long history of faith, dedication and resourcefulness similar to that fostered by the organization I represent. I appreciate being able to come before you as a representative of a distribution system which serves as an agent for the marvelous products which you so efficiently produce. It is not my intention to take advantage of this opportunity, but only to talk freely (and, I hope, constructively) with you across the table concerning our mutual problems in the production and marketing of meat.

In preparing this presentation, at times I felt somewhat like the proverbial lamb being led to slaughter—simply because today much lineage carried in newspapers, magazines and other periodicals condemns the retail industry for its part in muddying up the waters of your production system—reducing your investment to the red side of the ledger—and in addition being bombarded by politically expedient orators relegating us to the position of being a masked bandit toting a Colt .45 on each hip. At the same time, my own colleagues are apparently reacting to this two-headed bombardment somewhat like the conventional ostrich who goes around sticking his head in the sand so as not to be bothered with all of the noise going on, or segregating himself to an area where he will not have to "face the music"—so to speak.

Thus it is indeed a privilege to be able to state our position—present the facts—and hope that together we can arrive at some solutions which will help both you and ourselves to raise our heads and shout that once again, we are champions in our field, as we go about our work honestly and forthrightly—that we do produce products which are the finest in the world, and that we do, as expected, make a profit.

Specifically, I am here to discuss some of the marketing aspects of beef—but will endeavor to intersperse this with some of the marketing aspects and problems of some other commodities we work with in a retail store. Such discussion as we have concerning beef certainly should be pointed to QUALITY BEEF.
The consumption of quality beef within this country—and, for that matter, on the North American continent—continues to increase each year, and undoubtedly this year will reach its highest peak. The reasons for this are simply that the romance connected with the merchandising of quality beef is so intriguing that it behooves men to produce it, buy it and sell it. This coupled with the economic level of our country today, gives us a two-fold purpose for increasing the consumption of beef. Excluding the past year, increased consumption of quality beef was brought about during a time in which the price level both to the producer and the packer—along with the retailer and the consumer—was the highest in history.

I often wonder what would have happened during the past few years had the economic level of our country not been as high as it has—whether or not you would have been able to produce as much high quality beef—and whether we would have been able to sell as much high quality beef as we have—or, would some other species have been the predominant factor in the consumption of meat by the American public. And then I wonder should the economic level of this country happen to change abruptly, would this increase the consumption of other species by the American consumer? Certainly our present position can be attributed to our over-zealous desire to produce and manufacture more of a product which has been sold at a high level, not fully realizing that the nation's stomach can only take just so much.

Last year, my company's consumption of QUALITY BEEF ran approximately 22 per cent more, tonnage-wise, than it did the year before. So far this year, our consumption is running about 8 per cent more than it did a year ago.

Our retail pricing structure on a comparative basis has been reduced—the intensity of competition has been increased, and the aggressiveness of our competitors has hurt our net profit structure to a point that in many instances, it is below what it was previously. Our labor costs are as much or more, and our supplies do not cost less. Yet contrary to the beliefs of many, we are offering the American consumer a better value today than we have in possibly five to six years. In other words, we have frittered away the possibility for increased return on our investment which might have been made possible by your increase in production.

We have, however, increased our activity in the production or manufacture of your product for presentation to the consumer. By this we mean that we are removing the bone from more meat cuts than we ever have before, we are performing more service to the consumer, and we have developed somewhat greater utilization of our production and labor facilities than we have in the past; which has caused some on the consumer side, to cry that we did not reduce the price level of our product at retail. But, because as mentioned earlier, our industry continues to play ostrich or to stick its head in the sand, any consternation that we have suffered because of this is strictly our own fault.

It is our belief that the consuming public of this country because of their status and economic level, will continue to want to buy quality meat—and it behooves both you and me to develop ways of merchandising this kind of product to increase our sales, and subsequently increase the consumption of this product.
So, to more fully and better understand just what we are faced with, let’s take a look, just briefly, at the sales pattern, both tonnage-wise and dollar-wise of meat within a retail store.

Chart I indicates the percentage of each commodity which goes to make up our total sales pattern. These figures were established last year from a cross-section of all of our stores throughout the United States and Canada. It should be interesting to note that four or five years ago the sales level of beef compared to total sales was between 35 to 38 per cent. As indicated on this chart, we now consider 40 per cent of our total sales to be beef, and I am sure if we were to take this same cross-section this year, we would find that this factor again has been increased substantially.

Of significance here is the fact that some years ago fresh pork used to represent almost 30 per cent of our sales, and as indicated in this chart, it now represents 12 per cent to 14 per cent. Poultry has taken up most of the slack created by pork, and as you can see, it has now become a very important factor in our total sales picture. We see poultry continuing to increase its portion of our total sales as years go by, simply because the poultry industry has been very deliberate in producing a product of high quality, researching this product to find how it can be produced more efficiently, and controlling their costs to a point where the product can be sold very competitively with other meat items within a retail store.

Again, these people became over-zealous as far as production was concerned; delegated themselves to a point of little or possibly no profit. However, the entire poultry industry has learned some lessons from this, and at this point are re-evaluating their production abilities to correct this situation. But beyond this, the poultry industry is continually researching their product to find a better way to present it to the American consuming public. Fresh-frozen poultry already packaged has now developed a significant trend and because the product is produced on a mass-production basis, it can be produced cheaper than we can do at retail. Because it is flash-frozen en masse, it offers the consumer a better product than what we are able to produce at the retail level—it is easier to handle, and we believe it will continue to make inroads into our total sales picture at retail.

Additional research has indicated that further processing of poultry such as cooking and pre-preparation for convenience-type items can be done, and we find an ever-increasing number of these items being offered for sale to us to be dispensed at retail.

These two examples certainly would indicate an increased consumption of poultry.

The pork industry has begun to re-evaluate itself, and the last years of research have been producing, in our estimation, some magnificent results in the production of a type of hog which will make this product more desirable from a consumer standpoint.

We realize there is a certain amount of research going on with respect to beef. We certainly would like to encourage cattle producers and feeders to sponsor more research along this line so that you will be able to keep pace with the other species.
We note that in this program and in meetings held prior to this, you spent time discussing with university people and college professors, some of these research projects. We believe the best place to get the answers to many of the problems relating to animals of a meatier nature, faster-feed conversion, quality evaluation, etc., is from your local universities and colleges, and we encourage you to do more of this.

Now that we have established the sales pattern within the retail store, it is probably best that we affix to this sales pattern the results we expect to get, or what we call gross profit. In a retail food store, the words GROSS PROFIT mean that figure which is the difference between the cost and the selling price of the merchandise or, in other words, the margin that we need to pay the expenses incurred in operating this establishment. And, from this gross profit, we--after paying expenses--to realize some net profit.

It is pretty well established in the industry today that we need 20 per cent to 21 per cent gross profit over-all in order to satisfactorily pay our expenses and produce a net profit. Generally these expenses (which include the cost of labor, fixture expense, light and power, rent and depreciation, supplies, etc.) will be about 18 per cent. On both of these figures, the gross profit and the cost of doing business are variable in any retail operation dependent upon the amount of dollar volume within that operation. Or, in essence, they can be lower or higher dependent upon volume.

Now, in order to come up with this over-all gross profit, we must specifically affix gross profit to our sales pattern as indicated on the chart. Let's run down these briefly. On a normal week's business we generally try to establish a pattern such as:

- a 16% to 17% gross profit on beef
- on pork - 22% to 25%
- on poultry - 16% to 19%
- smoked meats - 25% to 27%
- bacon - 16% to 18%
- lamb and veal - 25% to 28%
- luncheon meat - 28% to 30%

Multiplying these figures against our percentage of sales should bring us the desired gross profit percentage and enough to pay our expenses, leaving a net profit. Needless to say, this does not always occur.

Now in order to satisfactorily produce these results, we must do a good job of selling or displaying our product.

In Chart II we have indicated our method of Meat Department layout for a retail food store. As you can see, the percentage figures at the bottom go almost directly in relation to the sales figures which were indicated in the previous chart. However, it should be pointed out here, that we display meat at retail (or at least we suggest displaying it this way to our retailers) by the method in which the housewife prepares the item. Instead of displaying by DEPARTMENT--such as Beef, Pork, Lamb and Veal and Smoked Meat--we display it by COOKING METHOD, that is, broiling, frying, braising, roasting, stewing and so on. At each end of this display pattern, we have tried to place what we call DEMAND ITEMS. For instance, on your
IGA TABLERITE MEAT DEPARTMENT
DISPLAY PATTERN
(ACCORDING TO COOKING METHODS)

BACON

VARIETY MEATS BROILING

LUNCHEON MEATS
FRANKS

FRYING
BOILING
STEWS

STEAKS
and
CHOPS

ROASTS

SMOKED MEATS

POULTRY

TRAFFIC FLOW

25% 3% 17% 15% 25% 6% 9%
left you see bacon displayed. This is a product which we consider to be a "demand item" and in order for us to get the best results with the consumer who is shopping in our store, we must lead her to this corner where this "demand item" is—which gives us some assurance that she will shop the entire case for the other items in our display case, which will give us the proper balance of sales.

The same holds true with the last item that we have on display which is poultry, and which has now become what we consider to be a "demand item." We adjust the size or area in which these various displays are within the season of the year. In other words, we would expand our roast section in the fall and winter months and decrease it and expand our steak section during the summer months. With these facts in mind, it should give you what we hope is a little better insight into the function of a retail meat department.

Let's move on then to beef and the specifics about some of the problems that we incur in the handling of beef at retail, and possibly arrive at some solutions as to how both you and we can be helped by making some changes.

As indicated previously, beef represents at least 40 per cent of our sales at retail in the Meat Department and is one of the highest costing items from the standpoint of labor that we have, simply because we have to manufacture or break down beef into many cuts before it is saleable to the consuming public. Because this takes time and skilled personnel, the cost of labor for this specific product is the highest of any product that we have in the meat department.

As mentioned earlier, this country's consuming public demand high quality beef, but we know that with high quality beef we are going to have considerable waste, necessitating much trimming at the retail level. Because we are using high-priced, skilled people, the trimming of this waste and fat is costly. It has been suggested in the past that an improved breed of cattle could be a factor in eliminating some of this waste. We have observed some research projects which have indicated that this is true and certainly would like to encourage more research along this line.

It has been further suggested that the packer could trim down some of this external waste before the product leaves the plant. We have attempted programs of this kind in the past and have not been too successful, primarily because there has been a misunderstanding between the retail industry and the packing house industry as to just what is desired here. We are continually suggesting to the packing house industry that there must be an equitable solution here and we would like to study it further.

It has been further suggested that government grading does not necessarily meet the demands of the retail industry with respect to cattle, that too little emphasis has been placed on the cutability of cattle or the cut-out value of cattle to the retailer when they have been graded by the U.S. Government. We agree with that philosophy, but do not feel that it is feasible for the government to evaluate cattle from a cutability standpoint to best meet the demands of specific retail organizations. We believe that the specific retail organization must establish their needs and desires and make them known, and then set up their specific requirements, and insist that these requirements be fulfilled by the packing house industry. We
have evaluated many cattle and have found that the low and high yield of cattle, even within the same grade, is very widespread. By yield, we mean the cutability of the cattle and we can pretty well establish that cattle of a high-yielding nature are certainly worth more money.

For that reason, some ten or twelve years ago we established a grading system of our own which would take into consideration quality, waste and cutability; and enable us to evaluate cattle for our retailers on that basis. We put into almost every major producing terminal marketing area, qualified men who could make the decisions with respect to the cattle hanging on the rail. We evaluated these cattle and branded them with our brand and saw to it that they were shipped to our stores. We guaranteed the retailer a consistency and uniformity from week-to-week and year-to-year so that he could depend upon us for his needs. Because we have uniformity and consistency within the cattle, the consumer can depend upon us for her supply of beef, knowing it will be the same (or generally the same) week-in and week-out. This also helped the retailer because the cut-out value of the cattle was uniform and allowed him to sell his product at retail prices which could produce a profit.

This program has been very effective for us. As a merchandising tool, it has some advantage over our competitors; and it has, we believe, proven our point with respect to government grading. A specific retailer or a retail organization knows their wants and needs better than the government does, and should go to the expense of meeting those needs themselves.

The establishment of this type of beef procurement program has changed our method of procurement or buying. Basically the major change is we can now no longer barter for the product, so to speak, or put our requirements out on a bid basis. Since the availability of the type of cattle we require is limited, we are left in the position of establishing our requirements with a packer on a consistent basis, and we see to it that the packer follows through in providing the amounts at the time that we need them. This excuses us from the luxury of being able to barter or beat down the packer for a low price. We realize that this costs us some additional money. We feel that we more than make up for this in the additional cutability that we receive in our cattle because of our selection program. Most of our suppliers have been with us a long time, and we want to continue this procedure and are very dependent upon them for the availability factor that we talked about. Our regulations of price are made strictly on a supply and demand basis.

At present, we are experimenting with and evaluating a system for producing and distributing beef and other meat items on a very efficient and low-cost basis. This involves specifically the breaking of cattle and mass-producing of retail beef cuts in a centrally located plant to be packed in large bulk packages or, possibly in some instances, to be packed in retail type packages to be shipped to retail stores for either further limited processing, or for immediate sale within the store. Again, we have found that the specific retail organization can best suit its own needs by doing this processing for itself.

Now as this trend continues, it may work out that this further processing can best be done at the packing house level. Frankly, at this point, we do not see it that way. We might add, however, that we were very surprised
to learn that a great deal of this type of work is being done in foreign countries, particularly in European countries—England, Germany and France—and done better and more efficiently than it is being done in this country. As a matter of fact, it is a rather new and revolutionary idea in this country. This is a rather startling realization when you come face-to-face with it.

Our belief is that a great deal more research with respect to packing materials and cost analysis and evaluation of labor savings must be done before we can consider this an absolutely sound program to go into.

We have been experimenting for some time with improvements on distribution of all packing house products to our retail stores. Because of the bulk of our tonnage being in the beef category, we see no logical reason why carcasses of beef with their large amounts of waste and unusable product should be shipped to our stores and then disposed of in some other manner. So our experimenting has involved the de-fatting of carcasses by the packer or elimination of a good portion of the waste, breaking down in the packing house of primal cuts of beef into containers such as Cryovac bags, which will hold the product in good condition, eliminate the shrinkage that we might have to take if the product were not packed under vacuum, and improve tenderization. We feel that this type of program has great feasibility and could readily be adapted into our system of distribution.

As was mentioned previously, we would like to encourage the pursuit of more research with respect to breeding cattle which we understand can have some sizable effect on the wastiness of cattle, particularly with regard to internal fat which is very difficult for us to either trim out of beef or trim off beef.

There may be some areas of further processing of beef, either by the packer or wholesale distributor, with respect to making the items of greater convenience such as was mentioned previously as being done by the poultry industry—pre-cooking, pre-preparation, etc. We are spending considerable time and some of our money endeavoring to educate and re-educate the consuming public of this country with respect to the cutting and cooking of meat cuts, and again, principally beef cuts. We find that young housewives today generally lack much of the information they should have, but yet we find them willing to accept the information if it is offered. Apparently the problem is that the young housewife has not been given the opportunity, or has not taken the time to learn the basic fundamental things about meat cuts and meat preparation that she should have. On top of that, she is so busy with other diversified activities in our modern world, that she does not have time to learn the things that your mothers and my mother knew about preparation. Along this line, we would like to suggest that an increased amount of activity from a promotional standpoint be adopted to acquaint these young people with the possibilities they are offered in proper meat buying and in meat preparation.

You know the American consumer today spends less than 19 per cent of their disposable income for food. As a matter of fact, this is the lowest percentage of income that Americans have ever spent in their history, and yet you continually hear of people complaining about the high cost of food—in many instances, complaining loudly about the high cost of meat. Surely we can say that we haven't done as good a public relations job as we could
have or should have, pointing out to the American consumer the real value of meat items, and in this case, specifically, beef.

As a matter of fact, in other countries such as Australia and New Zealand, the per capita consumption of meat on a yearly basis is 72 pounds more per person than it is in the United States. So there you have it! There is great opportunity for expansion in increased consumption of the product that you and I are working with or producing and we must find the ingenuity, develop our resourcefulness, be objective enough, to search out the ways by which to expand this field and develop it in the years to come.

And let's re-evaluate, just briefly, some of the ways we have suggested that could prove of benefit to both you, the producer, and to us, the retailer.

First of all we must study, evaluate and question all research which is presently being done and insist that more research be done to find a better way, so to speak.

Secondly, expose yourself with an open mind to the problems of the retail industry which is manufacturing and selling your merchandise. Be interested in what effect their problems have upon yours, and insist that they learn something of your business and the problems connected with it.

Thirdly, increase the intensity with which we promote and inform the consuming public concerning the product we are trying to sell.

It certainly has been my pleasure to be here. We consider it as previously stated, a rare privilege, and we are looking forward to spending more time together as we both progress.

THANK YOU.
PART II

National Commission on Food Marketing
The National Commission on Food Marketing and You
by
Donald E. Farris
National Commission on Food Marketing
Washington, D. C.

You've been hearing about the National Commission on Food and Fiber for some time, but the staff of the Commission has been formed and in business for only about 7 weeks and has actually been fully staffed for about three weeks. I want you to know that we certainly appreciate the contribution of this institution to the Food Commission. We have Dan Padberg on the Commission from your Agricultural Economics Department, we have Lou Stern from the Economics Department on the Food Commission and we have a couple of fellows who did their undergraduate work at Ohio State; so you can take part of the credit or blame, which ever applies to the outcome of the Food Commission. Since we've been in business such a short time, about all I can tell you today is what our purposes are, who composes the Commission, some of our plans, and our progress to date.

The Commission was established last July by Public Law 88364 to study food marketing from the producer to the consumer. The present chairman was appointed in September of last year. The executive director, Dr. George Brandow, was appointed in November. I think our appropriations actually came the last of October. It took the next two or three months to hire the staff and get them assembled. The Commission is composed of 15 members; five of them are Senators, five of them are members of the House of Representatives, and five are public members appointed by the President. I am going to take time to read the names of the Commission members so you will know the people who are responsible for this study. The public members are: The Chairman, Phil Gibson, formerly chief justice of the California Supreme Court; William M. Batton, Chairman of the Board of the J. C. Penny Co., New York; Fred J. Marshall, of Grove City, Minnesota, he is a farmer; Dean Elmer Keal, Dean of the School of Agriculture, University of Missouri; and Albert Mitchell, of Albert, New Mexico, a rancher. The Senate members are Warren Magnuson, Democrat of Washington; Gale Mcgee, Democrat of Wyoming; Philip Hart, Democrat of Michigan; Thruston Morton, Republican of Kentucky; and Roman Hruska, Republican of Nebraska. The House members are Leonor Sullivan, Democrat of Missouri; Graham Pursell, Democrat of Texas; Benjamin Rosenthal, Democrat of New York; Glenn Cunningham, Republican of Nebraska; and Catherine May, Republican of Washington.

For organizational purposes, the staff is divided into six groups: Legal, Retailing, Meats and Poultry, Bakery and Cereal products, Fruits and Vegetables, and Dairy—my work is in the poultry area. The staff of about 40 people are made up of lawyers, economists, business specialists, administrative personnel and secretaries.

The charge of the commission is to study and appraise the marketing structure of the food industry, covering six areas. I won't discuss them all. The key area is one which states the commission shall study and appraise the kind of food industry that would insure efficiency of production, assembly,
processing, and distribution, provide appropriate services to consumers, and yet maintain acceptable competitive alternatives to the procurement and sale in all segments of the industry from producer to consumer. That is a very long sentence, but a very important sentence. You will note that in the sentence is listed efficiency, appropriate services to consumers, and acceptable competitive alternatives. The law gives the commission very broad authority to study the whole area of food marketing, including government services and regulations.

With the problem of limited time and personnel, we're quite aware of the fact that we have much to do in a short time. In spite of the time factor, we have an opportunity to study a much neglected area, and I feel the Commission and staff will make every effort to make an objective and thorough study of food marketing. I might say that I've been very impressed with the interest that the Commissioners have shown in this study, despite their many other activities. Most of them have shown up at every meeting and a large number of them plan to show up at the first hearing. To further explain how we see our job, I'd like to read a statement that Dr. Brandow made to a group such as this at Michigan. He said,

"The Commission has been given a very broad assignment. Congress and the President essentially have said, 'All kinds of changes have taken place in the ways that food and food industry is organized and how it operates. See if you can give us some perspective on the extent to which firms are becoming larger, fewer, and more vertically integrated. Try to find out why these changes are taking place. Give us your best judgment as to how they are affecting the efficiency of the food industry, the bargaining power of different groups within it, and the maintenance of fair and effective competition. Advise us on the ways that regulative activities of government are outmoded, ineffective or otherwise in need of revision. In short, how can we maintain the efficient, competitive kind of industry that is in the best condition of the American private enterprise. This is obviously an assignment that can only be done in more or less degree. I am optimistic that we can identify some of the basic forces reshaping the food economy, and can make reasonable projections of their future effects. I hope we can make clear the market power relationships among sellers, among buyers, and between sellers and buyers. We will produce the best statistical estimates available of the costs and profits that make up the price spreads between producers and consumers. We should be able to make rough judgments at least, as to whether or not price spreads reflect efficient operations and effective competition."

We plan to draw on information that can be supplied by all segments of the food industry. We're making arrangements with the Department of Agriculture and the Federal Trade Commission to conduct certain studies for us. The census may also make some special tabulations for us. Some industry groups have already made information available. In addition, when it appeared that the Food Commission was going to be established, several public and private studies were begun pointing toward the same objectives as the Food Commission. As a result, there are considerably more resources being involved in the study of food marketing than the budget and the staff of the Food Commission would indicate. The Commission will be holding hearings on various topics to allow different interests to provide information concerning their role.
in marketing, to bring out the issues and the conflicting points of view of opposing interests, and we have scheduled five hearings to date. More will be announced later. Three are in livestock and meat, one is in poultry and one is in retailing.

The hearings on livestock and meat are scheduled for: 1) Cheyenne, Wyoming, April 1-3; Fort Worth, April 22-24; and Omaha, June 3-5. I believe all of these are on Wednesday through Saturday. These last hearings will deal with buying and selling practices; will center on buying and selling practives of live animals and meat packers who are in the feeding business. The first poultry hearing is scheduled for May 13-15 in Atlanta, Georgia. In this hearing we will concentrate on broilers and eggs. We expect to have a hearing later on turkey and eggs. The hearing on retailing is scheduled for May 5-9 in Washington D.C. In this hearing the question of what is involved in retail margins will be probed. These hearings will be open to the public. However, witnesses will be selected to make best use of the time and cover the more important areas. The hearing record will be made public and as far as I know, anyone who desires to submit a written statement can have the written statement included in the hearing record. We are now considering the possibility of devoting some time to private testimony in some of the more sensitive areas. Not geographically sensitive areas, but sensitive topics.

Future Plans of the Commission

Additional hearings are planned in other areas of the country and on other topics. We are also planning some studies that will fill the gap in areas where it cannot be supplied by some other government agency that already has information, or some industry group. These studies and those of the government agencies perhaps will be published as technical studies prior to the final Commission report. In our own planning we are shooting for a final Commission report, June 30, 1966. Now whether changes in legislation will be introduced as a result of our study will depend upon what the study shows, of course, and what the Commission then decides to do.

Let me make just a point or two on the job of the Commission's staff. The law states that the Commission is to study and appraise the changes in statutes of public policy, the organization of farming and of food assembly, processing, and distribution and interrelated ownership between segments of the food industry which would be appropriate to achieve a desired distribution of power as well as desired levels of efficiency. Then it becomes the problem of the staff to point out issues, problems and alternative solutions and consequences of these alternatives. Then the commission and the public will have the right to decide what action will be taken if any. My own philosophy, and as I read the law this appears to be the law, is that what we should be attempting to do is to provide a climate for a free and open competitive system which not only stresses efficiency but equity as well.

We're living in a period where changes are so rapid that many of our notions about how an economy performs needs to be reevaluated. We need to ask the question, do the rules of the game need to be changed? Under the present rules, what behavior in performance patterns can be expected from an integrated industry? And the final question is, would the available remedy be worse than the malady? Like the medical profession, we have to consider the damage done from side effects.
In conclusion, this is a difficult and elusive area to study, one which explains why more work has not been done in the past. The Commission which is outside of any particular government agency or industry has a unique opportunity to make a real contribution to the food industry. This Commission provides interested parties an opportunity to contribute as well as gain new knowledge about food marketing. It is in this kind of environment even more progress can be made in a free and flexible industry that is the envy of the world.
PART III

Grain, Feed and Farm Supply
The price mechanism of a nation has a great deal to do with the nation's type of economy. Yet, most citizens know too little about the role and function of prices and their effects on our personal satisfactions and business achievements. It is not enough for business executives to know about prices. Employees and consumers also need to know about prices if they are to fully appreciate and defend the free enterprise system. We hope you will help inform employees and other citizens in your community. Let's begin this talk by describing the role of prices in our country.

The Role of Prices

Whenever the people of a nation are free to quote prices and to accept or reject them, prices have a dynamic and vital role in what people produce and what they consume.

Prices have two functions in buying and selling:

1. They guide consumers in buying. This includes what, how much and where each person will buy, what size, what grade, and what quality he will buy.

2. They guide producers and suppliers in the kinds of goods and services they provide. This includes determining what individuals will produce, what quality they will produce, what resources they will use, and the time, place and in what form they will provide the goods or services.

Prices, then, communicate information between consumers and producers. For example, if feeders want pelleted feed, simply urging and coaxing manufacturers will have little or no effect. But, when feeders choose pellets in preference to lower priced mixed feed, pellets will be produced.

Reasons for keeping prices free to respond to the wants of consumers were clearly demonstrated in World War II when the prices of many products were fixed. In this situation, there was little incentive for producers and suppliers to develop new and better products. Thus, with prices fixed, prices could not reflect the wants of consumers. Progress in developing new and better products was interrupted.

We said that we hope you will help describe the role of prices in your community. Also you can help describe the function of profits which is another under-explained part of the free enterprise system.

Goods and services are provided by people like you in the hope of receiving a reward for doing so. These rewards are properly called profits. There are additional reasons for providing goods and services, but to me they all relate sooner or later to profits.
Profits are at the core of price determination. Profits are what is left over after price is multiplied by the volume sold minus the costs and expenses involved. Thus, prices have a direct relationship to profits.

Profits are usually considered for a period of time not just the profit from a single sale. There are exceptions, such as the one-time sale, when a person sells his residence—at the highest price he can get. But, an established owner or firm hoping for repeat sales, must develop a reputation for fair prices. For example, most gas station operators in a storm-struck town would not charge the highest price they could get for the last set of tire chains. The urge for profits, over a period of time, then, greatly influences the prices quoted.

Sellers of goods and services know that if their prices are lower than necessary to move the product, they will sacrifice profits. Also, they know that if prices are too high, they will lose volume—and thereby profits. This will occur because of rivals who are competing for the business.

Most of you know all this but you would be surprised at the number of otherwise educated people who think of prices as being arbitrary and often illogical things. For example, how many children in your community are getting a correct understanding of the role and return of prices.

Influence of Competition on Prices

Competition is defined as the effort of two or more parties, acting independently, to secure the patronage of a third party by offering the most favorable terms.

Competition is the chief power that causes firms to sell at reasonable prices, provide what consumers want, develop superior products and provide better services. Every member in an industry feels the force of his competition. Supermarkets located in a shopping center are an example, with each store knowing that its business life will be short unless it can make a successful appeal for customers to buy.

Generally, when one sells at an unreasonably high price, he soon finds his volume of sales is declining, because some competitor is selling a similar product at a lower price and taking away his business. If there is no immediate competitor, there will likely soon be one. This is true because our country has comparatively large amounts of capital from which the owners are trying to get as large a return as possible.

Our free enterprise system provides for legal "right of entry" which means that a new competitor is permitted to start a competing store or business. He will likely do so, if the profit opportunity looks promising enough. As a result of such competition, the firm which has temporarily enjoyed high prices soon has too small a volume to make a maximum profit—no matter how high it sets the price. In fact, if such a firm raises its prices still higher, its profits may decline even more.

Thus, competition or the threat of competition strongly tends to keep prices "reasonable."
Competition may be imposed by:

1. Existing firms.

2. Prospective firms who will enter provided the opportunity for profits is promising enough.

3. Products that may be substituted including some yet to be developed or invented.

Competition is not a simple thing. A weak competitor is not considered to be useful to a society. On the other hand, there are some who consider a competitive giant to be a menace. Others say the giant is able to produce better products at lower prices. Members of courts of law differ in their individual beliefs about competitive cases, and there is seldom a unanimous decision in the courts.

There probably is no perfectly competitive market because such a market would have to meet all the following conditions:

1. So many buyers and sellers of a product that no one could singly influence prices. Individual farmers are in this classification; so are individual consumers.

2. Complete information about the supply and demand known to both buyers and sellers.

3. Everyone offering the identical product. All No. 2 Soft Red Winter Wheat is considered identical. Retail milk, however, even from the same spout, but with different labels may compete as though the products were different. There are many ways to achieve actual or apparent differentiation of products.

4. No restrictions on buyers and sellers except for the protection of private property and the right of contracts. Licenses and franchises to sell are examples of restrictions.

5. Right of entry into the market.

Thus, it appears that competition is nearly always imperfect. The degree of imperfection or restriction varies greatly from one industry to another.

Some sources of restrictions in competition include:

1. Eliminating competitors. Examples are merging of businesses or operating a firm so successfully that others are not effective as competitors.

2. Patents. The Federal government rewards those who are granted a patent the exclusive use of it for 17 years or the right to charge competitors a fee for its use during that period.

3. Licenses to sell. When required by cities and states, licenses may limit the number of firms or persons permitted to do business.
4. Sales franchises. Manufacturers of many products, including automobiles, farm machinery and other equipment commonly limit the number of franchises they issue to sell their product.

5. Branding of products. When coupled with promotion, the branded or labeled product may convince buyers that the product is different and superior to others.

6. Good will. Through effective public relations, the seller may develop loyalty in the customers.

When a firm or industry is able to restrict competition by one of these or other methods, it is said to have market power.

During our American history, Congress has attempted to improve on our completely free enterprise system by passing laws to guard against over-restricting competition by groups of sellers or buyers. These laws are concerned with excessive stifling of competition and collusion in price setting. Examples are the Sherman Anti-Trust Act, passed in 1890, Clayton Act in 1914, and Robinson-Patman Amendments in 1936. These are administered by the Federal Trade Commission or the U. S. Department of Justice. Original concepts have been extended by the judicial and executive branches of government.

Over the years, actions have been taken against many firms which have been cited for stifling competition. Firms that have been found to stifle competition have been required to cease such restraints of trade. These requirements have included disposing of control of the assets, selling facilities, or ceasing to fix prices through collusion with other firms in the industry.

Methods of Determining Retail Prices

With the foregoing thoughts in mind, I submit that the best objective for pricing goods and services is that level which will maximize profits over time. Unfortunately, this objective has value only as a general guide. Of course, it cannot be used as a formula for calculating a specific retail price. Nevertheless, like all objectives, it should always be kept in focus.

I shall mention three methods of determining retail prices and then discuss the fourth method which is the one most commonly used by small businesses.

1. FULL COST PRICING--Fixed costs are calculated and allocated variable costs are also calculated and to these fixed and variable costs is added a predetermined percentage for profit. Studies show that few small businessmen adhere to this pricing policy. Although they express a preference for the approach, their final price decisions are influenced by competition, demand, and other factors. Also, many small businessmen do not have accounting systems that determine all costs of items they retail.

2. FLEXIBLE MARKUPS--Full costs are used as a floor or guide to which a flexible markup for profit is added. An accounting system to determine all costs of items are also needed for this method.
3. GOING RATE--Suggestions of manufacturers, wholesalers and prices established by similar retailers are followed.

4. GROSS MARGIN PRICING OR MARKUP--This is one of the most widely used methods of determining retail prices so we shall discuss it at greater length. Usually the markup is computed as a percentage of the wholesale price while margins are a percentage of the selling price. For example, when the wholesale price is 80 and the retail price is 100, the margin is 20% and the markup is 25%. Whenever margins and markups are used in this talk, this is what is meant. The markup should vary among goods and services because costs of retailing various goods differ. A study of 22 independent food stores in Indiana with twenty to forty thousand dollars weekly sales volume shows the following gross margins:

<table>
<thead>
<tr>
<th>Group</th>
<th>Gross Margins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>13.6%</td>
</tr>
<tr>
<td>Meat</td>
<td>20.1%</td>
</tr>
<tr>
<td>Produce</td>
<td>27.0%</td>
</tr>
</tbody>
</table>

If the groups were broken down into individual items, the range of gross margins would be still greater. Even so, produce margins are about twice those of grocery items. Food store managers devote a great deal of attention to the proper margin for each type of product so that each will make the most effective contribution to the entire business. This raises the question, "Have you devoted enough time to pricing your goods and services?" There are many factors which should influence the markup of a given item. Among these are: 1. turnover; 2. labor required; 3. wage cost per hour (in the 22 food stores the wage cost was $1.64 per hour in the grocery; $2.14 in the meat department); 4. shelf space required; 5. value of the item; 6. use of the item, as a sales leader in promotion; 7. costs of extending credit on the item; 8. services rendered on the item; 9. sales volume; 10. size of units of sale; 11. inventory; 12. losses; 13. competition.

Although it is true that some discount houses succeed by reducing margins, the practice should not be undertaken unless adequate plans are made for a large increase in volume of sales, and hopefully a reduction in unit costs. For example, when fixed expenses are 50% of total expenses, it will require 30% increase in sales to counteract a 2% reduction in price under the assumptions below:

1. Unit variable expenses will remain the same if volume is increased. Of course, if unit variable expenses decline with the increased volume, a smaller increase in volume will be required to counteract the 2% price reduction.

2. No increase in sales of other items.

3. | Item                        | Percent of Total Sale |
    |-----------------------------|-----------------------|
    | Gross margin                | 15%                   |
    | Net Margin                  | 3%                    |
    | Expenses                    | 12%                   |
    | Fixed expenses (50% of total expenses) | 6% |
    | Price cut                   | 2%                    |
Formula:

\[
\frac{\text{price}}{\text{sales volume}} = \frac{\text{required increase}}{\text{fixed expense} + \text{net margin} - \text{cut in price}}
\]

Substitution into formula:

\[
\frac{.02}{.06 + .03 - .02} = .02 = .3 \times 100 = 30\%
\]

In the assumption, fixed expenses are 50% of total expenses. A larger volume is required as the percentage of fixed expenses declines relative to total expenses.

Typical Farm Supply Gross Margins

A study by the Department of Agricultural Economics at Ohio State University in 1960 shows the following margins as a per cent of selling prices:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn*</td>
<td>7.5%</td>
</tr>
<tr>
<td>Wheat</td>
<td>3.9%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>4.3%</td>
</tr>
<tr>
<td>Feed</td>
<td>16.2%*</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>10.6%</td>
</tr>
<tr>
<td>All Supplies</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

* Included in the Corn margin was a cost for shelling. The feed margin includes grinding and mixing by some firms. Thus, in the usual definition, corn and feed margins are somewhat lower than indicated. Feed margins of about 12% would likely result if costs of processing were included.

A study in Iowa reported in A.E. Research Publication No. 1376 the following average margins:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed feed</td>
<td>12.2%</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>10.3%</td>
</tr>
<tr>
<td>Farm seeds</td>
<td>11.3%</td>
</tr>
<tr>
<td>Farm chemicals</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

Price Determination in General

You will notice that the above discussion of how prices are determined has centered on margins. This emphasis was selected because we anticipated that most of you are retailers. But, as retailers you are also concerned with the price you pay compared with what your competitors pay. The cost of the goods you resell, affects your profits. The better you buy, the better you can compete and the better your profits.

Although we have concentrated on margins, we know that your customers often want you to explain to them how prices are determined. As first receivers and as retailers you perform many services and provide much information to farmers. Perhaps in terms of customer service you can make a great contribution by explaining how prices are determined. The topic was discussed this morning. Also it is the subject of Bulletin No. 437 which
will be available at the close of the meeting. The bulletin explains that prices are determined by:

1. Supply of product.
   a. Quantity estimated to be on hand.
   b. Replacement costs or future production costs.
   c. Marketing costs.

2. Demand for product.
   a. Estimated demand schedule for the product.
What is price? Let us for the purposes of this discussion define price, as the value attached to a commodity by the marketer to make it appealing to the customer and to represent to the customer an assurance of value received for his expenditure and give the marketer a fair Return after Taxes.

What price represents to the consumer today and what the consumer sees in his mind as he examines a price on a commodity, should give us a more thoughtful approach to our own pricing. For example; if we were to suggest a price for a super deluxe 4 door Ford automobile of $995 delivered in Columbus, even though you and I might not know the usual delivered price, I am sure we would join the stampede to the nearest Ford Dealer. We might even be tempted to walk briskly if the price were marked $1,995 and we possibly might be interested if the price were $2,495. But if the price is advertised at $3,295 it would get no more than a passing glance from any of us here.

Now what have we discovered in this illustration about price? That it can be used to identify value.

What other function does price perform? Well, let us get back to our original purpose of the price, it must cover all costs, both hidden and direct and it must cover a reasonable return to the merchant or vendor in the form of profit.

Now let us examine some of the factors that must go into the price if we are to succeed in running a profitable business:

If we grant credit to our customers this is a cost, as it costs us to borrow money from our bank or lending institution and we must in turn pass this cost on in the form of a price of the product.

When we extend credit we will have some collection costs as experience in different industries would indicate, there is never a 100% prompt payment of all credit advanced, so we must add the collection costs to our credit costs. Bankers use 2.4% bad debt.

There are some unfortunate circumstances which can best be explained as credit failures or bad risks, where for one reason or another a customer cannot or will not pay for the product received. This can be costly in form of litigation or actual loss in case of destruction of property or removal of property from the jurisdiction of the local or state courts. So we must add some collection cost factor to the pricing.

Now with someone already getting restless in thinking about what the cost of the actual merchandise is represented. This is so
important, so let us identify our actual cost of goods from the manufacturer or the grower or the wholesaler or distributor as the 1st cost. So let us now take in an orderly manner the costs we have mentioned as becoming part of the cost to be reckoned with in pricing the goods we want to sell.

Factor #1, is our actual cost from the supplier
Factor #2, transportation and handling
Factor #3, our total cost of doing business which included; rent, heat, taxes, local state and federal, labor, everything that goes into the total cost of doing business of the physical premises, including housekeeping and maintenance
Factor #4, sales and advertising costs including displays, signs etc.,
Factor #5, other hidden expenses such as the following:

(If we are to go on, we can soon build a list of 70 or 80 items of direct costs of doing business in an average retail or marketing establishment).

But I would like to discuss with you the hidden cost that we fail many times to take into consideration as businessmen that vitally affect our profitability and these I should like to enumerate quickly for you and they are based mostly on the experience of ourselves and others in attempting to arrive at a pricing base that will give us a fair return for our business.

Let me enumerate some items that are usually not considered as first costs of merchandise. For example; miscellaneous supplies such as pencils, ink, typewriter ribbons, paper clips, all the usual office supplies, but there are others that are not quite so evident such as; telephone calls, telegrams, repairs, depreciation. You might well ask what kind of actual dollar figure can we arrive to take into consideration in pricing an item or group of items from such a general expense coverage. But before we answer this let us go on with some other costs that will further demonstrate the need for careful consideration in arriving at a fair price for our goods.

Freight

For example, freight, today's freight costs in many industries are 2 to 2 1/2 times what they were as recently as 10 years ago and it has become in some businesses a very large part of the cost of merchandise. For example; in the basic steel commodity such as automobiles, appliances, bar and sheet steel, the freight cost has been known to exceed 4% of the total cost of goods by the time of arrival at destination within the heartland of the Mid-West.

In a recent study, we found that in buying certain merchandise from the deep South (specifically gas ranges) the actual cost of delivery by the time we got it in Columbus, Ohio, was more than 5 1/2% of the total cost of goods and we were forced to consider other means of transportation and change our buying practices to try and reduce this cost of freight.

Other hidden costs of transportation which have loomed so importantly in recent months have been the growing amount of damage while in transit. As the pressures mount for less than carload or less than truckload services
and the handling in terminals and over the road hauling both by rail and by truck increase the probabilities of concealed and hidden damage greatly with each handling. We must come to recognize that this is a cost factor.

In a recent shipment we received from Bloomington, Indiana, which had been handled on two sidings and one terminal before it left Indianapolis for Columbus, over 1/3 of the total shipment had hidden damages in it. You may say, well this is no cost to us since the transportation agent does return our costs of damage to us. But his liability is limited to the actual damage of the commodity while your time, effort and energy in examining the damage and appraising the damage is part of the cost of your doing business and should be included in this transportation cost.

While we are talking about transportation, we must consider that many times freight car demurrage is a costly part of bringing merchandise in for our convenience and once we unload these items and place them in our house of business we now begin the costs of storage which all of us are aware are usually put and projected on a square foot basis, but actually this is only one of the costs. Certain commodities must be kept at a given temperature above freezing, some even require humidity control and all require care in handling and extra time in storage and some protection from the elements as well.

Delivery & Study

Delivery costs are mounting rapidly. Have you any idea how much it costs to deliver each piece of goods that you send or take to your customer. Very few of us have and it is easy to illustrate what happens and why this is such a difficult area of identification. In a recent study in our warehousing business here, we actually went through 64 different steps or check points or paper handling from the time we received a refrigerator in our warehouse until we had delivered it in the customers home. Each of these steps when broken down on a cost, ranged anywhere from .14¢ to $1.55, with the average cost to our dismay of delivering this refrigerator running much higher than what we thought by simple nose count of how many we deliver a day, what we pay the driver, what the truck fleet costs to run. This hidden cost was one of extra time it took for loading, packing and preparing for delivery, uncrating, setting up leveling legs and all intricate things that are needful today to deliver to a customer happily a product intact and in working condition, plus dry runs, missed deliveries, damages etc.

You may ask, how can I afford such a survey? Very frankly it was quite costly. But we might best phrase the question, how can you afford not to study your business this carefully, if you are to come up with the proper cost factor to consider in your price of merchandise.

Hidden Costs

Another hidden cost has been the immobilization of part of your inventory, or as we like to call this in our business the stock turn ratio. We find that most of us tend to ignore the slow moving or no moving merchandise until its quantity and dollar involvement get to be unduly large and then we push the panic button and mark it down to ridiculous levels to move it out, which is a perfectly good reaction and one that we recommend much as
one takes a cathartic when in need of relieving constipation. With this markdown even though it may be painful, is quite often the best way to recover an immobilized amount of our capital structure and put it back to work for us in our business.

In my early training in retailing my merchandise man at the time used very graphic illustrations about markdowns and how to apply them. As he said a markdown is something like cutting off your dogs tail. You don't take it off an inch or two at a time but in the same token you don't want to cut off any of the dogs behind either, so it requires careful aim and judgement in order to get the chopping done just right and this is really the way we must approach a markdown on slow moving goods. We must base the change in price to meet what will be, we hope, the customers desire for this product.

You may well say, how can I apply the markdowns as a cost of doing business and, of course, this takes a little bookkeeping to get an accurate figure, but candidly we must use percentages and history. For example, if you took $500 worth of markdowns on $10,000 worth of sales a month, obviously you have a 5% markdown rate in relationship to sales, therefore, to compensate for this no markdown cost we must add it to the cost of goods in order to come out profitably. (This assumes retail accounting)

Let's take a look at some other hidden areas of expense that sometimes are difficult to identify. Advertising which all of us do in one form or another is an expense and in most cases, it is a justifiable business expense. But how many of you know accurately how much you spend a year for advertising of all kinds? I see most of you say, well I know darn well how much I spend. But do you really? Let us point up some hidden cost of advertising. Who prepares your ad? You do? Do you write the copy? Who takes a look at the proof when it comes back? Who goes over it carefully to make sure there are no errors? This is a cost. Have you considered? Who trims your windows? Ah, you say, but this isn't advertising. But really, windows, interior displays, signs, any tool that we use to identify a product with value in a customers mind is in effect advertising. I suggest to you further that an unhappy customer can be advertising of a negative type unless he or she is made reasonably happy with this purchase and in our business we call this relationship with unhappy customers "an adjustment." You might ask yourself what are the costs of adjustments in a month or a years time. Do I keep track of them? Do I give free service?

Those of you who have a service shop or service expense in a mechanical business are well aware that it is today more costly than ever before because many of the products we sell are much more complicated and require a bigger inventory of parts and a more highly trained technician to use them properly. But how about the service you must give beyond the usual warranty or the usual expectations in order to keep a customer sold and happy? Do you consider this advertising? Well, in effect it is. At least we must consider it as a part of cost of doing business in a customer relations.

How about postage rates? Do you have a postage meter in your business? While I am not endorsing any postage meter or urging the purchase of one, if you do not have one, a postage meter can give you dramatic records of your true postage costs and most importantly, it also discourages the unauthorized use of your postage for employees use and even more importantly it can be used to put an advertising message on your correspondence as well.
Another hidden cost we should consider in doing business is to term it politely "inventory shrinkage" or to be very blunt about it, pilferage. In the feed business there is also a ratio of pilferage due to rodents etc., and spoilage etc. But even in other merchandise there is a built in cost factor of loss, strayed or stolen goods which never turns up at inventory time. This can become a factor, in some businesses a very great one.

For example, in certain of our departments which are selling fabrics by the yard, in a years time they look to the salesperson's thumb in measuring, if she gives more than a full yard, it becomes a considerable expense, we go to great lengths to be sure, that the customer is given a fair measure, but not the extra inch or inch and a half that is the normal tendency of a salesperson in selling goods. You say, well this can't be much, but I should like to present some facts for your consideration. That in a given department there are over one million yards of goods sold in a year, most of which was measured by hand. Let us assume that the average customer bought at least 2 yards, that means we had 500,000 transactions and 500,000 thumbs. Assuming that thumb width was just a inch although our studies indicate it runs a little longer, that would be 500,000 inches of yard goods given away gratis without any income from the customer. For those of us who are like myself and not very quick with figures, this figured out to be about 41,666 feet and in yardage which in turn gets to be 13,888 yards of material and if we were to apply the average price of material sold of only $2 per yard, we would find ourselves in the amazing position of having given away $27,776 worth of material one thumb at a time, and that is alot of thumbs. More importantly, it is a hidden cost of doing business that we must take into consideration and do something about.

Here are hidden costs that perhaps this illustration could help you find in your business. I get enthused about talking about small detail of good housekeeping and business keeping and I don't want to bore you with a lot of facts and figures. Nevertheless, these hidden cost factors must become a part of your pricing of your goods if you are to be a profitable operator and a good sound business organization.

Define Strategy

Now let us take a look at the other things that we need to consider when we price goods. Let us go back to the original part of our discussion, the strategy of pricing. How can strategy be tied to pricing of goods? What do we mean by strategy? Webster defines strategy as the science of planning and directing operations or maneuvering forces into most advantageous positions as referring to military practices of strategy. Similar action based on generalship, and, third is skill and managing our planning especially by using stratagem and they define stratagem as, trick, scheme or device used for deceiving the enemy in war or any trick or deception. I should much prefer to use the definition of strategic which means having to do with sound strategy of favorable advantageous position in the use of essentials as applied to a project.

So let us say that skill and managing or planning is the definition we would like to apply here when we talk about strategy of pricing.
Summarize

To summarize briefly what we have covered, we have said that there are hidden cost factors plus actual cost factors, plus conservation of inventory, obsolescence, markdowns, damages etc., all are part of our consideration when we are pricing.

We haven't said anything about competition, we haven't said anything about price being a vehicle to awaken the customer interest. We have said very little about price as a message of value except to illustrate what it would convey if applied to Ford automobile in manner of customer excitement.

Step Up Selling

But there is a strategy in pricing I should like to develop with you for a few moments and we call it "The Strategy of Selling Better Goods" or step-up selling. If you will by pricing better quality item next to a leader so that it represents a better value in the customer's mind and she will readily go for the extra twenty or thirty dollars for a more deluxe refrigerator, or the extra 60¢ or 80¢ a yard for finer silk, or higher count percale sheets, etc. Now this strategy of pricing to sell better merchandise is by and large just beginning to develop and perhaps mostly because our consumers are upgrading themselves faster than we merchants are willing to recognize. This isn't earth shaking news that leader prices are used by many retailers and perfectly legitimate and it isn't news that you and I can go into any automobile dealer and try to buy $1995 car and we get an awful hard selling about auto. transmission, power brakes, steering, etc., and the funny thing is gentlemen, that we really are only looking for the reason to buy all of these luxuries and if we can't afford it, we buy it. General Motors, Mr. Knudson was quoted in Wall Street Journal in Monday's edition as saying that this year's sales of the 1965 Chevrolet are over 50% in the deluxe Impala series and certainly as far as the price of this machine goes it is not low priced. What then should our strategy be in trying to price our goods toward this upgrading of quality and the willingness of our consumer to pay fairly for better merchandise. First of all and we must examine a part of pricing as buying judgement. What is buying judgement? Why, it is the decisions of what to buy that are forced upon the merchant by his consumers. We have a name for it, it is called "customer preference."

Customer Preference

Just what is customer preference? It is what our customers say they would rather buy and pinpointing on any item in your store, the customer preference items is what she most readily buys at the price she is most willing to pay at the time she is in your store. For example, you and I, if we are average Americans today, wear 9½D shoe and strangely enough in our men's shoe department 9½D is our best seller and it is a customer preference because of size most assuredly, but within 9½D we have a price range from $9.95 to $49.95 and there we come back to pricing. No doubt many of you are familiar with Florsheim shoes and twice a year we run a sale on Florsheim shoes, disc. numbers etc., as low as $14.00 and 15.88. These represent regularly $19.95 to $29.95 shoes and right next to the table of this wonderful bargain price Florsheim shoes you can see the brand new spring styles in all their beautiful designs at the regular price and it doesn't take much encouragement if you see a shade of brown you like better with a little different toe to spend the extra $4 or $5 for what you really wanted all along. This is strategy in pricing.
Let us take another example. In the Columbus market there are approximately 277,000 wired homes in Franklin County. I am not sure of these figures as they were current last November, but as we all know, this community is growing most rapidly. 99.9% of these homes have electrical refrigeration. It is today a necessity for health and preservation of our food stuffs. Yet hardly anyone waits for the old refrigerator to wear out today and more and more of our sales of refrigerators are being made on the basis of bigger size, no defrosting, all the wonderful new accomplishments of engineering. From the man's viewpoint there is greater beverage storage, greater ice cube capacity with automatic ice cube makers and these things are not lightly discarded as features, but they are expensive, but they are added cost and obviously the price must be large enough to recover most of these costs. Knowing that over half of America's housewives demand automatic refrigeration without defrosting, why do you suppose many stores run a refrigerator at prices as low as $158 for one that is large, but does require defrosting? Is this strategy of pricing, is this customer preference, is this the way to build a business? Well, it is something like the $1,995 Ford, the price is exciting, but hardly anyone buys one and once they are in the mood to see and look and their mind is on refrigeration or cars, then they are exposed to the stratagem of a little bit more for alot more quality and alot more features and they finally end up buying what they should have come to buy all along.

**Leader Advertising and True Costs of Discounters**

But you may say about the discounters, they kill us. How about the discounters? Do they have any magic of cost reduction? Don't they have any less? Maybe this is the answer. Many discount houses charge for delivery. They charge extra for things that you give your customers without extra cost. They very seldom extend credit without extra cost and many do not extend credit at all, in the form that you may to your customers. You may say this is fine, but suppose a discounter runs the same item that I pay $20 and I need to price it $25 to barely make a profit. Supposing he runs it at $22. Does that mean he has everything in your store priced at similar savings? It does not. The whole proposition of discount stores is one of islands of loss in a sea of profit and being human we see these give away prices advertised and we are led to believe that everything in the discounter store is at similar savings and nothing could be further from the truth and being good businessmen we recognize this. So we do a little discounting on our own, but nobody gets excitement from our customers and what if we just say "me too." Find out what is most exciting to your customers and what is usually used by the discounter to pull his trade in and then you can do as well or better if you remember this lone important price in strategy, the customer wants to buy better goods if the price difference is small enough to justify better value and once you have her in the mood to buy better, you can sell the goods at a profit. Were it not for this desire, the discounter would be bankrupt in very little time.

**Distribution Wholesaler**

Yes, but you say my wholesaler doesn't give me cost as low as the discounter gets. This is true, but your wholesaler might at certain times of the year give you extra discount to buy so that you could be competitive or under buying pressure from you, you could buy directly from manufacturer
and pay him a small brokerage fee if you pay in large enough quantities. Because without your business that wholesaler cannot live on discounter business. Your support of his lines he can not last in the market place. So you have a strong lever, and you are very necessary to him and remember too, he has competitors and you can often use one as a wedge against the other to get closer to the price you need as a cost margin. But we really haven't examined what the true strategy of price is and the discounter makes so attractive to the customer until we talk about services.

Cost Removal

Every discounter takes out all the possible services that can be dismissed from fancy packaging to gift wrapping from deliveries, from set ups and until you have wrestled around with a wheel barrow in knocked down form and maybe many of you have. You know this is a costly thing in time and aggravation and you too can sell items on this basis you can have a better strategy and say I give better service at very little more. If you want to buy on the same conditions, you can buy at the same price. But the strategy of pricing is more than these considerations. Price can work to the advantage of a retailer in his community. Let us take an example and see what this does to you as a customer. Supposing your price on a commodity represents the best price in your community for that item that day and everyday you are in business. Very shortly this low price becomes a base of comparison for your customer and soon she accepts it with a shrug and says, so it's that price everyday. So one of the great strategies in retailing in pricing is the establishment of a regular day-to-day price on a piece of goods that is fair value to the customer and then being able to offer occasionally through the year of the month the same item at a better price for a limited time, this strategy is called "urgency." Why do you suppose we run a three-day or a one-day sale? Because we haven't enough merchandise to last for a longer sale, no indeed. Develop the feeling or urgency for immediate action in the customer's mind. This is one of the truly great opportunities that we retailers have in running these sales. I have heard it said that the more successful merchants in any community are the ones who run the most sales. It is not necessarily the least profitable for all of our business thrives on in the store traffic and we needn't run everything in the sale every month in order to stimulate this traffic. One of the really great examples of the judicious use of sales can be seen readily from the regular advertising schedule of the great mail order house who is now located here in Columbus. There is always urgency in their advertising of key commodities, either one, two or three day's sales or rarely a one week sale and there is no question their value's of these key items are sound and attractive, but one only has to start to browse through their workshop and tool department and become quickly aware that no more than 1% of the items in the store any one day or week are on sale and the rest of the regular fine profitable goods is available to us and lends itself to purchase.

Advertised Price

Our retail grocers are marvelously oriented toward strategic pricing. Let us pick some examples. From today's paper, and show the use of leader pricing to build traffic: Here is a perfect use of customer preference as the strategy of pricing, for example the steak sale--round steak, 73¢ lb.,
sirloin steak, 87¢; TB, 97¢; sirloin strip, $1.49 oh yew, the cost of the
merchandise so I am told is the same price per pound when it is on the hoof.
You pay no more for the back side of the animal than you do the front. After
it is butchered and processed by the packer, if you but it by the half, you
still pay 55¢ or less depending on the grade, for the entire half. So why
get a $1.49 lb. steak for something that costs you 55¢ and only 73¢ for a
similar part of the beef. Well, the answer is first preference of customer
for higher quality, and second, what we call in retailing a profitable mix.
Everybody wants New York strip and much fewer people will settle for TB,
sirloin or round steak, but a thrifty woman might be willing to pay 10¢ a
pound more for TB than she would sirloin and this is an excellent illustra-
tion of strategy pricing to make it easy for the customer to up-grade herself
to more desirable quality. But notice the cube steaks in the same ad are
priced at 99¢ lb. That is an interesting thought isn't it? We discussed
very similar merchandising of the Chevrolet Impala a while back. Basically
steel costs no more a pound for that car, but the appetite is far greater for
what this has to offer.

You may say this is well and good, but suppose I only have one quality
to offer my customers. Then we must rely on size, brand name, or the judi-
cicious use of the infrequent sale price to build the customer interest.

These illustrations tend to bear out more and more a subject that is
very dear to my heart, one which I have been long identified with in the
business community, and that is salesmanship. What is salesmanship? It has
been defined in various ways.

One very good direct definition of salesmanship is that the only differ-
ce between love and rape is salesmanship. Webster's definition is equally
apt; it is the work of a salesman or the ability or skill of selling. You
may say what on earth can salesmanship have to do with the strategy of pric-
ing my merchandise? We have come a long way here in examining the strategy
of asking value for goods, now let's examine what salesmanship will do for
the strategy of your pricing. Let us take a specific example. The discounter
in your end of town is offering a snow tire at $10 which you know he must pay
$9.20 including tax. You know very well he can no more afford to do this
than you can. Now, will you meet this price? With a qualified yes you can,
if you have a better grip, thicker tread, and more reliable casing at a
little better price. You may pay a little more for the better tire. Let's
say for the sake of argument you pay $10.50 for the better tire. If you add
the precious ingredient of salesmanship, you can readily sell this tire at
$15, which is a markup at retail of 30%, and you can sell it to 99 out of
every 100 customers that come in your store. How? You appeal to the basic
ingredient of every customer which is nature's law of self-preservation, and
all the good salesman has to do is point up that this snow tire not only has
a tread that will help traction in the snow but that it also gives you the
traction you need to stop quickly in case of accident. It can also be used
on dry roads, it is much safer for bumps and shocks than the lower quality
tire and it won't make an annoying hum on the highway. Now you will notice
that you did not say the $10 tire was bad; this is not good salesmanship.
If he wanted a $15 tire, he could have bought it last month. He come in
because the $10 price on a tire was attractive to him. All you are doing
is giving him a reason to pay the extra money to protect his wife, children
and his property. You are doing him a favor, in fact, and he will thank
you for it for many thousands of miles if you use this ingredient of sales-
manship.

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The point is that certain brands (regardless of the quality) have more acceptance and more marketing emphasis than others. You as a merchant, must choose the ones that will fit your image in the community and give you the best availability and service for your customers and the best pricing possible. If you have the exclusivity of an unknown brand that will take you many years to build up, its acceptance even though your initial cost is less, by the time you develop advertising and train your people to sell it, it can not really give you an immediate advantage that an alignment with a known brand could give, (even with higher original cost) but the advantage of marketing is there and if you price it carefully keeping in mind the factors we have discussed, I am sure you will continue to grow even more successfully in your chosen business.

I want to thank each of you for your attention and interest and I appreciate the privilege of being asked to come here and discuss with you some small part of the strategy of pricing. I hope it has been at least some contribution in reward to you for listening these long minutes.
CHANGES IN THE LIVESTOCK - MEAT INDUSTRY -
IMPLICATIONS FOR LIVESTOCK MARKETING 1/
by
Thomas T. Stout
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The Ohio State University

We are aware of rapid and unprecedented changes in American agriculture. The livestock-meat industry, from farmer to consumer, is one of several areas where many changes will occur in the coming decade, and it is a dominant part of U. S. agriculture. Sales of livestock and livestock products provide U. S. farmers and ranchers with more than half of their total cash receipts and account for over 60 per cent of the cash receipts of Ohio farmers. What sort of changes can we anticipate for this important segment of the agricultural economy?

Let's start with the retail end of the marketing system, examine some of the changes that are developing, and then work down through wholesalers and packers to livestock markets and producers.

Changes in retailing:

Supermarkets, stores realizing over $500,000 per year in sales, now account for about 70 per cent of total grocery sales. Projections for 1975 suggest that this percentage will be close to 80 by 1975. Chain groceries now account for roughly 9 per cent of grocery stores and 41 per cent of grocery sales. By 1975 they will account for about 11 per cent of the stores and 45 per cent of the sales, and most of the growth will be accounted for by smaller chains rather than the giants whose names are familiar to us all. Independent groceries, typically small, one-store operations, presently account for 58 per cent of the stores and 10 per cent of grocery sales. In ten more years such operations may account for about half the grocery stores and only 2-3 per cent of grocery sales. The remaining stores are affiliated chains, which are independents that have banded together with a wholesaler to realize chainlike advantages such as central warehousing, buying, and advertising. Much of the apparent decline of single independent stores has not necessarily meant such stores have disappeared, but that they have shifted over into the affiliated chain category, which includes stores like IGA, Red and White, Royal Blue, Clover Farms, etc.

As far as marketing is concerned, the important thing about these retailing changes is that they result in more centralization of decisions at the retail level and permit retailers to act in a coordinated and effective manner in the market place. Among the principal accomplishments of this centralization will be more precise specifications to wholesalers and meat-packers concerning product characteristics and acceptability. Packers are encouraged to price meat now for delivery a week or ten days hence. Retailers will develop more and more of their own brand names; and the meat product will tend to be associated with the retail store rather than with the meatpacker that prepared it. As smaller stores grow or disappear, many of the wholesalers that existed to serve them will disappear, and some of their wholesaling

1/ Dr. Stout's talk was not satisfactorily recorded. This reproduction paraphrases his remarks at the Seventh Annual Agricultural Marketing Conference.
PART IV

Livestock
The committee which planned our session scheduled a workshop in the form of huddle groups to consider this question, "What can an established firm do to meet the competition of a price-discount, high-volume farm retail store that moves into a trade area?"

The huddle groups developed the following suggestions:

- Provide superior service
- Determine customer needs after sale
- Invite comparison with discount house
- Consider what are you getting in addition to product
- Right of return
- Technical assistance
- Credit
- Personal interest in customer with follow-up contract
- Uniqueness of product
- Know what you sell. In other words, know your product
- Sell it with good hard face-to-face, door-to-door selling
- Do a better job of selling your services
- Sales training for all employees
- Wherever possible, offer a diversification of products
- Have a well trained resaler man or men who will make regular calls on the customer.

One of the reasons the committee chose this topic is that some of our people think when a firm moves into say Western Ohio or wherever it moves into, you as a competitor are all done. Well, you are all done if this is what you have in your mind and if you do not activate some things that can be done; and I don't want to stand here and say that all small businesses will continue when a larger firm moves in with its farm service center. But, I think some of the things that you have suggested plus hard work, which we can't overlook, has a part to play.

I would like to close with four letters that I think we can use to assist. These are four firsts that any of us if we care enough can give to our farmers. I think they deserve it. "C-A-R-E," and they are the first letters of words--the first one is concern. I'm not talking about shallow concern because any one of you out there who isn't concerned about the farmer's profit doesn't have the right to stay in business. Thank God most of you are. The second letter is attention--let's do a little listening while we are selling. The third letter is reassurance--honest reassurance where it's due. We can certainly give our people this. What was it about the fellow who sold the milking machine to the farmer with one cow and took the cow back in on the sale? The last letter is experience.

If the big firm that moves in does not have these things that you can give, then you are still going to be in business.
functions, like job-lot deliveries, boning and grinding, carcass breaking, etc., will be assumed by retailers and packers. The marketing channel between packers and retailers, in a word, should become simpler and more direct. About half the beef moving in wholesale channels now moves directly from packers to retailer or retail warehouse. This percentage will increase.

One of the big changes that many retailers anticipate and some are now preparing for is central packaging in a warehouse or packing plant. Retail packaged portions will move directly to the retailer, and much of the retail backroom activity will disappear from the retail store, leaving a higher percentage of floorspace available for the productive function of selling and less for the costly business of preparing to sell.

Changes in Meatpacking and Wholesaling:

Slaughtering and processing are the twin activities of meatpacking. Forces for change now present are causing some separation of these functions. Federal grades and centralized retail market power are two of those forces. Federal grades serve to identify a product, the identification being applied by government as a partial third party outside the marketplace. Such grade identification permits small operators to sell in the market on equal terms with their large competitors. Moreover, the slaughter process is a simple undertaking compared to the complexities of processing with its smokehouses, sausage kitchens, specialized labor and massive capital requirements. In Ohio we see in addition to the large slaughterers many small new plants that only slaughter and ship carcasses. They do no processing, but sell all their hides, and other byproducts to specialized operations that can make better use of them. The processing end tends to stay in the hands of larger packers with the money, large investments and technical knowledge. It's the sort of thing that goes well with brand names and is less susceptible to the competitive impact of federal grades. But even here, the expansion of retailer private brands is detrimental to the interests of processors who wish to sell products on the basis of their own brand names. Packer profit margins have never been large. Now, faced with many pressures from retailers to conform to rigidly enforced specifications, many alert packers are casting about for new methods of merchandising, new technologies, and more effective ways to buy the kind of livestock that retailers demand. Among their interests are the assumption of such specialized wholesaling activities as the provision- ing of the Hotel-Restaurant-Institution market which serves those consumers who "eat away from home." Not only is this an expanding market, but it is not as organized as the grocery business and has not done as much to centralize its buying activity. Among the new technical possibilities that are attractive to packers are methods of perishability control, such as freeze-drying. Another idea packers are working hard at is palatability control, achieving more tenderness in meat than normally is characteristic of short-fed or unfinished beef, thus providing a potential new route to supplying a big-demand type of meat to retail stores. And being constantly under the gun to come up with meat that must continually fall within a narrow range of product specification, they are reconsidering some older forms of livestock procurement, like direct buying, contracting, integration, feedlots and buying stations. If direct-to-packer marketing should become a popular and rapidly growing new twist in marketing, and it probably will, a natural development to accompany this change will be increased emphasis on carcass weight and grade price determination. Pricing on the basis of a known carcass
quality rather than the estimated carcass characteristics that liveweight
pricing involves. will, if equitably conducted, greatly add to the accuracy
of the pricing mechanism in paying producers the actual value of the live-
stock they sold.

Changes in Production and Livestock Marketing:

When meatpackers consider methods of direct marketing as means of pro-
curing livestock of greater uniformity, with less sorting than often is nec-
essary in existing markets, the markets themselves begin seriously searching
for ways they may alter their customary services. Markets are quick to
recognize that direct farmer-to-packer marketing can be detrimental to their
own interests. If there is a part for them to play in impending changes,
enterprising markets direct their thoughts to the ways that they may adjust
in order to participate in new marketing methods. Not all Ohio markets will
make adequate plans for their future. The next ten years will witness a
decrease in the number of country markets in the state. Consolidations and
mergers will occur and, like retail grocers, chain organizations will
strengthen their positions, affiliated chain-like organizations will choose
carefully among the independents for new members, and some independents will
disappear from the scene. Most country markets sprang into existence years
ago with the coming of trucks and highways, and for many of them their success
could be attributed to the growth of the very forces that brought them into
being rather than to any real managerial halmanship. Surviving markets in
the current round of change will be characterized by good management, larger
volume, and an impressive array of services. These may include more exten-
sive feeder procurement, progeny testing, development of cooperative feedlots
sponsored by marketing agencies, and the search for ways to serve as a bar-
gaining and selling agent in price determination on a carcass basis.

The size of livestock producing units is going to continue to grow at
a rapid rate. Farm feedlots will continue to exist as a supplementary enter-
prise, but commercial feedlots of massive proportions will make their appear-
ance in Ohio in this decade of change. Many, if not most of them, will rely
on custom feeding for at least a part of their volume and income. Some may
prove to be cooperative ventures. The majority will operate on formal con-
tracts or at least some informal advance understanding about delivery dates
and general price levels. It is probably safe to surmise that some feeding
operations may own or control their own slaughter facility, selling carcasses
shipped from the plant on a weight and grade basis.

Many problems and frictions will accompany these developments. Wider
market news coverage of country points will be necessary. Present carcass
standards may lack the precision that carcass pricing will prove to require.
New techniques of market regulation will be demanded by some discouraged by
others. Means of representing the respective parties in the market place
will undergo change, and in the formative stages, some of the change will
prove cumbersome or unsatisfactory. New questions, heretofor unasked, will
arise. What will the effect of packer progress in palatability control have
on present live grades and carcass grades? If satisfactory palatability and
consumer acceptance can be achieved for short-fed beef, what will the impact
be on traditional feeding methods? If the packing industry and others in the
meat trade should make great strides in perishability control, what effect
would this have on the marketing process? Would it be at all like the revo-
lution that perishability control wrought in the fruit and vegetable industry?
What does happen to farmer bargaining power when the producer sells a relatively perishable live product into a marketing system that converts it into an essentially non-perishable good?

Certainly these and similar questions will be part of the big issues in this decade of change. More than ever before, we need to try to anticipate the future, because the changes of the coming decade will be caused by alert and imaginative people. Businessmen in agricultural production and marketing who fail to exercise such capabilities are in danger of losing out to those who do.
The livestock marketing industry is a contradictory industry. In many respects it is an industry resistant to change and has some segments that never seem to change and at the same time other segments that are full of change. For example, we had direct marketing of livestock in the pioneer days of our country before we had terminals or auctions. Today we observe a trend toward direct selling. As new methods come along, there are always some segments of the industry that continue to maintain what to them is the tried and true, while other segments are quick to adopt new techniques. A technique or method of marketing once adopted never seems to completely disappear, which gives rise to the statement that there is no one best way for everyone to market livestock. Possibly more change takes place in livestock marketing than we recognize.

The livestock marketing industry is, of course, experiencing important changes. There are the changes to decentralization, diffusion, and the dominant influence of mass merchandising or mass distribution of food.

Livestock marketing is usually discussed as three distinct functions: (1) marketing of live animals, (2) slaughtering and processing, (3) distribution at retail. We have experienced rapid changes in the competitive market structure in each of these three functions. Each of these functions are closely interrelated and changes in the market structure of one function often helps to bring about a change in the other functions.

The trend toward decentralization in livestock marketing, processing and distribution is, of course, one of the most noticeable changes in livestock marketing of our time. As packers moved their operations closer to the areas of production, the volume of livestock marketed through the terminal markets dropped off sharply.

The packers and stockyards administration recently released the following information. 1/

"In 1963 meat packers purchased more cattle, hogs and sheep at county points, from dealers, direct from farmers, etc., than from any other market outlet. This direct course accounted for 43.1 per cent of cattle, 60.7 per cent of hogs, and 56.0 per cent of sheep. Auction markets were the largest source of calves, accounting for 46.4 per cent of packer purchases."

"Meat packer purchases at county points increased in all species in 1963 compared to 1962. During the same period the terminal stockyards share of the market decreased in all species, and the auction markets share remained relatively constant, increasing slightly in calves and hogs and decreasing slightly in cattle and sheep."

1/ Packers and Stockyard Resume, December 11, 1964.
"Cattle feeding by meat packers has been trending upward moderately during this period. In 1963, 4.0 per cent of commercial slaughter was fed by packers. This figure accounts for 7.7 per cent of fed cattle marketings in 28 states for which such data are reported. Packers increased their feeding activities for all four species during 1963 over the previous year. The feeding of hogs remains relatively insignificant when compared to the total commercial slaughter."

"Packer feeding of cattle and calves tends to be concentrated in the West and Southwest regions of the country."

Another change considered by many as a basic change in the character of the livestock marketing system in recent years has been the concept of mass distribution.

Our mass distribution system is similar to our mass production in that it employs the techniques of specialization, division of labor, automation, standardized products and standardized merchandising techniques.

The new principle of mass distribution is "buy as cheap as possible, sell as cheap as possible, and sell as much as possible." The old principle of distribution was "buy as cheap as possible and sell as high as possible."

I stated earlier that the principle of merchandising had changed; however, keep in mind that the point of buying as cheap as possible has not changed. The new principle is sell as cheap as possible where as in the past the principle was sell as high as possible.

The overriding goal of our mass distribution system at the retail level has become increased volume. The retailer seeks to increase his volume as a means of increasing profits. He seeks to increase his volume in the cultural setting of great consumer mobility--one stop shopping, self-service and convenient visual inspection.

The retailer of today has found two major methods of expanding his sales:

(1) He must present a product that by its taste, texture, coloring, packaging or by a combination of these qualities impells the consumer to pick up the package of meat.

(2) The retailer must present this same product for his customer to pick up regularly.

Selling meat to a retailer is no longer just a matter of packer calling a retailer and making an offer. The packer must offer the very product the retailer wants. A successful packer must be able to provide a continuous regular supply. The retailer will select the supplier who has the product he wants, when he wants it. He will select a supplier who can furnish a product within a range of quality that he needs regularly. Purveyors who serve our HRI trade also want a reliable source of supply, regular product availability, prompt delivery and, of course, a consistent product.

He have then really two markets for meat: (1) the retail market-supermarket, (2) hotel restaurant and institution.
The HRI market is growing rapidly. Twenty-five per cent of the total food market is now comprised of meals eaten away from home and beef is the largest single item on the menu. With the level of consumer incomes expected to continue to rise, the HRI outlet for meat is expected to become more important as a market for meat.

To meet the current demands for a regular supply of a uniform product, the slaughtering function has undergone definite changes. These changes have been structural, geographical and functional. The decentralization of the meat packing industry since World War II has been brought about for several reasons. Packing plants have tended to specialize and to locate near the source of supply. The terminal market is no longer the packer's major source of supply. The packers source of supply is now the feedlots, the auction markets and the terminal.

Producers in their trend toward specialization and mass production have developed larger feedlots and adjusted production programs from producing one or two bunches of finished livestock a year to producing finished livestock year around. The development of large specialized feedlots has created heavy concentrations of supplies so that buyers can drive to an area and look at a large number of livestock, whereas ten years ago he might have had to drive hundreds of miles to see the same number of finished animals.

Our competitive economy has magnified the requirement for more modern, efficient, low operating cost slaughter and processing facilities. Thus many packers have constructed new, specialized slaughter plants near the source of supply.

I think it is possible to sum all of these changes in livestock marketing by saying that we have shifted from a free competitive economy in which the producer was dominant to a dynamic free competitive economy in which the consumer is dominant.

In the meat and livestock industry, the lady with the shopping cart or the gentleman with the menu in his hand are the bosses. These consumers want what they want when they want it. Our marketing system has of necessity changed to provide the demanded meat products with the utilities of time, place, and form.

The demands of the consumer are reflected back through the marketing system. The retailer in his effort to increase his volume gives his supplier an order for a certain quality and quantity of meat. The purveyor reflects similar demands as stated earlier. If the packer cannot furnish a constant supply of a uniform quality product, the mass distributor may then call for the services of another packer. In order to fill his demand and hold his customers in this competitive economy, the packer will reflect his demand back through the market to the producer. This demand is in the form of price.

A packer with an outlet for specific types of animals or carcasses cannot always wait to see if the existing marketing channels will yield the right quality and weight of livestock he needs. The packer in some cases may find that he can fill his needs much more effectively and efficiently by going directly to the country to find a specific type of livestock, even
though his cost per pound might be somewhat higher than using the conventional market channels in the short run. He can keep his customer! At the same time more and more producers are welcoming this method of marketing as it offers them the opportunity to consider bids while their livestock are still in the feedlot and they are in a position which affords them the widest flexibility of choice. When producers become their own sellers, their need for accurate, timely market price and supply information becomes greater. To obtain accurate price information many producers have turned to the wholesale meat trade as a basis for the pricing of their product on a dressed basis.

Some packers desiring to protect their supply of meat for their outlets have employed the practice of forward contracting. This is simply a price agreement with the livestock to be delivered to the buyer at a later date. This practice may be expected to increase in cattle with the introduction of the futures market for live cattle and carcass beef. Other packers who may not for various reasons be able to protect their competitive positions by any of the above techniques may establish feedlots or enter feeding contracts with producers. This practice as a rule will supply the packer or retailers with a minimum supply of the quality of livestock needed to meet the demands of his customers. Mass distribution has created the necessity of producing a uniform product. If producers cannot adjust their production programs to provide this, we can expect an increase in packer feeding or contracting.

Competition is the dominant force that determines both what marketing functions will be performed and who will perform them.

In today's dynamic free competitive economy in which our livestock marketing system operates it is at wholesale that well informed retailers reflecting consumer demand and well informed packers reflecting wholesale supplies come together in what appears to be the most effective single bargaining point in the entire sequence of livestock and livestock product market transactions.

When packing plants were located at or near terminals and secured their livestock from the type, quality and weight of livestock coming to the terminal, livestock prices and therefore meat prices were determined in the live market, or on the terminals.

The live market is now widely dispersed and as a result, the effectiveness of any one of the methods or channels of live marketing as a price maker has become less important. Of course it is still true that every transaction of live animals, in the feedlot, the auction, the terminal, etc. helps determine the equilibrium price for that time period.

Today, the packer knows what he needs in the way of quality and quantity of livestock to meet the demands of his customer. He knows approximately what his customer will pay for wholesale meat of a given quality and weight. He knows his operating costs and his slaughter credits. Thus the packer is in a position to arrive at a net value per hundred pounds of meat This figure multiplied by the dressing percentage of the type of animal involved tells him what he can afford to pay for livestock. Thus we have experienced the shifting of price determination from the live side of the packer operation to the wholesale side of the packer operation.
As pointed out earlier, the packer has found himself in the position of serving outlets with rigid specifications. Specification selling has increased the need for a common language to describe quality. Grading as a factor in a market demand has been closely allied with growth of specification buying. Federal grades have also been a convenient basis for much advertising and promotion.

Federal grade standards are basic to the modern day marketing of livestock and meats in our dynamic free competitive economy. I make this comprehensive statement with the full realization that only a portion of the livestock and meat produced is officially identified for grade as it moves through the marketing processes. The portion graded serves as a guide to other Federal graded not rolled and house brands.

Nevertheless, the efficient functioning of our complicated marketing structure is dependent upon a national yardstick to identify the volume as well as the prices that are being paid for the various qualities of livestock and meat. The fact is that a definite understandable grade gives us a defined segment or portion of a heterogeneous product that can be priced. We cannot price meat or livestock as such any more than we can trade on average prices. The transactions in livestock and meat must be done on the basis of price for the particular quality desired or delivered.

Meat and livestock are products in their natural state and as such are a heterogeneous product. There is, of course, a wide range of quality and value within a given grade, as reported weekly by the U. S. Market News service for choice beef carcasses.

Thus the producers of the higher quality within the grade are searching for ways to receive a price that reflects the quality they deliver.

In our dynamic free economy, we depend chiefly upon competitive prices as the guide to what to buy and sell, in what form and when and where to buy and sell it.

Sellers want to net the most money they can for their products and services, while buyers want to get the most goods and services for their money.

Prices of meat animals and meat are closely related and they are subject to the interplay of all economic and other forces that bear on them, as Dr. Barr discussed. Actual prices at any given time and place, however, originate in the marketing system. The marketing system is by no means neutral with respect to price making; its make up as to balance of buyers and sellers, information and efficiency can have much to do with the level of prices that are arrived at.

One of the measures of how well our pricing system is working is how closely our actual livestock market resembles the ideal "perfect market," how closely prices are in line within the market area. For one of the prerequisites of our free competitive economic system is the fact that it seems to function more effectively if both parties to the trade are well-informed about the forces of supply and demand in the market place and the relative prices for the commodity in which they are trading than if they are ignorant. In this setting the role of market news is (1) to provide more
information to all parties to the trade and (2) to provide the means by which the level of information about the articles being traded can be more nearly equalized between buyer and seller at all levels of the marketing channel.

Accurate, unbiased market news provides the basis for enlarging the area of informed, intelligent decision-making in buying and selling. It enables our pricing system to become a more effective means of communication by which the preferences of consumers are channeled to producers.

A recent study of certain geographic area served by public market news services shows that there is strong evidence that the farmer does respond to price relationship changes between markets and that he will attempt to obtain current market price information from more than one market, and make his marketing decision accordingly.

In two recent Ohio studies, the two hundred cattle feeders replying as to their source of market price information reported an overwhelming dependence upon the local markets for price information. Since there are no public services reporting cattle prices in Ohio, this places a tremendous moral responsibility on the local market that has assumed the responsibility of reporting prices to report accurate, timely price and volume information using grade standards and weighing conditions comparable to those used to measure price, supply, demand and quality by other markets reporting.

In other sections of the United States, the demand for additional public market news service is being met with an increase in price and volume information on direct sales. The reporting of direct and country sales by an unbiased market news service has proven most satisfactory in improving the communication role of price in the livestock marketing system.

Studies have shown that a public market news reporting service strengthens the position of the efficient marketing agencies while at the same time even leading to the elimination from the marketing system of the inefficient operation. Market researchers report that when public market news reporting has been applied to the livestock industry, there has been a reversal of the decentralized trend in livestock marketing toward an increase volume in those market channels where equilibrium prices more nearly reflect the market demands and supplies and more accurately reflected quality of product.

Price information improperly collected and improperly used is worse than no information.

Federal feeder calf grades were demonstrated to report prices in Ohio demonstrational sales. The Ohio grading system has for the past several years been one grade below the grade standards used to report U.S. market news prices. That is, in past years Ohio calves of choice quality were called good. The use of Federal grade standards in Ohio demonstrational feeder calf sale increased the pricing accuracy by 10.9% for the choice grade steers.

The more decentralized the livestock marketing system becomes, the more important accurate and timely market news becomes. To make sound marketing decisions the producers and representatives of all segments of the
Market structure must be informed of current market conditions and the complex factors affecting the true and full market value of the livestock under consideration.

Changes in the market structure and associated practices also complicate the task of reporting market prices and supplies. Yet the trend toward direct sales of livestock makes accurate, up-to-the-minute market information more necessary than ever before for the livestock producer, who in effect has become his own salesman. Even though the producers have alternate channels for marketing his livestock he is in a poor position to choose among the various channels without full information and an understanding of grades, terms and weighing conditions. Despite the importance of livestock in Ohio's Economy, the Ohio livestock producers and the livestock marketing economy does not have the services of a public market news service. The absence of a public market news service in Ohio places a tremendous economic, moral and ethical responsibility of providing market news. Those private services that provide market news for the livestock industry must, by accepting this important responsibility of providing the price and supply information buyers and sellers use to make sound marketing decisions, accept the moral obligation of ascertaining that this information is accurate and timely. The value of livestock market news is in direct proportion to the uniformity with which reporters interpret and apply official grade standards.

The live cattle futures market has not operated long enough for logical conclusions to be drawn, therefore, any conclusions at this time must be general.

The futures market in cattle for example should perform a pricing function. Some contend that the influence of the futures market simply expedites the weighing of the various price making forces and allows the price which otherwise would have been discovered to be discovered more quickly, and possibly more accurately. With this view of pricing in the futures market, the market itself would have no net influence on prices. It is very difficult to sort out the influence of the futures market on prices from all of the many other influences that go into the complex problem of pricing. Many studies have been made on the subject, using various commodities traded in the futures market, some of these studies showing there was no influence on prices by the activities of the futures market and others showing pronounced influence. Cash prices and futures prices are rarely the same because of differences in location, time and quality factors and random variations. However, the cash and futures prices tend to fluctuate up and down together. This is because the same price making forces influences both the cash and futures market. The difference between cash prices and futures prices tend to disappear toward the delivery month. Since every futures contract when it matures calls for the delivery of the actual commodity, the cash price for the specified commodity at the delivery point should be almost the same as the futures price at maturity. The futures trading in live cattle, for example, provides the cattle feeder an opportunity to protect themselves from the risk of a change in price. The principal reason for the existence of a futures market is to provide a vehicle for shifting the risk of price change.

I have pointed out several of the developments I observe in the livestock marketing industry. Each of us will not describe and evaluate the developments in the livestock marketing system the same way—or as I have attempted to do here this afternoon. Let me conclude by saying that packers
will probably continue to search for that source of supply that will meet the demands of their outlets and at the same time maximize their returns. Producers as they tend to specialize will continue to adjust their production programs towards the production of that product that will maximize their returns.

Livestock producers will continue to search for that marketing channel that will return to them the most net dollars for the livestock they produce. It is my opinion that a public market news service reporting all types of transactions in Ohio could provide a valuable service to all segments of the Ohio livestock marketing industry and relieve those agencies now providing this function of the marketing charges necessary to perform this service.
HOG MARKETING IN ONTARIO
by
Murray Hawkins
Research Assistant in Department of Agricultural Economics
The Ohio State University

General Background

While the main emphasis in this paper will be on the marketing of hogs in Ontario, an attempt will be made to make the discussion broad enough for application to Ohio hog producers.

In discussing the development of the Canadian hog marketing system as practiced in Ontario and keeping in mind the concern of the American hog producer to integrate parts of it into his own system, it is necessary to consider the historical background of hog producers in the two countries. Two entirely different atmospheres have existed in each area. The Canadian producer until recently, has been tied to a British export market for the disposal of his surplus pork. He has, in effect, been obliged to live with world pork prices. This has led to the development of high quality standards and incentives. Furthermore, the Canadian producer has evidently not felt the need for the rugged individualism of his American counterpart.

Tied to Europe in general and Britain in particular, longer than the American producer, the Ontario producer has not exhibited as automatic a reaction against the compulsory features of his marketing system. He has accepted many social practices that up until this time, have been unacceptable to the American people. This is not to say that there has not been considerable opposition to the government sponsored marketing plans, however, it does appear that the majority of Ontario farmers favor compulsory marketing and all its necessary ramifications.

It will become apparent as one proceeds that the Canadian Government programs are market orientated. Whereas it has been my observation that the American government programs are production orientated. This has been, in my opinion, a natural development in both countries. Canada having been concerned with an export market and the U. S. A. with a domestic market. It would now appear from reading the newspapers that there is shift in the U. S. A. now towards the marketing area.

Carcass Grading and Quality Premiums

Hogs are sold on a dressed weight basis with a fixed differential between the grades i.e., from Grade A, Grade B hogs are discounted $1, Grade C $3, Lights $3.50 and Heavies, $3.25. Grading is done by Federal Inspectors and it is 100 per cent compulsory. The history of hog grading in Ontario goes back to 1922 when it was instituted to raise the quality of Ontario hogs. At that time, the grading was done on a live basis by graders appointed by the Federal Government and hogs were classified as follows: select bacon - thick smooth - heavy and extra heavy. A premium of ten per cent of the value was added for select over thick smooth.

In 1927, this premium was changed to one dollar per hog.

In 1934, carcass grading was instituted, with the producers having the privilege of selling their hogs either live weight and grade or dressed
weight and grade, with sometimes a variation of both—that is, live weight and dressed grade. By 1939, seventy-five per cent of Ontario hogs were being sold on a dressed weight basis. By October 1940, dressed weight and grade marketing of hogs appeared to be favored by the majority of producers and live grading was discontinued and rail grading became the official method, with the "B-1" grade as the basic price and standard differentials between grades.

The present grade standards for hog carcasses are as follows:

**Canadian Hog Carcass Grade Specifications**

<table>
<thead>
<tr>
<th>Grade</th>
<th>Wt. Range</th>
<th>Min. Length</th>
<th>Max. Shld. Fat</th>
<th>Max. Loin Fat</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>135-150 lbs.</td>
<td>29-29 1/2&quot;</td>
<td>1-3/4&quot;</td>
<td>1 1/2&quot;</td>
</tr>
<tr>
<td></td>
<td>151-170 lbs.</td>
<td>29 1/2-30&quot;</td>
<td>2&quot;</td>
<td>1 1/2&quot;</td>
</tr>
<tr>
<td>B</td>
<td>125-150 lbs.</td>
<td>28-28 3/4&quot;</td>
<td>1-3/4&quot;-2 1/2&quot;</td>
<td>1 1/2 - 1-3/4&quot;</td>
</tr>
<tr>
<td></td>
<td>151-180 lbs.</td>
<td>29-30&quot;</td>
<td>2 1/2-2 1/2&quot;</td>
<td>1-3/4 - 2&quot;</td>
</tr>
<tr>
<td>C</td>
<td>125-180 lbs.</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>May be overfat, lacking in length, type and balance. Also young females with slight mammary development.</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>All weights</td>
<td>None</td>
<td>Carcass weighing less than 90 lbs.; thin, underfinished, dark fleshed, rough and soft, oily or having serious physical damage or injury.</td>
<td></td>
</tr>
<tr>
<td>Lights</td>
<td>90-124 lbs.</td>
<td>None</td>
<td>Shall have reasonable finish and quality.</td>
<td></td>
</tr>
<tr>
<td>Heavies</td>
<td>181-195 lbs.</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extra</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavies</td>
<td>Over 195 lbs.</td>
<td>None</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

While there is some research to suggest that these grades do not realistically present the true value of the carcass to the processor and that the grades are not generally reflected in the retail stores, nevertheless, it gives the marketing of hogs a much sounder basis than the live grading of hogs. Furthermore, considerable research is proceeding to upgrade and change the grading standards to make them more realistic. All segments of the hog industry have recognized the shortcomings in the grading system and have been working with the government to overcome them. None of the various groups concerned in the marketing of pork have advocated doing away with the rail grade system as an equitable means of determining hog values.

In 1944, in an attempt to stimulate quality in Canadian hogs, the federal government instigated a premium for A hogs and a lessor premium for B1 grade hogs. In 1960, the premium on B1 hogs was dropped. Presently a $3 per hog premium is paid to Canadian hog producers by the Canadian Government for their A grade hogs. The success of this quality incentive has been to place Canadian pork second only to Denmark in quality performance. Some 35% of all hogs in Canada are Grade A. In Ontario the figure is close to 50%.
To bring this question into perspective, some history may be required. The 1958 government passed an Agricultural Stabilization Act. Hogs were one of the nine commodities under the Act for which price supports set at a minimum of 80% of the previous 10 years average price became mandatory. At the time, the 80% mandatory level for hogs was 23.65 Grade A Toronto or the equivalent $22.60 Grade A weighted average for all Canada. However, an offer-to-purchase program was initiated with a support level of $25.00 (Grade A Toronto). Unfortunately this guaranteed price caught hog production on a cyclical upswing giving it a further boost. Hog production increased 35% from 1958 to 1959. The net result was that storage stocks became unwieldy (all told the Stabilization Board purchased about 250 million pounds total of frozen and canned pork). The $25.00 or equivalent was clearly an incentive price. The government was furthermore bound by law to maintain the mandatory support of $23.65 which still would probably been at an incentive level. The Government, on a forced action basis, turned to a deficiency payment program. This program, as instituted in January, 1960, was to calculate on an annual basis the difference between the mandatory or declared support level and average market price (weighted average for all Canada) and pay to producers directly on the first 100 Grade A hogs only.

The object of the support program was to help the small producer, while not increasing the total production of pork in Canada. The previous storage program had increased profits to the processors. It had not resulted in lower prices to the consumer and had cost the Canadian tax payer a considerable amount of money. The present method has had the distinct advantage of making payments direct to the producer. This policy should also reflect, in surplus years, lower prices to the consumer.

As a straight matter of record, hog prices have never reached the floor price since the new system was introduced. There are also serious doubts as to whether a country-wide support price is valid. Furthermore the current program gives no protection from seasonal price variations. It does, at least, give moral support to the producer against a severe price level drop. These features of the pricing system in the present policy have tended to stabilize production somewhat and hog prices in Canada have stood up well since the plan was initiated.

If the aim of the plan was to help the small producer, it has not succeeded. Due to the fluctuations in short term pricing the policy may have forced many small producers out of business. Short term price fluctuations appear to have a greater effect on the small producer than the larger more efficient operator. Since the support price is only concerned with A grade hogs and is based on an average return of 35% Grade A hogs, a producer would have to produce 300 hogs to reap a significant return from the floor price. It would appear that Canadian price support programs also have their problems.

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1/ The author is indebted to Professor R. G. Marshall of the University of Guelph for his comments and advice, in the preparation of this section of the paper.
It would not be out of line to state that the government of Ontario has been farmer-dominated in its actions and policies for many years. Such a favorable atmosphere has allowed farm groups to press for and get marketing legislation, which by any standards must be considered radical. This concentrated action resulted in the "Farm Products Marketing Act" (revised 1963), which literally allows the producers of any agricultural commodity, upon a simple majority vote of the producers of that commodity or if in the eyes of the Minister of Agriculture such a majority exists, the authority to establish a marketing board which can license and control all phases of production and marketing of that commodity. Their actions are subject to appeal only to a government sponsored Farm Products Marketing Board. To my knowledge tobacco is the only commodity using production controls at the present time.

It was under this act and previous legislation that the teletype system of selling hogs was introduced and I will now give a brief history of the plan, as well as a general description of its operation.

In 1945, the Ontario Hog Producers Association decided that something should be done towards giving the hog producer a voice in the establishment of the price he received for his production. The Directors of the Association at first, under authority of the Farm Products Control Act of 1937, tried to negotiate a minimum price with the processors, but with no success despite many meetings with Packer representatives. In August 1949, the Packer representatives declined to agree to the subject of minimum prices being on future agenda. An attempt by producers through 1949 and 1950 to avail themselves of arbitration proceedings had failed. A committee to study a central selling agency had been set up late in 1949. In January of 1950, Dr. Lattimer of MacDonald College, was engaged to study the whole matter of export and domestic market conditions. His report was presented in April and one significant revelation was "that marketing practices existed which denied the farmer bargaining power to such an extent as to be most unbelievable." Other activities of the Board, prior to agency selling, were representations regarding bacon contracts by the federal government with the British Ministry of Food, condemnation insurance and a bankruptcy involving a buyer of hogs.

The Toronto Livestock Exchange Commission firms were organized as a selling agency late in the year 1952 and began operating as United Livestock Sales in January 1953. For the first year of operation, considerable bargaining advantage was realized by the recognized authority to withdraw hogs from a plant if an unsatisfactory bid was made. Previously, a legal interpretation conveyed by the Farm Products Marketing Board in the summer of 1945, was such that a packer was deemed to be a lawful buyer if the product was in his possession and a "reasonable" price was offered.

2/ The author wishes to acknowledge the help and assistance of Mr. J. R. Kohler, General Manager of the Ontario Hog Producers Association, in preparing this section of the paper.
Up until the beginning of 1953, the Ontario Stock Yards, Toronto was the only open market to which Ontario produced hogs could be delivered and made available to different buyers. The hogs delivered there represented from six to ten per cent of the Ontario production. When the United Livestock Sales Limited was established as a marketing agency by the Ontario Hog Producers in January, 1953, approximately ninety-four per cent of the Ontario produced hogs were being delivered direct to processing plants, mostly by drovers and truckers. Most of these men had little knowledge of the number of hogs to be marketed nor where the demand was greatest or the market glutted.

The bulk of them delivered their hogs to the same plant week in and week out, for which loyalty they were paid so much per hog by the processors, regardless of their market value. These payments have been commonly referred to as "under table payments." In this manner, the large processors received a guaranteed continuity of hogs and were not compelled to bid competitively for their requirements. The small processors could not compete with the larger processors "under table payments," and there were not enough open market hogs to satisfy their needs.

In 1955, the Ontario Hog Producers took over the marketing of their own hogs and set up the Ontario Hog Producers Co-Operative as their selling agency. By 1956, they had six marketing yards outside of Toronto and had control of an increased number of hogs and could influence the price to a greater extent. No processor had enough direct deliveries to satisfy his requirements and, now that the number of open market hogs had increased, the small processor was becoming a larger factor in the establishment of price. The percentage of hogs slaughtered by this group has trebled since 1953.

Additional marketing yards were gradually opened. By the end of 1957 there were ten; by 1958, thirteen; by 1959, thirty-one and, at present, there are forty-five marketing yards in operation which handle in excess of two million hogs annually.

As these marketing yards were opened in the various counties, compulsory direction through the agency was implemented. By 1960, compulsory marketing was carried through the eastern counties, finally enveloping the whole Province, with the exception of Haliburton and the Northern Ontario districts, which are exempted by the Provincial Legislation, due to the scarcity of hog population.

During the period from 1953 through to the time they installed the new system of selling on May 8th, 1961, they were faced with many criticisms by not only the packers, but also some segments of the producers. During this period of time, the sales were handled almost entirely over the telephone. The packers claimed that even though they bid ten or fifteen cents a hundred weight more for any offering of hogs, they would not end up the day with extra hogs, but would have to pay the higher price for the balance of their buy that day. There were also accusations of allocation, favoritism and lack of mechanical records to prove that hogs were sold to the highest bidder. To counteract these reports, the Provincial Government asked the management to begin investigation of other methods of sale.
I would like to describe briefly this new method of selling the Ontario produced hogs by use of electronics which came into operation on May 8, 1961.

This system is unique on the North American Continent and in the world. It is the first of its kind ever to be assembled. It consists of a Master Teletype machine located in the Head Office in Toronto, over which all offerings are made. It is connected to seventeen teletype buying machines in seventeen processors plants across Ontario and in Hull, Quebec. On their individual machines, they purchase their own requirements of hogs for slaughter. There is an eighteenth buying machine located in the hog producer's coop office on which they purchase the hogs for the processors who slaughter less than one per cent of the hogs marketed in Ontario in 1962. They also buy on this machine for the processors located in the Province of Quebec, purchasing Ontario produced hogs. Altogether, they purchase the slaughtering requirements of some thirty Ontario buyers and ten Quebec buyers.

The Master Teletype machine is connected with a specially designed piece of equipment called an Electronic Broadcast Repeater, also located in their office. It is a cabinet about two feet wide by two feet deep and around seven feet high. On its face is a series of letters, each identifying a buying machine. Above each letter is an amber light which flickers when the system is in operation to show that each processor's buying machine is in contact. Below the letter is a red light which flashes on when that particular buyer is successful in his bid for the lot of hogs being offered.

To summarize to this point, the system is made up of:

A Master Machine
The Electronic Broadcast Repeater
Eighteen Buying Machines

The following will describe briefly how this system works. The marketing agency has teletype connections with nine of their main marketing yards. The balance of the forty-five yards are contacted by telephone. When the hogs arrive at one of these marketing yards, the manager pens them in lots containing the number of hogs previously requested by the Sales Staff in the Toronto office. When a lot of hogs at any yard is ready for offering, the manager teletypes or telephones the Sales Office giving the number of hogs ready to move. Then, if the market looks favorable for making a sale from that particular yard, the Sales Staff in the Head Office gives the operator of the Master Machine a written order to offer these hogs for sale. The operator types out the date and time, the yard from which they are being offered, the lot number and the number of hogs in the lot. Example: June 25, 1963 - 11:30 - Harriston - Lot 18 - 148 hogs.

The teletype operator then starts a tape which has been pre-punched on a declining price scale in drops of five cents; this particular tape having been previously selected by the Sales Staff. They have many such

3/ The new Repeater contains thirty thousand soldered connections, ninety-six radio vacuum tubes and thirteen hundred R.C.A. electronic diodes, one hundred and twenty relays, seven rectifiers (power supplies) and twenty miles of wiring (cable).
pre-punched tapes on hand at all times on which the spread in price from high to low, is never more than one dollar per hundred weight. This offering appears on all buying machines simultaneously with the master machine. When a buyer sees the price appear at which he has previously decided to buy, he presses his buying button located on the side of each buying machine. Several potential buyers may have hit the button at approximately the same instant, but the machine, however, is capable of separating the bids by one-one thousandth of a second. The buyer waits until the last figure of the full price is coming up before pressing his buying button or his purchase will be made at a five cent higher price.

The red light appears on the face of the Broadcase Repeater under the buyer's letter, which indicates to the Master Machine operator, the buyer who has bought this particular lot of hogs. Immediately the buyer presses his buying button, the broadcasting circuit is stopped and the successful buyer's machine and the Master Machine are the only ones recording. Then the Master Machine automatically prints the buyer's code letter on the recording sheet. The operator then types the initials of the company which appear only on her Master Machine and the machine of the successful bidder. None of the other processors know who purchased the hogs. The successful bidder confirms the deal and the sale is completed, with a full mechanical record of the whole transaction. Then, the Master Machine broadcasts the buying price to all buying machines, omitting the buyer's name.

If the price drops for example, from thirty dollars to twenty-nine dollars without a bid being registered, then the twenty-nine dollar price is repeated three times, with a bell sounding on all machines between the three repetitions after which "No Sale" is printed. This lot is re-offered later when conditions appear more favorable.

It is the thinking of the Board of Directors and also the Ontario Farm Products Marketing Board, that each sale is the business of the seller (the selling agency being the Ontario Hog Producers Marketing Board) and the buyer (being the processor making the purchase).

The cost of operating this selling system is around three thousand dollars per month and is covered by a charge levied against all buyers. The current rate is one and one-half cents per hog on the number purchased.

The Ontario produced hogs are assembled for sale at forty-four marketing yards spread across Ontario and one yard in the Province of Quebec located at the West End Montreal Livestock Yards.

Under directional orders issued by the Board of Directors, all hogs produced in Ontario must come to one of the forty-five yards operated by the Sales Agency. These orders do not define any particular yard to which the individual producer or trucker must come, but leaves them a choice. The one governing factor is that the hogs are sold f.o.b. the yard to which the hogs are delivered and the processor purchasing the hogs from any particular yard pays the transportation charges to his plant. The rates are set by mutual agreement of the Agency, processor and trucker.
After a fairly complete discussion with officials of the Hog Producers Association, Packinghouse officials, Producers and University Economists, I have tabulated the advantages and disadvantages that occurred most frequently in our conversations. If the described marketing system were to be applied in Ohio, these arguments would have to be considered carefully.

Disadvantages

(1) Cost of assembly points on a per hog basis are excessive in areas of light hog production. There is a problem of assembly yards being established on political rather than economic grounds.

(2) There is the problem of unloading hogs at an assembly point and reloading on another truck after they are bought. This increases shrink and bruising. From personal experience, many of the trucks were not unloaded and merely proceeded after the sale was made. Furthermore, most of the hogs come to the assembly yards in farm trucks which are not insured or equipped for the long distances to some of the packinghouses concerned. A programmed study at the University of Guelph has shown the system is efficient in handling hogs.

(3) The farmer has lost his bargaining power and the new system is tailor made for collusion of the packers. It is my opinion that the packers will only collude if there is an incentive for them to do so. All hogs are now offered to all processors. The only advantages any one packer has, are location, greater plant efficiency and better sales promotion. Certainly the more efficient plants will greatly influence the industry. This applies to large as well as small processors. It is my opinion that no system of selling can fully curb overt collusion, if government legal processes themselves cannot do so.

(4) The system hinges on a reasonable grading system acceptable to everyone in the hog industry.

(5) Quality areas have developed which bring higher prices in some areas than in others. The good producer in a poor quality area is penalized. I suggest a merit rating which could be recorded by an assembly yard when a merit group of hogs are for sale. A certain amount of planning by farmers in an area might be necessary when shipping these hogs, to make shipments large enough. Present Canadian government services could easily be extended to facilitate this rating system, since all hogs marketed are now recorded for price support programs.

(6) Consumers are neglected in this new power squeeze. While all producers are in effect consumers, it might be well to include consumer representation on the marketing boards.

(7) There is a considerable variation in daily prices at the same assembly yard. This has lead to some dissatisfaction among farmers in the immediate area of the yard. It could, however, be argued that prices fluctuate upwards as processors battle for their daily kills. It is reasoned that processors would rather have somewhat higher live costs than idle plants.
(8) The system as established, requires sympathetic government legislation. It is, however, reasonable to expect that many features of this system could be adapted in the United States, on a state or regional basis, with some modifications, under existing legislation.

(9) To make the system work with maximum efficiency, the farmer must be prepared to subject himself to some form of compulsory marketing and uniform, accurate and impartial grading procedures.

(10) Government floor prices must be realistic. They should be slightly below the cost of production. The farmer should prepare to live with "day to day" price fluctuations. He should not, however, be subjected to the uncertainty of a major price level drop. The laws of supply and demand thus would operate to help keep production under control and there would be as well a considerable incentive to develop an efficient hog industry on a long term basis. The new selling system might initially establish higher hog prices and stimulate excess production. Therefore, floor prices may have to be introduced into an industry which to this date has not evidently needed them. Floor prices with direct payments to farmers, allowing the wholesale price to fluctuate, may be needed to assure that some or most of the savings incurred in the selling system are passed on to the farmer instead of entirely to the processor or the consumer in periods of hog surpluses.

Advantages

(1) Hog procurement costs are lower. The system has eliminated all competitive efforts by the processors except price. The processors have been able to reduce their hog purchasing departments to an absolute minimum. The processors would be able to eliminate a multitude of buying stations, hog buyers and other non-price practices, the cost of which have been ultimately financed by the producer.

Furthermore, the packer can now devote his total energies to improving the quality of the product and the efficiency of the production line, now that he is freed of the major uncertainties in his supply situation.

(2) The price discovery process is open to less question and criticism. Much of the suspicion of devious buying techniques by packers has been removed. There has been a closer and a better understanding of the marketing of pork and hogs by the processor and the producer. Since all weighing of hogs would be done by federal government employees at automatic scales many abuses which now occur would be eliminated, thus eliminating another source of friction in the marketing system.

(3) Increased funds for pork sales promotion and research could become available through a checkoff system initiated by the producers association itself.

(4) The system encourages the efficient use of processing facilities. It has removed to some extent the uncertainty of obtaining supplies when they are required. Furthermore, since the agency has a fairly accurate picture of the demand for pork as well as the supply of hogs as they become available, they can with several well placed phone calls, inform all their marketing stations of existing marketing conditions and price levels. Information and communication lines would be tremendously improved, with all
information being available to even the smallest producer, at all times. This increased information to the producers would aid greatly in stabilizing hog supplies over the period of a week's deliveries. This has cut costs for the processor and increased over all returns to the producers.

(5) Logic would indicate that pricing is more efficient and accurate and comes closer to an economist's view of a more perfect market. Prices and payments to producers would be distributed more evenly and in accordance with true market values. In addition, consumer desires would be reflected more accurately and production would in the long run be adjusted accordingly. Aggregate demand for pork might even be increased due to increased quality and sales promotion. The introduction of a third monopoly element into the pork marketing chain would balance the price discovery mechanism more equitably giving the farmer more authority and power in establishing the price for his commodity. He would thus be in a position to see that some of the savings incurred with the new selling system would stay in the farm area.

(6) All payments to the producers are now made directly to the producer by the producer's association. All checks are made at par. The producer is guaranteed payment. Performance bonds of a substantial nature are required of all processors. These services have resulted in substantial savings to the processor and the producer.

(7) A policing service is performed by the agency in checking and discussing dressing percentages and other practices in the pork industry with the various processors. Adjustments are made when yields are out of line and discrepancies can be found.

(8) The producer has a neighborhood market when he can receive accurate up to the minute market information. He can sell his hogs quickly to the highest bidder, at a definite price, in a short period of time. While he cannot refuse to sell his hogs once they are offered, he can certainly be aware of the price level when he offers his hogs for sale. Since the asking price for the hogs varies from 50¢ cwt. over the current market price to 50¢ cwt. under it, the farmer is only gambling on a 50¢ cwt. drop in the market price. If the hogs are not sold at this level, he or the agency can refuse to sell them until further clarification of the market occurs.

(9) If hogs are not slaughtered on the day following purchase, a penalty of one per cent of the dollar value is charged for each succeeding day the hogs are held. Exceptions are made for holidays and special consent of the agency.

(10) From the packers viewpoint, they are on record as agreeing to purchase hogs by any means the farmer sees fit to sell them, as long as it is equitable to all. Competition would be increased and all producers would have an equitable chance to buy any of the hogs offered. All hogs for sale would be offered to all packers. The competition on any one group of hogs, in any one area, would definitely be increased, as packers in that location would lose any monopoly advantage they have had except for location.
(11) The farmer through his local, district and provincial board has had as great a voice in this organization as any other democratic institution. The system is checked by public opinion, the provincial government and the central board. The farmer has thus his organization sympathetic to his problems, marketing his hogs.

(12) Marketing costs, at 40¢ per hog to the farmer, are very reasonable.

(13) Losses from bruising and diseases would be reduced through the identification of farmers and truckers handling and producing hogs. Costs of bruises might be directly allocated and this cost therefore need not be borne by the entire hog industry.

(14) An attempt would be made to utilize all existing independent and producers livestock markets as receiving yards for hogs. Revenues to these markets would be maintained through (1) increased receipts of livestock even at much lower per unit charges, (2) a more even distribution of market hogs over the entire week and a consequent improvement in the utilization of labor and facilities and (3) an increased supply of feeder hogs, which would follow the market hogs, to the receiving yards and the auction market (not to mention the other classes of livestock which would similarly be attracted).

In conclusion one might note that the system is an improvement to almost all phases of the open market system. There are substantial savings to be made, and these can be passed on to the producer or the consumer, from the one stage in the marketing process still open for economic measures. In this era of constantly increasing pressure of costs and prices the farmers in Ohio cannot continue to afford the luxury of the wastefulness in the present marketing system. Prices are established many miles away. Price competition in local areas is negligible. Discrepencies in pricing are many. Rivalry between the various selling agencies through non-price competition is a burden which the hog industry can no longer afford. When the market does not adjust properly and we temporize with the basic issues because we desire freedom so much, we cannot then formulate the issue with concrete implementations.

The system in Ontario has been in operation only five years. It has, however, given its founders every hope that the system is fundamentally sound. Prices have improved considerably to reach and sustain levels considerably higher than their Chicago equivalents. While I cannot personally vouch for the validity of the statistics issued by the Ontario Hog Producers Association and while I am fully aware that part of the difference is due to higher quality in the product, there nevertheless appears to be a substantial increase in farm prices for hogs in Ontario since the plan was instigated.

Will the teletype system continue to perform as well? I believe it will. The producer is functioning in the "Market Place" where he has for many years. He is excited about his new marketing tool. The idea is fresh and exciting, it deserves looking into.
PART V

Fruit and Vegetables
I'll break right into my subject by showing in chart form the seasonal average potato prices received in Ohio for the 1963 crop and 1964 crop on a scale up to $6 a cwt. Dates start at July 15 on through our marketing season. The lines represent F.O.B. farm price on table stock and the F.O.B. farm price on chip stock. In 1963, table stock started out slightly under $3.50 cwt. and chip stock started out at about $2.75 cwt. As the season progressed, table stock got down to around $2.00 per cwt. when it went into storage. It finished the season at around $2.20. For the first two or three months the price for chip stock was slightly below table stock. But after potatoes went into storage, the price of chipping potatoes exceeded that received for table stock.

The same trend is true for the 1964 crop except we enjoyed a much higher price level. The table stock price started out at around $5.70 a hundred if they were packed in hundred-pound bags. The chip stock price was around $5.00. That didn't last too long and table stock reached a low of around $2.50 a hundred at storage. Out of storage it started back up and finished around the $4.70 to $4.80 per cwt. level. The same thing happened to chip stock as in 1963. Earlier in the season the price was slightly below table stock, then out of storage it was higher. From this chart, I would like to point out two or three things. First of all, it shows the difference in the general price levels from one year to another. As for average prices over the past 20 years, I would say the 1963 prices are close to, or slightly below, average. The 1964 crop was a banner year for growers for prices received. It shows the difference from one year to another.

You might wonder about the trend in chip stock versus table stock prices. It always happens that way. Early in the season when potatoes are being moved directly from the field, growers selling chipping potatoes are usually willing to take slightly less for them per hundred lbs. than they would if they were packing table stock because of certain costs involved in handling, storage, and packaging. But then after we get into storage we almost always find that the chipping potato price goes higher than that of table stock because of some of the things farmers have to do to store for chipping. They need special storages which are heated to keep the temperature above 50°F. which involves extra expense. And when you heat potatoes, they lose weight and you have to have more money out of storage to make it a break-even deal compared to sales of potatoes directly out of the field.

Point number two is that some years a potato deal is good and others it is bad. This has been going on for years and it will continue to go on. This chart gives a little summary of several years up to 1964. The first column shows millions of bushels produced in the United States. The next column shows dollars received F.O.B. farm price to the grower. This is an average for the United States. The third column is millions
of dollars received by the growers in the United States for that potato crop. In 1924 they grew a few too many potatoes and received 68 cents a hundred with a total value of $263 million. The very next year a few growers dropped out and others cut their production which doubled the price and also doubled the total amount of money for the crop. The same was true between 1932 and 1933. The 1932 price of 38 cents per cwt. was not very good. Someone got hurt and acreage was cut again. Production was cut by 10 per cent and the price doubled again. In 1935 and 1936 the same thing happened. In 1963, the U. S. crop was 455 million bushels resulting in a very mediocre price. In 1964, there were some acreage cuts; but as a result of adverse weather conditions in a couple of areas, production was down by 11 per cent, with a marked effect of prices.

The F.O.B. farm price that Ohio growers received for the 1964 crop through the Ohio Potato Growers Association on chip stock was $2.32 per bushel. It was adjusted to bushels, since everything else is in bushels. For the 1963 crop, chip stock in Ohio averaged $1.32 per bushel. By a 11 per cent cut in production chip stock prices were increased by an extra dollar a bushel. That summarizes what has been going on for several years and I think it will continue to go on. Needless to say, there will be more acres of potatoes grown in the United States in 1965 than in 1964.

My third point is that Ohio is a small producing state. Ohio produces about one per cent of the potatoes grown in the U. S. This situation does not lend itself to our dictating what the price is going to be on the national level, on the state level, or on the local basis. But it does lend itself to being able to move quite a few potatoes because we can offer comparable quality, a comparable price, and we can give much faster delivery than you can get from Maine or Idaho.

Now regarding our actual pricing procedures, I'm not going to tell you much on that. A little background shows about 70 per cent of the Ohio production is signed up as members in the Ohio Potato Growers Association. It is a growers organization and is owned by the farmers. We are the hired men, myself and Bob Maskrey who is the assistant manager. We do the work and they pay us once a month. They depend on us to do two things; (1) keep them informed on what the market is and (2) to sell potatoes for interested members. As far as trying to keep them informed about the market, we do this through a little device we call a price card.

Our standard operating procedure for preparing the price card is this. Each Thursday morning we try to review what the supply situation is in Ohio and surrounding states. We try to review what the demand situation is with the many buyers. By Thursday noon, if possible, we try to arrive at what we think a fair price would be, but we can't arrive at that fair price until we've made some bookings. If we sell a chain store 15 or 20 trailer loads, that sale establishes the price. As soon as we have made major bookings into the next week, we come out with our price card and inform our members what we are selling at. We do not dictate their selling price, but report ours. However, it does seem to stabilize the market throughout the state. Two things happen then. We normally try to hold this price for a full week. The other is that once the market is established for the following week, anyone
that is big enough to haul a truckload of potatoes or take a truckload of potatoes and has the money to pay for them, buys them at the same price. This has been our policy for the past 15 years, whether someone takes one load or forty. Thus, everyone gets a fair break. We have had lots of arguments over this, but I think our buyers respect this policy because if we gave them a reduction one week, they would wonder who we might be giving it to next week. So we have made that our policy and it has worked out pretty well. We sell a lot of Ohio potatoes, but not all of them by any means. We inform the growers about our selling price. They are free to sell on their own if they wish, but all Ohio Potato Growers Association Brands must be sold at the "card" price or higher.

Potato acreage has declined rather rapidly in Ohio the past 30 years, but the sales through the organization have gone up two and one-half times in the past 10 years. We are selling a much higher percentage of the supply than ever was the case. We do not class ourselves as "hot-shot" salesmen. We do feature ourselves as pretty darn good market coordinators, "market jugglers" if you please. We are working everyday with two factors which we don't hear too much about anymore--supply and demand. We think we have a real service to render the growers and the buyers. We don't claim to have a lot of market muscle, but I learned as a real young man that you don't have to have a lot, but its how you use it.
I would like to tell you how we prepare ourselves to get into a season for selling apples. We are a cooperative similar to the Ohio Potato Growers that Vic Keirns just described. In fact, we patterned our organization from them as far as structure is concerned. We start the next apple selling season by now (March), because we are just about through with the 1964 crop. We aim to get started right away on the 1965 crop. In fact, we have one promotion started for next year already. All we have to do is find out when apples will be mature enough to get them off the trees and into the stores.

We make a number of grower calls during the summer to find out about our supply. We also attend a lot of meetings to find out what our competition will be throughout the country. We like to know what is going to happen in Missouri, for instance, because they affect our Texas market. We just don't get apples into Dallas until Missouri is done. The West is not a big factor early although they are a big factor in the industry later when Ohio is pretty well out of the picture. As far as the East is concerned, the Appalachian area gives us a lot of competition. Michigan is the state that most directly affects the Ohio markets.

To get some of the information about the apple supplies, I belong to an organization that was formed four years ago. It is known as the Marketing Division of N.A.I. (National Apple Institute). This division has about 36 members, and represents about 25 million bushels of actual apple sales. We have an exchange program for information. Early in the season it's done on a twice weekly basis, Tuesday and Thursday. We send information in by 2 o'clock which is compiled and then sent back by teletype to our office. This sheet happens to be one issued December 29, 1964. It gives current prices, but not for last week's sales. This is not the only asset in this report, but the comments about weather, movement, etc. helps us a lot. We need information about our competition. If it appears they have a lot of apples coming available or if they are about out of Jonathans, then we know what to do. Anyone that belongs to this organization does more than pay a fee. It costs us $150 to belong to it, but you must contribute information or you just don't get any back.

The organization also has a buyer service and last year we established a credit organization.

We attend different meetings each year. The National Apple Institute annual meeting in June is where we get our start. We get an estimate about the volume of apples to expect on the market for the current year. I would highly recommend an organization like this to other commodity groups because it has been a great help to the apple industry.

Last year was my eighth season for selling apples. Over these years there has been only small price increases for apples out of storage...
from November until the crop is sold in March. There have been some years where price has improved a quarter, but then we considered ourselves lucky. In fact, we are selling apples right now cheaper than when we started around the first of November. There are a lot more apples in storage now than there were at that time.

To compare between the 1963 and 1964 seasons, it is a little difficult. It points out one thing. Two years ago (1963) we had a freeze in May. It dipped down in the Youngstown area and froze young apples on the tree which blackened and dropped off. Apples were left just in the tops of trees. The normal Ohio crop is about 3.7 million bushels. That year we had approximately 2,100,000 bushels. By comparison the 1964 crop was 4.2 million bushels, and was one of our bigger crops. In 1963 the national crop was 125 million bushels as compared with 140 million in 1964. While the 1964 crop was about 12 per cent more nationally, we got a 100 per cent increase in Ohio. When the 1963 season started, Ohio growers were really optimistic. All they could see was no apples. But they forgot that Michigan, New York, Appalachia, and others had a good crop. This did not necessarily mean that Ohio was going to have a good season as far as price was concerned. We found that out right away. The good crop in other areas really emphasized it. Trucks can get apples into Ohio about as fast as we can deliver them from one corner of the state to the other. So this did not help the Ohio apple price.

The comparison for 1964 as near as I can figure is that for our big three volume varieties—Delicious, Jonathan, Rome—there is about a 50 cent per box lower price. This was due to the increased Ohio and U.S. crop.
The topic "Pricing Vegetables in the Cleveland Wholesale Market" is quite a broad subject. In thinking about what this consists of, I must always revert to the old so-called law of supply and demand. The way we interpret this law and its applications directs us to either success or failure. We know something about failure and success, but what are the facts in regard to this law that creates successful conditions for firms that are in existence today. First, you must know a vast amount of information about the commodity or commodities you handle or are thinking about handling. Such things as whether cuttings or harvest is going to be heavy or light, available supplies from other areas, weather, etc. Also, one must have a good line of communication to growers and shippers to get their cooperation on information that is essential to establishing a fair price.

One of the weakest points as far as we are concerned, and I think this is true for most commission firms in wholesale markets, is grower cooperation with his selling agency. We have growers in our own organization that are just content with the way we are doing business. This is fine with me to a certain extent. We may not hear from some for as long as three or four weeks at a time. However, even if contented, a grower should call us, because it is almost impossible for most of us in the wholesale business to call every grower every morning to get information; to let him know what is going on in the market; or to find out what he is picking or has available. I am speaking more specifically of growers who concentrate on one line such as tomatoes, lettuce, onions, and things of that nature. A grower should have enough interest in his own product to call to find out about prices. We may be asking for headaches when we ask for this, but it isn't possible for us to always call them. In the long run it is good for the grower to find out about daily prices and market conditions. With his cooperation, the information he furnishes the sales agency can help vastly in the determining of the price structure for two or three days in the future.

The information should be accurate. If so, it will benefit the grower, shipper, the wholesaler and the merchant all the way down into the retail store level itself.

You might say the law of supply and demand can be taken two ways. My way may be one way; your way may be another. It is all in the perspective in looking at it. The Cleveland area has one distinction or outstanding example that makes it different from Pittsburg, Buffalo, Cincinnati, etc. in regard to greenhouse tomatoes. It is classified by the U.S.D.A. as a shipping point for greenhouse tomatoes. This emphasizes the importance for grower cooperation on information for we in the sales agency level have to ascertain what price we are going to ask on a given day or even the following week. Again, we go back to the law of supply and demand. We tinker with it occasionally--which is not a
good idea in my book—but many times we do. We have to consider several things. First, when are we going to have the heavier pickings, or the lighter pickings? What is our competition doing? What is Florida doing? What is California doing and how is their production and their picking? How many cars are rolling? How many cars are on tracks in the various major terminal markets around the country? These are things we need to know in order to decide the basic price we are going to ask. Sometimes we are wrong. We may put them at a certain price and they just don’t move.

About 75 to 80 per cent of the greenhouse tomatoes in the Cleveland area are shipped out of state or out of town beyond a 100-mile radius and also into Canada. A great volume that is shipped goes to chain stores because they are very powerful. When I say powerful, I don’t mean it derogatorily either because with their power they have the ability to help us in getting through a glut condition. Many times, they have stepped in to cooperate with us on a sluggish market to eliminate the condition and at the same time revitalize the market to where we can get back up to respectable prices.

We know for a fact that we are not going to sell many greenhouse tomatoes when retail prices are 59 cents a pound as some stores are doing now (March 25). Today we are getting $3.75 for eight pounds wholesale. That is quite a high price in regard to what Mrs. Housewife would like to pay. However, the supply is very limited. The Florida supply is very limited at the present time, and only a few tomatoes are coming from Mexico and California has a minor amount. Consequently, we feel that $3.75 per basket is the right price and they are moving. If we should get a heavy influx of 5,000 to 10,000 baskets in the next 7 or 10 days instead of 2,000 baskets a day, we know we are not going to sell tomatoes at $3.75. When tomatoes are 59¢/lb. at the chain store level, few will be sold because one or two tomatoes will make a pound. Many housewives condier that too expensive for tomatoes. We know that they will sell more at 49¢/lb. We know about what price buyers will pay wholesale when tomatoes sell at retail for 39¢ per pound. We know that they will sell a real high volume at 39¢/lb. and practically clean us out any time we want to go a wholesale price so they can sell at 29¢/lb. If they ever go to 19¢/lb., we will never be able to supply enough to keep up with them!

Through experience, most men in the wholesale produce business know that the price level tomatoes will sell for at wholesale to match up with the different retail prices commonly used. However, there are times when we set a price where the chain store should be getting 39¢, but are actually getting 49¢ a pound. Often, we feel that it should be 39¢ a pound to get them to move them, but they won’t change. Here again, what they do is their prerogative. They are in business to make a profit just as we as salesmen and sales agencies try to do. Diplomacy is very important in talking to buyers to encourage them into a special deal, especially when supplies are backing up. Problems eventually seem to work themselves out. But, it depends again on supply and demand and its application.

Besides tomatoes, we handle other commodities and they differ in the ways they are priced. For instance, there are some peculiarities with root crops like potatoes, beets, carrots, parsnips, turnips, etc.
They are more stable items and consequently a stable price is associated with them. Prices of strawberries or peaches which are highly perishable may vary drastically from day to day. For instance, it is not unusual for strawberries to have a $4 difference per case from one day to the next. Peaches are not quite as perishable as strawberries, but peach prices can fluctuate very drastically in a day's, or hour's time. With different commodities, there are various pricing structures to consider. When turnips, parsnips, potatoes are generating "steam" as we classify it in market terminology and are getting "hot," the price should go up. Prices on items like these go up only after a long process of thinking and talking to growers, shippers, and other sources of supply that are being drained. Commodities that can be held in storages consequently have a more stable pattern when compared with items like strawberries, peaches, and even tomatoes.

Going back to the chain store buyers, I mentioned before that they can be of invaluable aid to us. We have problems with them and some chains tell us what they need three weeks in advance to set up a special. In the produce business we cannot always foresee that far in the future. Sometimes we feel we can, but we are not always willing to stick our necks out. Some want two weeks ahead and others one week. I have one chain that I can call on Saturday morning and he will be ready to go with a special on Monday morning. I wish we had more like him. Sometimes we have to stick our neck out. Here again, the sales agency that has the ability and the information to look ahead will be the first one to get his foot in the door.

In our industry, we have a big problem that was touched on lightly in the morning session by one of the speakers. That is sales personnel. This has a lot to do with pricing in my book. A lot of the men in sales agencies in our industry are men that have been around the market for many, many years. They have salesmen working for them who have been brought up through the ranks; I mean men who started years ago pushing the dollies and the carts. They probably quit high school the first or second year or maybe didn't even attend high school. After pushing carts for years and years and a salesman dies, someone throws a book into his hands and all of a sudden he becomes a salesman. This has been the nature of the produce business, and I have always maintained that it is about 25 years behind the times.

Some effort is being made to correct the sales personnel problem. The above is a weak system of training salesmen and consequently affects pricing to some degree because a salesman needs latitude. He cannot always have a supervisor beside him every time he makes a sale. When something needs to be moved, it must be at his discretion at times to move it. He needs to know or learn at what price to adjust himself to. Sometimes he can take advantage of a situation and maybe sell too cheaply. Sometimes he doesn't take advantage of the situation and may not make the sale at all. We, ourselves, are working on the problem. We have some men in our own organization with some college training. We offer those who have not been to college the opportunity of night school college. They can take courses in marketing and psychology or whatever their personal choice may be. We don't regulate what courses they take, but we do offer them the opportunity to attend at our cost. We hope this will make them better salesmen.
We need youth in our industry because it is lacking to such a great degree. We are going to need more young people. It is very difficult to get good men. We have tried many times to get college graduates by offering them good salaries. But there are some drawbacks. The hours are bad. One has to get up at 3:30 a.m. to go to work. When you mention that, they throw up their arms and leave. Long hours are certain, especially during peak periods for a commodity like tomatoes. One may start work at 4:30 in the morning and maybe not get home until 4:30 or 5:00 in the afternoon. It may be later on at night depending on the flush on the market at the time of the shipping schedule. These are all problems that we are faced with today. We are working on them in Cleveland and I am sure they are at other places over the country. There are some men entering the field that feel as I do and are concentrating on this problem. I felt it worth mentioning because you people are all involved in this industry.

In conclusion, I just want to briefly give you a résumé of our wholesale produce terminal operation in Cleveland. It is more or less like a stock market type operation. There is a great degree of fluctuation, probably more than you would see even in the stock market depending on the situation at the time. Of course, the application of the law of supply and demand with the proper information about produce is important—whether it is heavy or light; whether specials are "on" or "off;" whether the competition is heavy or light; and what may be "rolling" to arrive in the various terminals at the time. Grower-shipper cooperation is very essential. Sales personnel is one of our weak spots which we hope to work on and strengthen in the years to come.
The Louis Meyer Company was established in 1883 by my great-grandfather. I shall preface my remarks today to let you know what our firm is, what it represents, and how we price vegetables. We sell produce for many people. We are a sales agency and represent the Hamilton County Vegetable Growers Association. They are a group of growers who have formed an association and the Louis Meyer Company is a sales agency for that group.

The evolution of this arrangement started about 35 years ago. During the depression, the Hamilton County growers had a sales agent who walked down the Court Street Market and then the Sixth Street Market. He would visit 15 to 20 produce houses selling tomatoes as he visited each one. One day we went to the growers association and analyzed their prices for them. In 1931, the average price for an 8 lb. basket of greenhouse tomatoes was 24 cents. The next year it was about 32 cents. In actuality, they were using their own sales agent to cut their prices and did not get enough for their merchandise. So we suggested a contract in which we would be the sales agent for them. So far it has worked out real well. We have had our silver anniversary and we are still going along. We lose a grower occasionally, but I don't believe there is a cooperative operating in Ohio or anywhere that doesn't lose a member once in awhile.

Our operation works like this. The growers association has an agent in our building. We furnish all the equipment for transportation and sales. Each Friday we get a report from the growers for everything they will have ready for market the next week. Then we know how many baskets of leaf lettuce, bibb lettuce and tomatoes to expect. This gives us an idea of which price can be established for the succeeding week. We try to get a uniform price.

In produce you can have price changes everyday and sometimes every hour. On Monday morning of this week, peppers sold for $5 a bushel at 6 a.m. and at 11 a.m., the price was $11.00. This shows something about price as affected by supply and demand.

The main idea about production and marketing is that supply and demand does control your price. The idea of a sales agency or a sales manager is to keep oversupply or overproduction off the market in a particular locality. For instance, if we know that we were going to have 10,000 baskets of leaf lettuce the next week, we know that our price would not be 50 cents a basket if we left all that leaf lettuce on the Cincinnati market. So the idea is to contact whoever you know in Chicago, Cleveland, Detroit and other places and try to move at least 5,000 baskets outside the Cincinnati market, so that we can meet the demand locally. The same is true with tomatoes.
Cincinnati is primarily a red tomato town. We grow the Marglobe, the M-0 (Michigan-Ohio hybrid) plus the pink varieties WR-3, WR-7, and R-29. We have customers that are conducive to eating the red tomato. So, we have a happy situation where we know that most of the red tomatoes grown locally are going to be sold right on the Cincinnati market. The pink tomatoes mainly will be sold to chain stores. Our marketing areas includes Syracuse, Rochester, Buffalo, Cleveland, Detroit, Chicago, and Huntington, Charleston, Indianapolis and St. Louis. We are not a big organization. There are weeks when we have to take the saturation off the Cincinnati market, though. If we see that 15,000 baskets of tomatoes can be sold on the Cincinnati market and we know 35,000 will come to market that week, then we make arrangements accordingly.

A lot of people ask how chain stores operate, and if they give a fair price for their merchandise. As far as produce people are concerned, chain stores are not any different from anybody else except that on a Tuesday preceding a week when they want to feature an item, they ask you for a price. If they want to feature something the following week in their Wednesday or Thursday ad, they will call and say, "Lou, what's your price for tomatoes?" or "give me a price for leaf lettuce" or "give me a price for bibb lettuce." They try to set up their advertising for the succeeding week. That is good business sense, if you can give them a price. All right, if you know you are going to have a big supply of tomatoes, you can give them a price. We try to keep the bulge off our own market and try to get a fair price for our growers.

The chain store markup on the whole and on the average is actually more than the little roadside stand. For example, a chain store will mark up his produce 33 1/3 per cent figured on the selling price, not 21 or 22 per cent as in the meat department. There is a big difference in the cost price and the selling price. If a chain store buys a basket of tomatoes for $2 and wants to make 33 1/3 per cent margin, he get $3 back for those tomatoes. They actually make a dollar figuring the cost of the item. That is a high markup by comparison with price ads in the paper for some of the smaller independent stores.

In Cincinnati we still have 2,600 small, independent groceries which goes to indicate that the majority of the sales in regard to our volume crop doesn't go to chain stores. In fact, the Cincinnati chain stores are sold by people from Cleveland and Toledo besides being sold by us. We don't have a lock on anything. If someone is lower on price than we are in Cincinnati, we don't get the sale.

When it comes to pricing, the grower is actually interested in his average price for the year. He is not concerned about getting $3.50 for a basket on a particular day. He would rather say, "Well, I can make money if you average $2 a basket for my tomatoes." So let's average, let's don't kill ourselves with a $3.50 price or a $4 price. If we sit on a $3.50 market and start to stack them up in the back room, then all of a sudden they are selling for $1.50. We try to get a good average price the year around.

In November we make an annual report to the growers association. It tells them the average price they received for everything sold during the entire year.
Last year we subscribed to the new U.S.D.A. Market News Service that operates daily for produce. The U.S.D.A. is now putting F.O.B. prices of greenhouse produce on this teletype which behooves us to use the machine. There is a small installation fee. The wire goes right into your building and for $74. a month you get the F.O.B. prices of everything shipped over the U.S. The report gives weather, prices, shipments, etc. At first we could not get F.O.B. prices for greenhouse products. The industry finally succeeded in convincing the Department of Agriculture that greenhouse product information was needed. The $74.50 per month fee saves us more than that in phone bills alone. Under normal conditions during our busy season we had to call Toledo, Detroit, Cleveland, Columbus, New York, etc. to find out what they were doing on tomatoes. Now we get the information from the Market News report.

The one big thing that has improved the quality of merchandise in the greenhouse business is the fact that today 99 per cent of our produce is shipped with Thermoking refrigerated trucks. By controlling temperature in packing, storage, and shipping, it gets tomatoes to destination the way they are wanted. When a greenhouse tomato is packed it goes into our storage which we try to maintain at 55°F and 60°F. When a store gives us a big order for 5,000 or 10,000 baskets of tomatoes, they tell us how they want them on arrival. They may want the tomatoes green to turn or full color at a certain temperature. We ship bibb and leaf lettuce at 32°F. All these considerations are necessary to preserve the life of the vegetable and get it to the consumer in a high quality condition.
"Apple Pricing from the Viewpoint of a Former Produce Buyer" or should it be "Now that you are on the other side of the fence, what do you think about retail pricing?" This is the question that gets tossed to me at every meeting I attend. Those who produce the product think I will take a side, one way or another. I find myself terribly biased on both sides of the question depending on the current price. This, of course, is a real dilemma. When I see my apples selling for a certain price in the store, and since I know what it cost me to produce them, I think "Well, we are going to be short on steaks this winter and will have to eat more side bacon."

Then, I wonder what is that guy in the chain store doing to make all that money. Then I think, "Well, he has some sort of obligation to his boss, his boss has an obligation to the man down at the general office who in turn has an obligation to a stockholder." There is also the obligation to the consumer along the way. So, many people have to be considered when we are talking about the pricing of apples or any other product.

I have separated the four personalities involved and taken the most important person— the consumer—first; then management; then the buyer; and finally the producer. Let's take a look at these people as they affect the prices. There are many things behind the scene which most of us take for granted. The consumer seldom has the opportunity to explore them, but it is necessary to recognize them. There is no one little thing or one point in time that one can say is the reason for the price being thus and so. One needs an overall approach to the problem.

We know the consumer must be motivated to go to the store. She is motivated by advertising media such as television, radio, and newspapers. Once in the store she is motivated by the type of displays and the kind of appeal made on the product to encourage her to buy it. She has to be invited to take the product based on its quality, its eye appeal, and its buy appeal. She is influenced by the price that she sees on the product and this has to be in line with the supply and the seasonability of the product.

At harvest time everyone gets excited about an item and makes a lot of effort to promote it. There generally is a big hullabaloo about it because it's new, it's seasonal, it's timely, and it should be bought by everyone. Actually, it is a new item for the consumer and it is something to draw the consumer into the store.

Competitive products also have an effect. For example, Hawaiian pineapple is a new item in stores now. When the U.S. quit buying pineapple from Cuba because of Castro, Hawaiian pineapples took over and they are delicious. Bananas is another item that is very competitive with
apples. The banana companies brought in a lot of bananas last winter in anticipation of the dock strike. They were loaded with bananas in New Orleans, Mobile, Tampa, New York, etc. All of a sudden those bananas had to be moved, so we saw bananas for 7¢ and 8¢ a pound in retail stores. Some places they gave a pound free for each pound one bought. These are examples of the competitive situations the customer confronts when 'she shops in the retail store.

The endeavor of management is to create an image which will draw traffic into his store. This is what he must do. This is done through advertising, quality control, services provided; variety of selection, friendliness of personnel, cleanliness of the store, parking facilities, food services like the hog-dog stand, the stamp programs with premiums to encourage the people to keep coming to the store, etc. This is much different from the first time I ever worked in a grocery store.

Management is always trying to develop sales stimulants to get people into the store. You won't sell much if people don't get into the store. Promotions like turkey at Thanksgiving, hot house tomatoes before Easter, watermelons for the Fourth of July, or ice cream any time help draw people to the store. There are some proven items which will do much to influence a customer to go to a certain store.

Each and every marketing area has its own individual problems. For example, Toledo retail stores have had a tradition of minimum low prices on grocery items for almost ten years. Consequently, adjustments had to be made on retail prices of other commodities to make up for low grocery item prices in order to make a profit. The profit in grocery items is rather low. It can range anywhere from one half cent to one and one half cents on a dollar of sales.

The buyer has an obligation in pricing. He must be fully cognizant of the quality and cost involved. He did not learn this by reading a book. He learned this from years of experience at the store and through other various types of training. He can get cost information from tele-type and bulletins. He talks to wholesale brokers, commission men, and others so he is well informed.

Let's look at the producer. I need to know the current or going price on the product I grow. I should know about the availability of competing products, their quality, their variety, sizes, etc. The biggest fact a grower has to contend with is that he must be prepared to meet or beat anyone on a quality basis. Top quality is what people are willing to pay for at the store level. Another thing I must definitely know and realize is that my product will not receive favorable attention every week. As one would say, each product has its place in the sun. Some time or other my product will get a shot at a hot price and this is where I can help my inventory problem by moving my surplus product off the market.

The food business is indeed an intensely competitive business and retail operators make every effort to maximize their traffic and sales. Food merchandising today calls for low margin, high volume grocery departments. If you were to make an analysis of the newspaper ads from
the east to the west coast and the north and the south borders, you would find this is the basic approach used by most of the food industry. Consequently, the meat and produce departments are asked to handle bigger profit responsibilities. It is a pattern that will be difficult to change because management would hesitate to add a penny or two here and there in the grocery department for fear the housewife will interpret this as meaning higher prices throughout the store. The housewife apparently is less concerned with a penny or two difference in fresh fruit and vegetable prices than with grocery items. The quality difference is most important. A can of Del Monte peas or a can of Maxwell House Coffee is the same anywhere in America. The quality is sealed in and the store management has absolutely nothing to say about this item. The price is the only comparison for the consumer. But the store manager surely does control the quality of perishables at the store level including produce, dairy, and the meat departments.

The produce department is of necessity one of the higher margin sections of the food store. The reasons are many, including: losses from shrink, expensive equipment, refrigeration costs, and high labor expenses. Operating costs in the average produce department are twice that of the grocery department.

Retail clerk wages are said to be increasing at 13½ cents per hour annually, not including the fringe benefits. That is a lot of money and is one reason computers are doing more work at centralized offices. Production methods and personnel training programs are being improved in an effort to reduce costs. The producer of fresh produce must realize that he has terrific competition from frozen foods, freeze-dried products, and canned products. The increasing high margin non-food items like the drugs, hardware, etc. also compete for Mrs. Consumer's dollar.

All of these aforementioned philosophies I have discussed have an influence on the attitude of the produce buyer when he anticipates the price he will pay and the price he will charge for apples or other produce items. He must fulfill his obligation to management's objectives. The buyer knows there will be times when the apple grower is disappointed if he promotes below his wholesale cost or has to raise the retail price on apples to help balance his overall merchandising program. He has no little problem with his responsibilities to management if he has to come up with a 33 1/3 per cent margin or whatever the figure may be. Some produce items are carried in a store for image sake only, such as beets, lima beans, peas in the shell, leek, etc. Most of these can be written off as a loss to the department. Business cannot operate with losses, so the profit has to be made somewhere else. So if a store sells bananas, which may represent 10 or 12 per cent of the total volume in the produce department at cost, you are going to have to pick the profit up somewhere else. So, produce pricing is done accordingly. If you take all these figures and the volume for each item, throw them into a hamburger mill, and grind them out, you will get your per cent of gross profit for that week. The produce manager has to hope that it will satisfy the boss and also do the most good to create the traffic for his store.
The grower is always elated when his product is given the spotlight. A cheaper retail price will help him to move more of his product. Good sound merchandising requires constant surveillance of this well-known economic principle. Supply and demand has much importance relative to price. If the buyer raises his retail margin per cent too high, he will lose volume. With the loss of volume he will lose gross profit dollars. I have never seen a high per cent margin figure pay any bills. It always takes hard cash. He can contribute to a high price in pricing which can adversely affect the total store image.

In purchasing apples the buyer takes into account the availability of supply, transportation costs, quality, variety, and sizes. At harvest time he is usually presented with many special buys from marginal growers and part-time farmers. These are the kind of people who present problems in the marketing of a particular item and I'll cite apples in particular. A buyer has the absolute right to grab hold of this opportunity. It can be a special or a feature. He can make a wonderful impression and do something to encourage traffic into a store. But as a commercial grower heavy in investment of labor, buildings, machinery, fertilizer, and spray materials, etc., this makes it very difficult to pay expenses. It also does a great deal to demoralize the market. This is not a new thing in the marketing of apples. It happens every year to a lesser or greater degree. But I know this—that when one packs 10-four pound bags of Jonathan apples in a carton and he gets $1.65 F.O.B. with a cost of 95¢ for his packinghouse charges, this leaves only 70¢ a bushel for production costs which is nowhere near the cost in growing. This is a type of problem that one finds in a saturation period.

I believe a producer buyer is privileged to price his product at whatever retail he thinks the traffic will bear. However, he is held responsible to top management to maintain the sales and profit. He has to ask himself at what price level he can price himself out of the market and detract from the store image. After all, the customers pay the bill. The produce buyer must buy the product at the lowest price, compatible with the quality and pricing philosophies of his company. He must also recognize the need for fairness in his dealings with the producer who must realize a profit in order to provide the quality and the quantity needed by the buyer.

In summary, I will say this, I don't believe prices should be controlled in a free economy. Anytime you make such a high profit that your competition notices it, they will move in on you and cut them away by sharp competition. If one cannot produce profitably, one has the choice of becoming more efficient, more diversified, or can silently fold up his tent and just fade away from the industry.
Dr. Cravens, Moderator: When we planned this part of the conference, we were thinking particularly of the situation with potatoes, where there was a bad price last year (1963) and a good price this year (1964). In contrast, apples had just the reverse situation. John, do you have any figures where you can estimate whether the seasonal price went greatly different than last year or was it the same low price all the way through the season?

John Hackenbracht: The seasonal price for apples this year (1964 crop) compared to 1963 probably ran approximately 50 cents a box less during harvest. Then it leveled off and kept about the same price right straight through the rest of the season.

Dr. Cravens: Do I understand you to say that this is a thing which happens every year, that apples get cheaper as more are in storage?

John Hackenbracht: I've been in the selling game for about eight seasons. There is very little up trend. For instance, after the last week of October and early November, you have a slow two weeks. Then you get into your apple season for the winter, the storage season. A quarter raise per bushel is about the best you can expect. The last four or five loads at the end of the season may pay as much as 50 cents more then. But this did not happen this year. They just kept right on going after November 1 and stayed near the same level all the way through with very little fluctuation.

Dr. Cravens: Is this because of outside competition generally?

John Hackenbracht: No one can actually put their finger on it. There is an old saying that the going price at the start of the season is pretty much the price for the year. It's always hard to go up from there on. The price is more or less established.

Dr. Cravens: What happens if you would pro-rate the actual cost involved in this extra storage time? Could you sell them?

John Hackenbracht: Competition is a big thing. You may offer but you don't necessarily sell them. It always seems there is someone who will sell for less. What I am trying to say is we have a tendency to get cold feet and back off a little bit rather than say this is what we should get from this particular commodity at this time of the year.

This is relative to your ability to keep your product at a good quality, and if you don't have sufficient cold storage, there is one thing you have got to do--you have got to sell. And with the particular fall (1964) we had, with the frost and abnormally hot periods of time, we might normally have put some fruit into common storage. This was insufficient, it just wouldn't hold the fruit. It just meant one thing, the apples had to be sold somewhere.
Ron Beech: Prices just became low and not to knock my neighboring state of Michigan, but with her tremendous 18,000,000 bushel crop, which was phenomenal, they just started out with intentions to sell a product. And the price I quoted, $1.65 F.O.B. on 10-4 lb. Jonathans, was what they were shipping out of the Benton Harbor area. Those boys were also confronted with the fact that they too lost some of the quality of the merchandise, even some which they had put into their cold storage. So they were interested in just one thing and that was to keep the flow of the product going, going, going! I think they did a good job. I was up in Michigan a few weeks ago and had a chance to talk with some fairly large growers and the consensus of opinion was they sure did sell a lot of apples, but not too many profitably. This is quite a tragedy, really. When you have such tremendous work and the challenge in bringing the crop in, it ultimately ought to be profitable.

Question: What affect is C. A. (Controlled Atmosphere) storages having on the apple industry?

John Hackenbracht: I think C. A. has actually helped the apple industry. It has lengthened the marketing season and especially in the eastern U. S. It has changed our marketing practices in Ohio. I had one of the largest Rome growers who never thought much about selling Romes until March 1. Usually, he got into the scarce period when he got a premium for them. He doesn't do that now. He learned his lesson when he started selling for 40 cents a box one year just to get rid of them. C. A. apples have moved our Rome season up to the first of December. Most of the C. A. rooms of Jonathans open up January 15 or before. If there are changes in this C. A. law, they may open up in December. This affects the time when we have to get our apples out. If we happen to have a quality problem like we had this year, the buyer will buy the best he can buy and price doesn't seem to be that much of a factor when it comes to quality.

Question: After a good year everyone usually plants more potatoes. They know it is going to cost them more to produce them this year with the high price of seed, etc. Do you think your members are going to plant comparatively more acreage of potatoes because of the 1964-65 prices?

Vic Keirns: The statistics in Ohio indicate that we will actually be planting 1 per cent less acreage in 1965 than we did in 1964. But Government reports indicate that over the country as a whole there will be a 7 per cent acreage increase. Which means that there may be a 30 to 40 per cent decrease in price.

Ohio is not known as a principal producing state. Thirty years ago we grew roughly 140,000 acres of potatoes in Ohio; today we grow about 14,000. Most of them that were in business 30 years ago have fallen by the wayside and a few have survived that battle and have gone for modern technology, larger acreages, irrigation, packing to market specifications; and they are moving ahead.

I think that any grower should look to his sales organization first before he even plants an acre of potatoes or an apple tree or whatever, to see whether he can market it even if he produces it.
The U.S.D.A. issues acreage marketing which they like the different states to follow. But some fellow out in California or Florida with a bunch of money who saw what kind of money was made last year in the potato business, can find land and get in 1,000 acres. That is the kind of thing which wrecks the potato market. It isn't the average Ohio or Pennsylvania grower who causes the over-production.

Charles Humphrey, Kroger: I would like to point out the potato situation as a good example. Today in our chain organization potatoes are higher priced this year than they were last year. We strive to sell the same amount of tonnage as we did last year. We have just about come up to it. And what does that mean in dollar sales? About a 30-35 per cent increase and the margin on this higher dollar sales. I don't think there is any buyer, whether he is chain store, independent, or anyone else, that doesn't like to see a good stable margin on anything whether it be apples, potatoes, corn or tomatoes. The higher the dollar margin, the better off we are.

Mr. Bohn, Kroger: It was brought out here the cost of labor 25 years ago versus today. And somebody else mentioned 13½ cents per hour annual increase for retail clerks, etc. besides fringe benefits. There is no stopping this thing. In our area, we are all unionized and will continue to face this. Why don't local vegetable growers or firms use more of the modern equipment available and package the produce at the point where it is first grown and ship it to the wholesale buyer? All he needs to do then is put it on display and it is ready to sell. The way it is today we have trouble paying the people, and finding the help. So this is a problem that the industry faces and it seems to me that the growers in the associations would begin to take another look toward doing packaging at farm level. Some products are being shipped the same today as when I started 30 years ago.

Louis Meyer: Many produce houses are modernized and have electric lifts and tow trucks. Most of their items are palletized. Tomatoes are packed in a packing house today. Years ago, each individual used to pack his own tomatoes into "growers grade." I think with the standardization of grade that most everybody with any volume of tomatoes packs to the U.S. tomato grade standards. We pack U.S. No. 1 medium, U.S. No. 1 small, U.S. No. 2 medium to large and unclassified. For the consumers benefit, we also pack salad size and weigh the pack of tomatoes. We pack eight clear-film cartons in a package. In a flat package, they pack ten. We pack eight pounds in our window pack package. We try to please the consumer. We try to give the retailer something they won't have to do a lot of work with. When customers pick up the package in the store, they know they are going to get 14 ounces of tomatoes. In my opinion the best tomatoes are greenhouse tomatoes. If they are put in a tube or package some of the glamour will be lost. The thing that has hurt the sale of repacked tube tomatoes was the fact they tried to sneak in one bad tomato in the corner where part of it was covered. With window pack tomatoes, we don't cover anything. You can see all of each tomato. We are experimenting right now using the small, unclassified tomatoes and are making a pyramid pack of them. As soon as we can talk growers into it, we probably will be doing more of this.
Joe Frank: We are doing this very thing in Cleveland. We experimented with the idea last year, and it went over with some success. We have had packaged meat for years in the Cleveland market and it has taken the market very well. We have had it there for a good number of years in the greenhouse industry. I thought maybe you had reference to other outdoor vegetables with root crops like turnips, parsnips, carrots, etc. There are all types of packaging ideas being explored at the grower level now.

**Question:** In your prepackaging of these hot house tomatoes, do you ever give the consumer the information, "please do not refrigerate"?

Louis Meyer: It is on the back and sides of the market containers.

Ron Beech: Most people like home-grown tomatoes. What is there about this piece of fruit that is so inviting you ask them. They say flavor. But what imparts flavor? One of the things is the internal heat. So what do we do with tomatoes? We take them into stores and they go on a refrigerated rack, they go down to 32°-35°F. They go back to the holding units. But most important, what does the consumer do to it? Where do you find tomatoes in the house? If you were to survey 100 homes, I bet you would find 90-95 per cent of them putting tomatoes right in the refrigerator. If you want to increase tomato sales, you work on an educational program directed to the consumer to keep those tomatoes out of the refrigerator.
PART VI

Egg Marketing
REPORTING EGG AND POULTRY PRICES IN OHIO

by

John J. Craven and Robert Slack
Ohio Federal-State Market News Service
Columbus, Ohio

We have been asked to describe the various price levels as shown on our daily market news report. And we emphasize reports for it is not a Market News policy to quote a price, but only report such prices. Undoubtedly as most of you know, these reports are shown in many daily newspapers and also voiced over many radio and some TV stations. There are three trading levels reported for egg prices by the Columbus office. These are:

1. At Farm Prices which we may describe as producer paying price. The reporter receives such prices by daily telephone contact with country egg processors asking them specifically what they are paying producers for various grades and sizes. In addition to prices, we also obtain information as to conditions regarding supply and demand.

2. The second trading level reported is Prices Paid to Ohio Country Packing Plants, including Pittsburgh and Detroit, 50 cases minimum delivery.

   Procedures followed for obtaining this information are basically the same as those used for reporting prices paid at farm. However, in this case, major country processors are asked what their selling prices are for loose or cartoned eggs delivered in wholesale lots.

3. The third trading level report is Store Door Delivery, Major Ohio Cities, minimum one case delivery.

   These prices are received from major terminal market distributors and country egg processors. These dealers, like those of the previous two levels of trading, are contacted daily.

Turning to poultry, we report three levels of trading. These are:

1. Ohio-Indiana Live Broiler-Fryers. Daily telephone contacts are made with truckers, producers and processors. We ask them not only for what they are paying for poultry, but also for supply and demand conditions.

2. In addition to live broilers, we also report prices for live hens (light and heavy type), live turkeys and other live classes of poultry. Information for this report is received from the same dealers contacted for broiler information. In addition, producers and processors who handle such items as capons, roasters, and other holiday poultry items are included.

3. The third trading level reported is a Ready-to-Cook Price, delivered to major Ohio cities, for broilers and fryers. Contacts include wholesale distributors, packers and retailers located in Columbus, Cincinnati, and Cleveland. This information is gathered daily on sales of broilers and fryers made or to be delivered in seven days to poultry buyers in these cities. Supply, demand and other factors influencing the marketing of this product is also noted in comments.
4. The fourth item reported is the price of Ready-to-Cook hens. This includes sales of light and heavy-type classes. The procedures for obtaining this information are the same as those used for broilers and fryers.

Discussion by Audience

The major discussion hinged around whether Market News represented what actually occurred in Ohio. Urner-Barry quotations are used either directly or indirectly in arriving at prices received from retailers and those paid to producers. Some egg marketers said the U.S.D.A. Market News Reports were misleading and tended to report higher prices for base markets like New York than were justified. The Market News reporters, including R. J. Van Houten, supervisor of U.S.D.A. Egg and Poultry Market News, for Northeastern U. S., explained that it is USDA policy to report egg prices while Urner-Barry reports a base quotation. The market reporters said that actual paying prices in New York are not known until the Urner-Barry quotations are reported. This results from paying prices being a given premium or discount from Urner-Barry quotations rather than an actual price.
PART VII

Dairy
COOPERATIVE-PROCESSOR MARKETING RELATIONSHIPS IN OHIO

by

Robert E. Jacobson
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The Ohio State University

The current exchange of angry newspaper blasts and accusations in Northeastern Ohio suggests that today is either the optimum time or the worst possible time to give some consideration to producer-processor relationships in the State. While a discussion of the respective positions, objectives, and responsibilities of the opposite interests in the super-pooling issue might be useful, it is to the longer run seller-buyer relationships in the Ohio fluid milk industry that this presentation is addressed.

The obvious basis for considering cooperative-processor relationships in the market is to gain some notion of the relative market power position or bargaining strength of the two sets of interests, what changes in relationships are likely to occur, and what the implications of these changes are to the dairy industry.

It may initially be helpful to repeat a frequent definition of bargaining power, i.e., the ability to favorably affect the terms of trade in the exchange of a product. This ability grows out of either: (a) one's ability to offer the other party some advantage for accepting your terms, or (b) one's ability to make the other party worse off if he doesn't accept your offer. Either one of these abilities is necessary; neither one is necessarily sufficient. Examples in fluid milk marketing might include, respectively, the coop's ability to reduce a handler's procurement costs and problems through a full supply contract or in the second instance, a withholding action in which the coop controls the supply of milk and has alternative outlets for the milk. If producers do not have one of these abilities, they obviously do not possess any substantial degree of bargaining power, and the relative strength lies with the handler. Historically, handlers have held bargaining power because they have: (1) owned something and (2) done something, i.e., they have owned the processing and distributing facilities which have changed the form and utility of the product.

The presumption that milk processors continue to be the focal point of bargaining power in the industry has come under a major question mark in recent years. Probably no one knows this better than processors themselves as they compete in prices and services to secure the large volume wholesale accounts at the food store. This type of competition represents a surrender or recognition on the part of the processors that bargaining power has trickled through their hands. It is now the food store that can either offer the processor some advantage (volume) or make the processor worse off (volume).

Food stores have gained their market power in fluid milk by recognizing two principles: (1) many consumers have no brand preferences for fluid milk and simply buy the lower-priced brand, and (2) purchases of packaged milk among equally priced brands are made in direct proportion to the amount of sales space allocated to each brand (by the high proportion of consumers with no brand preference). Through its decisions on brands, including its own private label, price differentials, and space allocation,
the food store finds itself in a commanding position to specify the terms of trade in supplying the dairy counter. Since about 70 per cent of all milk sales are now made through food stores, the power position of the food stores has been an increasing one. It is interesting to note that the superpool premium issue in Northeastern Ohio is basically between the cooperatives and a food store, not a processor.

This digression on the bargaining strength of the food store is meant only to place the cooperative-processor relationships in a truer perspective. Prospects for a further shift of market power to the food store are strong, and the suggestion that the bargaining issue is basically a producer-food store issue cannot be dismissed. This is at least a partial explanation for producer interest in food store acquisition.

Since most Grade A milk marketed in Ohio moves to plants regulated by Federal orders, producers are assured of minimum blend prices. This represents a fundamental bargaining position which has been achieved and which basically cannot be diminished. While prices under an order are subject to adequate supply and price alignment criteria, these prices are to a considerable extent influenced by the evidence and ideas advanced by cooperatives in the hearing process. This represents a minimum and untouchable bargaining position for all producers, be they members or non-members. To the extent that producer price ills in the market are real, the Federal order system is adaptable to resolving the problem, either on an emergency basis or on a permanent basis.

Processors are assured of no such minimal bargaining position. On their one side, they pay specified minimum prices for butterfat and skim milk to the producer pool, and on their other side they find themselves in fierce price competition with other processors for resale accounts. An inevitable cost-price squeeze occurs. A comparison of cost and margins for 70 fluid plants in the U.S.D.A. survey reflects the extent to which this squeeze took place between 1953 and 1963.

Costs and Margins for Selected Fluid Milk Plants (per 100 lbs.), 1953 and 1963.

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<tbody>
<tr>
<td>Net sales</td>
<td>$11.12</td>
<td>$10.93</td>
</tr>
<tr>
<td>Cost of raw milk and cream</td>
<td>5.43</td>
<td>5.01</td>
</tr>
<tr>
<td>Other raw product costs</td>
<td>.86</td>
<td>.96</td>
</tr>
<tr>
<td>Gross margin (sales minus product costs)</td>
<td>4.83</td>
<td>4.96</td>
</tr>
<tr>
<td>Operating costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries, wages, commissions</td>
<td>2.19</td>
<td>2.43</td>
</tr>
<tr>
<td>Containers</td>
<td>.62</td>
<td>.73</td>
</tr>
<tr>
<td>Supplies</td>
<td>.32</td>
<td>.29</td>
</tr>
<tr>
<td>Repairs, rent, depreciation</td>
<td>.52</td>
<td>.68</td>
</tr>
<tr>
<td>Taxes</td>
<td>.06</td>
<td>.06</td>
</tr>
<tr>
<td>Insurance</td>
<td>.02</td>
<td>.06</td>
</tr>
<tr>
<td>Services, advertising, general</td>
<td>.47</td>
<td>.51</td>
</tr>
<tr>
<td>Total Operating Cost</td>
<td>$4.20</td>
<td>$4.75</td>
</tr>
<tr>
<td>Net margin (before income tax)</td>
<td>$.63</td>
<td>$.20</td>
</tr>
</tbody>
</table>
As the table indicates, revenue to the handler from the sale of 100 pounds of milk and cream declined by 19 cents between 1953 and 1963. This was more than offset by the decline of 42 cents in cost of product (or 42 cent decline in the price farmers received). However, the 56 cent increase in total operating costs (processing and distribution), reduced the net margin from 63 cents to 20 cents. Since this is an average margin for 70 plants, it is obvious that many plants have smaller positive margins or even negative margins. This may explain in part why there were only 54 per cent as many pool handlers in 70 Federal order markets in 1962 as there were in 1950. 1/

It is interesting to note that while the consumer price index for dairy products increased 7 points from 1953 to 1963 (from 96.8 to 103.8 using 1957-59 = 100), the resale prices and margins of handlers were being reduced (minus 19 cents on price and minus 43 cents on margin). The ready deduction from this observation is that it is the food store through its bargaining power which has found itself in the strongest position in the market structure.

With this type of recognition of the market power and bargaining positions existing in the industry, a more specific consideration of cooperative-processor relationships in Ohio may be helpful. First, looking at the buyer (processor) side, two characteristics stand out: (1) a high proportion of market sales are concentrated in a few firms, and (2) smaller milk dealers are going out of business. The share of the market held by the four largest firms in several Ohio markets is shown in the following table:

<table>
<thead>
<tr>
<th>Market</th>
<th>Total Number of Handlers</th>
<th>Per Cent of Packaged Fluid Sales in Market Area by 4 Largest Handlers*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tri-State</td>
<td>32</td>
<td>50.7 pct.</td>
</tr>
<tr>
<td>Wheeling</td>
<td>42</td>
<td>41.2</td>
</tr>
<tr>
<td>Northeastern Ohio</td>
<td>61</td>
<td>43.4</td>
</tr>
<tr>
<td>North Central Ohio</td>
<td>19</td>
<td>57.5</td>
</tr>
<tr>
<td>Dayton-Springfield</td>
<td>17</td>
<td>83.0</td>
</tr>
<tr>
<td>Columbus</td>
<td>21</td>
<td>76.4</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>46</td>
<td>47.8</td>
</tr>
<tr>
<td>Toledo</td>
<td>16</td>
<td>78.7</td>
</tr>
</tbody>
</table>

* Includes pool plants and non-pool plants.

In the eight Ohio markets for which data are available, the concentration of sales in the four largest handlers ranged from 41 per cent in the Wheeling market to 83 per cent in the Dayton-Springfield market. This degree of concentration is typical of fluid milk markets throughout the nation. The U.S.D.A. analysis of concentration in all markets indicated that the

market share of the four largest firms averages 95 per cent in the smallest markets and declines to an average of 61 per cent in the largest. The Ohio concentration figures show a comparable pattern.

Milk handlers in the United States may be classified as follows:

National firms (9)
Regional firms (8)
Local multi-unit firms:
   Cooperative
   Proprietary
Local single unit firms:
   Cooperative
   Proprietary

All of these types of organizations are found in Ohio. For the entire dairy industry (including non-fluid), the single unit firms represent 94 per cent of the total number of firms, but account for only about 37 per cent of the sales. In the 71 market U.S.D.A. study, national or regional firms had the largest milk operation in 42 markets, and local firms had the largest milk operation in 29 markets. Again, Ohio would reflect this pattern.

In evaluating cooperative-processor relationships in terms of market power, it becomes clear that defining the buyer side gets a little bit like catching a greased pig. This is precisely the problem that cooperatives may have in attempting to bargain in this type of environment. The structural dimensions include:

(a) Functions ranging from vertically integrated (food store-fluid processing) units to local single unit processor distributors.
(b) Firms of national, regional, and local identification.
(c) Substantial concentrations of sales in a few firms.
(d) Various combinations of function, organization, and concentration of firms among markets.

On the cooperative or seller side of this equation, the picture is somewhat different. Approximate figures on the number of producers shipping to the various Ohio markets, per cent of milk reported by coop handlers, and the per cent of milk in each market shipped by independent producers are shown as follows:

It is clear that in the eight Federal order markets directly associated with Ohio, no more than one-third of the milk in any market is independent of the marketing policy of cooperatives. In most markets, the proportion is substantially less. In five of the markets, a substantial portion of the milk is utilized by cooperative order handlers (46% in Dayton-Springfield). In some markets, a given plant or plants may be served primarily by non-members, while in other markets non-members are scattered among several buyers.
Producer Numbers, Milk Reported by Coop Handlers, and Per Cent of Market Receipts Shipped by Non-Members, Ohio Markets

<table>
<thead>
<tr>
<th>Market</th>
<th>No. of Producers</th>
<th>% of Total Milk Reported by Coop Handlers</th>
<th>% of Milk Shipped by Non-Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheeling</td>
<td>800</td>
<td>8</td>
<td>32</td>
</tr>
<tr>
<td>Tri-State</td>
<td>1750</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Northwestern Ohio</td>
<td>1700</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Northeastern Ohio</td>
<td>6100</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Columbus</td>
<td>1700</td>
<td>0</td>
<td>19</td>
</tr>
<tr>
<td>Dayton-Springfield</td>
<td>1400</td>
<td>46</td>
<td>23</td>
</tr>
<tr>
<td>Cincinnati</td>
<td>3100</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>Youngstown-Warren</td>
<td>800</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

At the present time, 24 milk marketing cooperatives are organized in Ohio. Only about 10 of these are active enough and effective enough to significantly affect producer-processor relationships in the bargaining aspects. The number of active dairy coops operating in the eight major market ranges from one to three or four. Within the same market where two or more coops are active, a unity of thinking and policy is found in some instances and not found in others. In addition, some unity of thinking and policy exists among coops among markets through a federation of coops within the State and a federation in the Great Lakes region.

In this situation, what can be said about cooperative-processor relationships, and what changes are likely to occur? Again, in talking about relationships, we are basically talking about bargaining. Other marketing functions may be found in coop-processor relationships, e.g., coordination of milk hauling in the market or effecting Class I utilization by shifting milk supplies, but these functions are generally complementary to coop and processor and not in conflict.

In fluid markets, bargaining basically means super-pooling or establishing premiums for Class I milk above the Federal order minimum Class I price. Super pool bargaining has been implemented relatively widely in the United States since 1956. Currently, 18 out of the 77 Federal order markets have negotiated Class I premiums over the order price in effect. The premiums may get as high as $1/cwt. in some instances.

Many of these Class I premiums appear to have been negotiated without any substantial degree of bargaining strength on the part of producers. Handlers have agreed to pay the premiums as long as all other handlers had to incur the same cost for Class I milk. His competitive position would not be affected then, and he could raise the price of milk to maintain his resale margin. The inelastic demand for fluid milk would indicate little effect on sales. In fact, a 35 cent/cwt. premium might lead to an increase of one cent per quart of milk, so a handler's margin on 100 pounds of milk could be increased by 11 or 12 cents per cwt. over what it had been.
It impressed me that the competitive elements which have permitted bar-
gaining on this basis in the past are rapidly disappearing. This does not
mean to say that negotiated premiums are a thing of the past. The signs
do point to the fact, though, that the mobility of milk in assembly and dis-
tribution today and tomorrow opens up new possibilities to any handler for
sources or outlets for milk. Approximate costs on the transfer of bulk milk
are 15 to 20 cents per hundredweight per 100 miles. Transfer costs on paper
packaged milk are not much above that. At the same time, and even more mean-
fuI, is the recognition that to operate highly capitalized automated
processing facilities most efficiently, volumes of several times the size
of most large plants today are required. A plant of such large volume re-
quires a greatly expanded distribution area. Research has accepted the
test that lower unit processing costs associated with higher processing vol-
umes more than offset the higher unit distribution costs associated with
expanded distribution areas. Already there are indications that industry
operations are adjusting to this relatively new technical-economic horizon.

The implications to dairy cooperatives bargaining for better prices
are clear. Passive handlers are going to be reluctant to contract for
higher Class I prices out of the fear of market invasion. Aggressive hand-
lers pointing to expanded distribution are not going to limit their flex-
ibility and advantage by super-pooling their Class I utilization. I would
guess this will increasingly be the case unless cooperatives can increase
their bargaining position by gaining control and coordination of milk
supplies over a wide geographical multi-market area (larger than Ohio).
The prospect of cooperatives accomplishing this in the near or immediate
future cannot be viewed optimistically by them. The dual problem of non-
members and divided thinking among various cooperatives is the basis for
the drain on bargaining position. While some successful negotiations will
occasionally be implemented, these will be of a relatively sporadic and
short-run nature, which, incidentally, has been the history of negotiated
premiums.

In conclusion, the bargaining efforts of dairy cooperatives are likely
to run into greater resistance and less success in the future than they have
in the past. Greater reliance will necessarily have to be placed on market
power and its sources rather than on handler acquiescence. A more dynamic
competition in the distribution and sales of fluid packaged milk will be
reflected in the centralization and growth of processing centers and in the
continued expansion and expansion of distribution areas. Bargaining power
will rest primarily in the food store, whether this be reflected in the
vertically integrated food store-processing operations or in the fact that
processors of all sizes will necessarily respect the trade terms specified
by the food store. In this environment, and with already thin margins,
processors will find it increasingly impractical to concern themselves
directly with producer price concerns. With the raw product cost for milk
their number one cost item (about 47 per cent of total costs), the new com-
petition will find more handlers concerned with minimizing this cost in
contrast to paying premiums on it. A handler who has advantages through
processing and distribution efficiencies or through a lower Federal order
Class I price in the order which regulates him will not trade these things
away easily through Class I premiums. The obvious recourse to cooperatives
will be to continue to utilize the Federal order program as a positive ve-
hicle to achieving their price aims.
MARKET POWER IMPLICATIONS
OF DISTRIBUTION AND MERCHANDISING CHANGES
IN THE FLUID MILK INDUSTRY

by
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Purdue University

Technological changes are being applied at all stages (production, processing and distribution) of the dairy industry. Like a chain reaction they affect the character and organization of the entire industry as well as the consumption pattern of its products. The area of change to which I will direct my remarks concerns the effect of distribution and merchandising changes on the balance of power within the fluid milk industry.

What have some of these distribution and merchandising changes been? You are likely as aware of them as I. Many of these changes can be considered as being "old hat." However, I have been able to document some of them through a variety of statistical sources. One possible framework for viewing these changes follows:

A. Packaging Changes:
   1. Shift from glass to paper containers, (Table 1)
   2. Shift to the use of more multi-quart containers, (Table 2)

B. Distribution Channel:
   1. Shift from retail to wholesale distribution by fluid milk processors, (Table 2)

Table 1: Sales of Homogenized Milk, by Container Type, Retail and Wholesale, 1954 and 1964.

<table>
<thead>
<tr>
<th>Container Type</th>
<th>Retail 1954</th>
<th>Retail 1964</th>
<th>Wholesale 1954</th>
<th>Wholesale 1964</th>
<th>Total 1954</th>
<th>Total 1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glass</td>
<td>86.4%</td>
<td>66.5%</td>
<td>18.8%</td>
<td>20.1%</td>
<td>43.9%</td>
<td>33.4%</td>
</tr>
<tr>
<td>Paper</td>
<td>13.6%</td>
<td>31.9%</td>
<td>77.1%</td>
<td>73.9%</td>
<td>53.5%</td>
<td>61.9%</td>
</tr>
<tr>
<td>Bulk Disp.</td>
<td>-</td>
<td>1.6%</td>
<td>4.1%</td>
<td>6.0%</td>
<td>2.6%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

C. Distribution Area (market Size)
   1. Marketing and distribution areas have expanded considerably as scale economies in processing tend to outweigh the added transportation costs of serving distant cities and towns.
Table 2: Retail and Wholesale Sales of Homogenized Milk by Container Size, 1954 and 1964.

<table>
<thead>
<tr>
<th>Container</th>
<th>Retail 1954</th>
<th>Retail 1964</th>
<th>Wholesale 1954</th>
<th>Wholesale 1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gallon</td>
<td>0.3%</td>
<td>3.6%</td>
<td>0.6%</td>
<td>9.0%</td>
</tr>
<tr>
<td>One-half Gallon</td>
<td>7.1%</td>
<td>16.6%</td>
<td>22.1%</td>
<td>37.6%</td>
</tr>
<tr>
<td>Quart</td>
<td>29.8%</td>
<td>7.9%</td>
<td>25.7%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Bulk Disp.</td>
<td>-</td>
<td>0.4%</td>
<td>2.6%</td>
<td>4.3%</td>
</tr>
<tr>
<td>All Other</td>
<td>-</td>
<td>0.2%</td>
<td>11.8%</td>
<td>13.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37.2%</strong></td>
<td><strong>28.7%</strong></td>
<td><strong>62.8%</strong></td>
<td><strong>71.3%</strong></td>
</tr>
</tbody>
</table>

D. Market Structure (type and number of firms)

1. Fluid milk handlers
   a. Substantial reduction in the number of fluid milk processing firms
   b. Increase in the number of non-processor distributors (primarily in the retail home delivery area)

2. Retail food stores
   a. Retailer integration into the processing of fluid milk
   b. Increased proportion of total food store sales being made by supermarkets (Table 3)
      - larger sales volume per store and less frequent delivery have combined to give substantial increases in volume per wholesale stop.
   c. Increased portion of total food store sales being made by affiliated independent stores (29% in 1948 compared to 49% in 1962)

Table 3: Grocery Stores with Yearly Sales of $500 or More

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent of Stores</th>
<th>Per Cent of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>2%</td>
<td>26%</td>
</tr>
<tr>
<td>1962</td>
<td>12%</td>
<td>72%</td>
</tr>
</tbody>
</table>
E. Type of Competitive Emphasis:

1. Price - emphasis has certainly shifted to and been on price competition, especially pricing in such a manner that the prices charged reflect the costs of servicing each customer or account. This has resulted in the increased use of quantity discounts for both home and store deliveries.

2. Product - consumers, with some notable exceptions, have come to recognize that the dairy industry is marketing a highly standardized and homogeneous product. Consequently, many are not willing to pay a price premium for a highly promoted brand, (Table 4)

3. Services - services supplied by fluid milk processors are highly standardized and have been curtailed as it is often less costly for someone else to perform such activities as delivery, stocking, price making, etc.

4. Promotion - because of increased consumer knowledge and the highly standardized product and services offered to consumers, the opportunity for dairy processing firms to gain a substantial competitive advantage in this area appear to be more limited than previously. Yet, your speaker believes that the successful dairy companies of tomorrow will be characterized by their aggressive and imaginative promotional and merchandising programs.

Table 4: Sales of Two Fluid Milk Brands at Equal Brand Prices and With a Two Cent per One-half Gallon Price Differential

<table>
<thead>
<tr>
<th>Brand</th>
<th>Equal Prices</th>
<th>Price Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>65%</td>
<td>34%</td>
</tr>
<tr>
<td>B</td>
<td>35%</td>
<td>66%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

F. Distribution Efficiency:

1. Distribution costs per one-half gallon are considerably lower for wholesale (5.6¢) as contrasted to retail (12.5¢) delivery.

2. Wholesale distribution changes, as fewer services and increased volume per delivery, have increased the efficiency of this system relative to retail home delivery.
3. Labor productivity has lagged considerably in the distribution of fluid milk relative to the other work areas in milk processing plants. (Table 5)

Table 5: Percentage Change in Wage Rates Labor Productivity and Labor Costs Per Hundredweight in Fluid Milk Plants by Work Area Between 1956 and 1964.

<table>
<thead>
<tr>
<th>Work Area</th>
<th>Average Hourly Wages</th>
<th>Labor Man-Minutes Per Cwt.</th>
<th>Labor Cost Per Cwt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field</td>
<td>39%</td>
<td>-42%</td>
<td>-10%</td>
</tr>
<tr>
<td>Plant</td>
<td>49</td>
<td>-31</td>
<td>-3</td>
</tr>
<tr>
<td>Delivery</td>
<td>34</td>
<td>-7</td>
<td>+25</td>
</tr>
<tr>
<td>Office</td>
<td>34</td>
<td>-23</td>
<td>+3</td>
</tr>
<tr>
<td>Executive</td>
<td>27</td>
<td>-29</td>
<td>-9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-18%</td>
<td>+14%</td>
</tr>
</tbody>
</table>

G. Merchandising Changes - these changes are an outgrowth of the many changes that have occurred in the distribution of fluid milk and are primarily related to the sales shift from retail to wholesale distribution and to the large volume of milk that moves through supermarket outlets.

1. Less pre-selling of product by dairy processors
2. Less of direct customer contact by dairy processors
3. Increased competition within the supermarket dairy department for sales space from other refrigerated products.
4. More competition with food and non-food items
5. Establishment and acceptance of retailer (distributor, private) brands
6. Reduced margins (partly reflects increased store volume and more efficient store handling techniques).

Why have all these as well as other changes occurred? Certainly it is primarily a matter of efficiency. More efficient methods have been found to move dairy products through the marketing channel to the ultimate consumer. With the development of technology and the corresponding technological changes, new practices and methods of doing things have become economically feasible in the production, processing, distribution and merchandising of milk and milk products.

What are the implications of these distribution and merchandising changes in regard to the market power of the dairy industry and from the standpoint of milk marketing cooperatives (producers), milk processors and food retailers? While more than one interpretation of these changes is possible, it seems relatively certain that the balance of power in the fluid milk industry has shifted considerably since 1950.
Historically, processors have had the greatest degree of market power in the dairy industry. This has been the most concentrated point in the marketing channel. With substantial reductions in the number of milk processors, continued market power by these firms would seem to be indicated. It must be remembered, however, that power in the market place is a relative and not an absolute concept. In this regard several developments within the processor segment of the industry might be considered:

- Most national dairy processing firms are under Federal Trade Commission order not to expand in this industry through acquisition. Consequently, these firms are diversifying in other product areas, both food and non-food. They are no longer dependent upon the dairy industry for their livelihood and this fact may well affect their aggressiveness and market conduct.

- Expansion within the dairy industry during the last decade has come largely at the large independent dairy level. This has likely been a good development from the standpoint of industry performance.

- The sales shift away from home delivery has made the dairy processor dependent upon other firms, (retail food stores), to sell his output to the ultimate consumer. This decreased processor control over the marketing of milk and dairy products necessitates a substantial industry adjustment. It is my contention that generally speaking milk processors and even milk producers have not made this adjustment or transition adequately.

Consequently, while milk producers in the past have generally looked upon processors as the "big bad wolf," today producers are casting their suspicious glances more and more toward the food retailer segment of the distribution channel.

The increased size of retail food stores and the growth of affiliated independent stores have previously been mentioned. It is not uncommon for weekly dairy product sales (fluid milk and fluid milk by-products) to be $1,500 or greater in individual supermarkets. With this large volume, several important considerations concerning the food retailing segment of the dairy industry include:

- Supermarkets have considerable price flexibility because their goal is to make a satisfactory return on the 6,000-7,000 items that they sell.

- Supermarkets are in a position to market products efficiently because of the volume sold.

- Supermarkets provide a ready sales market because of some degree of store loyalty and because fluid milk is a demand item.

- Supermarket chains often have the capital that is required to establish their own processing operations.
Supermarkets control many of the important merchandising variables. What factors influence the sales of one brand of fluid milk over another brand in a supermarket? At least five of these factors can be named, of which four are entirely or primarily controlled by the retail food store. These factors include:

1. Relative brand prices
2. Proportion of total product display space allocated to each brand (quantity of display space)
3. The quality of display space (brand position and shelf height)
4. Point of sale advertising and promotion
5. Brand preferences of consumers.

To illustrate the importance of one of these factors, quantity of display space, one need only to examine Table 6. These data indicate that at a 30 per cent space allocation, Brand B made 16.4% of the sales, but when this brand was allocated 70 per cent of the space its sales increased to nearly 40% of the total.

Table 6: Sales of Two Manufacturer Brands of Fluid Milk in Paper One-half Gallon Cartons Under Varying Display Space Allocations.

<table>
<thead>
<tr>
<th>Space Allocation</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brand A</td>
</tr>
<tr>
<td>10%</td>
<td>47.2%</td>
</tr>
<tr>
<td>30</td>
<td>60.4</td>
</tr>
<tr>
<td>50</td>
<td>70.8</td>
</tr>
<tr>
<td>70</td>
<td>83.6</td>
</tr>
<tr>
<td>90</td>
<td>89.2</td>
</tr>
</tbody>
</table>

What then has happened to the balance of power between milk processors and food retailers? I think that few would dispute the proposition that the market power has shifted toward the food retailer. Because market power cannot be measured in absolute terms, it is not possible to indicate the extent to which the power shift has occurred. Nevertheless, it seems certain that food retailers today have considerably more power than a decade ago. This power is utilized to affect the terms of trade in the exchange of fluid milk and dairy products in a manner that is favorable to retailers. This has been accomplished to the extent that some are raising the question as to whether the dairy processor has or will become a mere performer of a highly specialized technical function.

Where does this situation leave fluid milk producers that are represented by cooperative milk marketing organizations. These organizations are certainly stronger and better organized in a given "market" than was
true a decade ago. Because of cooperative mergers, the acquisition of processing facilities, representation of a greater portion of the producers supplying a market, etc., one would think that producers, through their cooperatives, are in a position to exert more market power than formerly. But again, keep in mind that market power is a relative concept and during this same period processors and retailers have substantially changed their organization.

For example, because of the many changes made by these latter two segments of the industry, the concept of what once constituted a "market" is no longer valid. Handlers and retailers are organized with internal centralized control over several metropolitan areas that at one time were considered separate markets. On the other hand, changes in the organization of producers across these same areas have generally been only of a token nature, limited to cooperation among cooperatives with no centralized control or direction. Consequently, it would be my conclusion that milk producers and producer cooperatives have lost relative market power in the last decade in spite of the changes that have been made. Other segments of the industry, namely processors and retailers, have changed to a greater degree and this is especially true relative to food retailers. Of course, the generally more than adequate supply that has been available during the last decade has not improved the market power position of milk producers.

What, however, does the future hold? What is on the horizon? It seems possible that the power shift from milk processors to food retailers may have reached its fullest extent. While I do not see factors on the horizon that will tend to restore the milk processor to his former power position, it seems plausible that some food retailers have exploited the power potential that is offered by their position in the market place to about the greatest possible degree. Consequently, I would venture that the major opportunity for a future power shift within the dairy industry rests with milk producers. The opportunity for increased producer market power prevails. However, for producers to realize their potential, they must become organized in such a manner that the coordination of producer marketing and processing activities is assured over a substantial geographical area. Such coordination cannot be achieved with the cooperative organization that currently exists. To be sure, such cooperative reorganization will require some groups of dairy farmers to make immediate sacrifices. Yet, such action is mandatory for future long-term and overall gains that can come only through coordinated producer marketing programs. Of course, it is a challenge to producers to organize in such a manner that they can realize their market power potential.

Finally, I would like to give brief consideration to another challenge that has been presented by these changes in milk distribution and merchandising. I would like to develop the thesis that one of the greatest challenges is in the area of product merchandising. Milk processors and the dairy industry in general have not developed merchandising communications with food retailers. The result of this neglect has been a greatly under-merchandised dairy department in most retail food stores. For evidence of this neglect one need only look for statistics and data on merchandising milk and dairy products through retail food stores. Such information is nearly non-existent especially in comparison to what is known for example, about meat and produce departments.
Is there potential for increased sales of milk and dairy products through supermarkets via improved merchandising techniques and practices? Some preliminary work strongly suggests that there is as witnessed by the following statistics (Table 7).

Table 7: Gross Profit Measurements and Sales and Space Percentages of Selected Dairy Products Sold from Supermarkets

<table>
<thead>
<tr>
<th>Product</th>
<th>Gross Profit Per Foot of Display</th>
<th>Dept. Sales Percentage</th>
<th>Dept. Space Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fluid Milk</td>
<td>$15.48</td>
<td>32.0%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Cottage Cheese</td>
<td>6.40</td>
<td>6.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Cream</td>
<td>12.35</td>
<td>2.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Dept. Av.</td>
<td>$ 5.03</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These data from two large supermarkets indicate that the gross profit per linear foot of display space for fluid milk, cottage cheese, and cream greatly exceed the average for the entire dairy department. Also, the percentage of dairy department sales made by these three product classes considerably exceeded the proportion of dairy department display space allocated to them. Consequently, the merchandising factor of display space alone, if allocated for optimum dairy department sales and profit, might result in significant increases in dairy product sales.

What should the dairy industry be doing to exploit these and other merchandising possibilities? First, it should be developing the information and facts upon which an effective merchandising program can be based. For example, what do the dairy industry and dairy merchandisers know about sales and profits per linear foot of display space, about the contribution of dairy items and the dairy department to total supermarket sales and profits, about the supermarket return on its investment in dairy product inventory, etc.? Very little, yet these are of interest to food retailers and it is through this marketing channel that most dairy products are sold. Furthermore, this is the type of information that one must have in order to build an effective industry merchandising program. Second, the dairy industry must apply the information obtained in such a manner that an effective merchandising program will be developed. The potential results of such action would likely be very significant and would be of mutual benefit and interest to food retailers, milk processors and distributors, and milk producers alike.
The bargaining power of the farmer can be taken to mean the ability to affect in a meaningful economic way the prices, terms and conditions under which a farmer's products are sold. The power in the case of farmers would be exerted by them or their agencies to improve the price or obtain other terms of sale advantageous to the farmer. It is also worthwhile to consider the use of market power in the case of purchasing supplies for farm use; however, our discussion will be concerned with marketing problems.

As might be expected the anti-trust cases have arisen in those commodity fields where producers have organized and an impact on the market was felt. Milk, citrus products, fruit and fish have had the leading cases and it should be noted that a proper combination of these foods and their derivatives would make up a healthy diet. As in the court cases, an improper combination can lead to (legal) trouble.

There is no need to repeat the history and read the decisions of the leading cases. Let us summarize some of the principles and relate them to our topic. The 1939 Borden case, decided by the U. S. Supreme Court (308 U. S. 188), made clear that the Capper-Volstead Act of 1922 did not exempt the actions of an association of farmers from the Sherman Act, in this case Sec. 1, if it acted in concert with other groups to restrain trade. The other groups would be non-producers such as buyers or handlers of the affected commodity or labor unions. It is generally conceded that the principle there set forth is good law and is in the public interest and correctly reflects the intent of the anti-trust laws. Associations of farmers cannot use what exemptions are accorded to them by Capper-Volstead to combine or act on an agreed plan with these "other groups" in order to enhance their prices, even though such prices arrived at by other valid means could not be legally assailed.

The later case of Maryland and Virginia Milk Producers Association vs. U. S., 362 U. S. 458 (1960) struck down an acquisition by the cooperative of a dealer plant which had not been buying from the cooperative and placed restrictions on some of the actions of the association which were considered predatory or coercive. The case clarified the exemption scope by holding that undesirable practices are accorded to them by Capper-Volstead to combine or act on an agreed plan with these "other groups" in order to enhance their prices, even though such prices arrived at by other valid means could not be legally assailed.

The most recent case pertinent to this area of the topic is the 1962 Sunkist case, 370 U. S. 19. This held that the anti-trust laws did not apply and the exemption was good for parent and subsidiary associations of growers and other local associations who are in turn members of the parent cooperative. The same type of product was being handled by all the associations involved. At the very least the case makes clear that producers who use different associations for separate marketing functions related to the
same commodity can do so free from the spectre of the intra-enterprise conspiracy rule. The court pointed out that the growers could have organized all the activities into one association and handled all the processing and marketing of their product in that manner. The decision makes sense in reflecting the purpose of the various acts encouraging joint action by groups of farmers in the marketing process. The activities of federations and groups of associations dealing with a commodity would seem to be included in the protection afforded by the rule in this case. Other cases involving the cranberry industry and a fisherman's association have been decided adverse to the cooperative involved.

It is well to note that in all these cases dealing with restraints on cooperative association activities, certain undesirable economic activities, considered either predatory or coercive, were a central part of the complaint. In the Borden case, handlers, labor officials and municipal officials were all involved. In any case the entire industry could not claim immunity and the purposes of the milk producers in the market can be served by other means. In the Maryland and Virginia case, the alleged acts were of a coercive nature such as interfering with other suppliers and coercing purchases of milk and the case took place in a context of previous and acrimonious litigation between the Maryland and Virginia association and the U. S. Department of Justice. There did not appear to be a plea of self-defense in the case and the suppression of competition element was stressed in the opinion. The alleged presence of "bad practices" in the recent FTC case against the Central Arkansas Milk Producers must be noted as another instance of the same type.

There is no reason to feel that a group of farmers cannot act as a unit in marketing their milk and do so with all the authority over their product which they command. The definition of marketing should include the decision on whether or not there is to be a sale, the timing of the sale plus the level of price, the duration of the arrangement and the choice of buyer. In essence, the various Federal acts and especially the Capper-Volstead Act authorize group action in marketing by farmers. The leading cases seem to say that the exemption there afforded will be questioned whenever there are undesirable or predatory practices carried on by the association. In those cases, the rule on conspiring with "other groups" and "monopoly" charges or the pertinent portions of the Federal Trade Commission Act such as Sec. 5, will be brought to bear in restraining the association activities.

All these cases and any rules deduced therefrom have to be considered in the context of the facts of the case and with the economic and competitive background in which they occurred well in mind. Joint and concerted efforts by farmers in the marketing of their products is legal and is necessary if farmers are to influence in their favor the terms and conditions of the sale of their products.

But these restraints are not the only ones nor necessarily the most important ones acting on the effective bargaining power of farmers. One way to point up the non-legal obstacles facing farmers, as distinguished from so-called legal ones, would be to examine the experiences undergone in some markets in obtaining milk prices above the minimum price required under the federal milk order. All regulated milk handlers under an order
have to pay at least the prescribed uniform class price cost for producer milk received by them. Thus all handlers are treated in a uniform and equitable way in terms of cost of milk. The return to the producer or the payout is on a uniform price basis in marketwide uniform price pools, which pools constitute the vast majority of the total. Handler pools have equal costs to handlers, but pose other problems on prices to producers if an operating cooperative association is involved. Since this is another issue of some complexity, we will confine our discussion to market pools which are in effect in most of the area in Ohio.

It is very evident that failure to maintain the uniform cost-to-handler and uniform price-to-producer feature of a milk order on any premium or super-pool arrangement can lead to dissatisfaction among handlers and/or producers. A handler outside the pool could have advantages. Usually the non-cooperating handler has a higher Class I utilization than those in the pool or the average of the market. If such a handler pays out the full utilization value, he has a buying advantage in the country over other handlers and if he only matches the market, he has a lower cost of milk advantage. When milk is on the short side the handler would seek a buying advantage and in time of heavy supply he would choose the route of lower cost of milk. Either route or action creates dissatisfaction in the market, undermines or collapses the above order pricing and generally rewards the non-cooperators more than the cooperators. This same type of result occurs throughout the marketing field when a group of cooperators take action to improve terms of sale. If all producers share equitably in the returns from the premium, even though they do not all contribute to the expense incurred in obtaining it, some semblance of equity and stability is maintained. If however, there is no equitable sharing on the expense of the marketing program or on the returns realized, the continuation of such a premium is unlikely.

It is a fact that very few negotiated arrangements continue over a long period of time unless a very substantial majority of the producers participate in the program on a uniform basis. Whether or not non-members are scattered in the market is a further consideration. It is necessary, therefore, that there be widespread and sympathetic understanding of this problem by dairy farmers, regardless of their affiliation or marketing arrangements. Unless there is a very widespread agreement by dairy men or their marketing agencies on the need for uniform and equitable treatment on premium pricing, successful bargaining above the minimums is difficult and headed for failure.

I have mentioned the problems of extra reward received by the non-cooperator. There is another phase of that issue which could be termed the veto power of the minority. This occurs when the non-cooperators lend their support to a policy of no premium at all. Where their numbers are sufficient such action serves as a veto in the market and forestalls any marketwide action. The restraint imposed is the knowledge that any price increase to cooperating processors will reduce their ability to retain sales in competition with plants supplied by the non-cooperators. All these problems come into play and with varying force, even under minimum prices, but with increasing emphasis when prices are imposed above the minimum.

We should not fail to note the relentless effect of certain economic laws on the ability to bargain for satisfactory terms of sale. Competition
among suppliers is a real and vital fact of life in commodity markets. The freer movement and easier movement of milk along with more adequate supplies reduces the amount available to a seller even if he has the power to impose a price on the buyer. It is noteworthy here that several U. S. Supreme Court cases have emphasized the interstate nature of milk flow and struck down any impediment to such flow by governmental regulation. In the Iehigh Valley case, 370 U. S. 76 (1961), a charge imposed on a partially regulated handler for milk disposed of in the regulated area was declared illegal. The decision tended to call for order provisions which did not impede the free flow of the milk. In the Polar Ice Cream case, 32 LW 4063 (1963), the State of Florida was denied the power to assign to milk producers located in Florida the Class I sales made to Florida citizens by Florida dealers, in preference to milk producers from another state. This was done even though the price imposed would have been the same to all Florida handlers similarly situated. The decision has implications for all state milk control programs and emphasizes, as did the Dean Vs. Madison case, 340 U. S. 349 (1951), the policy of allowing interstate movement of milk supplies.

The effect of these cases combined with the rapid change in plant and packaging technology puts our farmers in a regional market at the present time. Individuals and groups must first comprehend this before any sound long term expansion of bargaining power can take place.

It has been said that milk is one food in which there is relatively little elasticity of demand and low crossover to other foods. For fluid milk this has meant that consumers would continue to purchase milk because of its extraordinary value as a food and its singular contribution to the diet. This has not proven to be true in the case of butter or fluid cream and may not prove to be true in the case of sour cream. The substitute vegetable oil non-perishable product has taken over a vast share of the coffee cream market and the sour cream substitute is making some inroads in that field. This will and does have an effect on the scope of the market available for bargaining and suggests that there is some element of cross-competition on a large share of the dairy market.

The blend price features of a milk market impose some restraint on the bargaining results if they do not do so on the Class I price. The increased production in a market can reduce the blend price to the same level of that in a market with a higher utilization, but a lower Class I price. In a given area market or region increased production can result in a dilution of the blend and reduce considerably the blend price increase which might otherwise have occurred.

No one is suggesting supply control these days and therefore the forementioned effect of increased production in such a market is a restraint on the blend price which can be returned to dairymen.

In Ohio the organization and structure of the major city markets with separate producer associations who were concerned with those markets has created a series of localized institutions. Since the problems now facing them are regional in nature adjustments have to be made in the approach to the market by the dairymen involved. Keeping in mind that most of the milk movement is still on a local market basis, but that the crucial market problems relate to intermarket matters, the need is evident for some closer concerted action by the dairy farmers and their marketing agencies.
The state association, the Ohio Milk Producers Federation, requested a study on this entire issue and the findings are set forth in A. E. Bulletin No. 363 of the Department of Agricultural Economics and Rural Sociology, Ohio Agricultural Experiment Station.

There are restraints then of a legal nature, a sociological nature and of an economic nature on successful bargaining activities. In many ways the economic restraints and the rules applying to them are the most formidable. At the very least we should hope that those with a common economic interest in a marketing program, such as dairy farmers, would take advantage of the avenues open to them and support the trend toward consolidation and merger, and support marketwide participation of all producers in an equitable sharing of the proceeds of sales.