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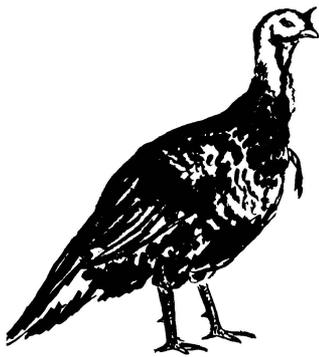


The Market Review of



PEEP AND MOO

Virginia Polytechnic Institute and the United States Department of Agriculture Cooperating:
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MARKETING

turkeys broilers

eggs



August-September 1959

We are pleased to report the addition of Dr. W. R. Luckham to our Agricultural Economics staff. Dr. Luckham will handle our extension poultry marketing program. He comes to V. P. I. from Ohio State University where he completed his graduate work in poultry marketing. As you will notice, he will be responsible for the Poultry Section of "Peep and Moo" beginning with this issue. Dick looks forward to meeting and working with many of you in the coming months.

Albert Ortego, Jr.
Ext. Dairy Marketing Specialist

VERTICAL INTEGRATION IN THE EGG INDUSTRY BRINGS LOWER UNIT COSTS 1/

The U.S.D.A. recently reported a study conducted by Dr. Ralph L. Baker dealing with vertical integration in the egg industry. Vertical integration has long been an important factor in the rapid development of the broiler industry, and is now becoming of increasing importance in egg production.

Integration is not new. Always some farmers have sold their products directly to retail stores or to ultimate consumers, thus combining the activities of production and marketing. Integration does not eliminate or reduce the essential functions involved in production or in marketing. It merely transfers these functions to the integrator. If the integrated operation is able to perform these functions more efficiently than was possible under the middleman

1/ Dr. Ralph L. Baker, Professor of Agr. Mkt. at Pennsylvania State Univ. was employed by the U.S.D.A. to make the study, "Integrating Egg Production and Marketing," Marketing Research Division - Agricultural Mkt. Service - Mkt. Research Report No. 332.

system, certain reductions in total unit cost may be achieved. If, on the other hand, the middleman, who specializes in the performance of these functions, is more efficient than the integrator in performing these same functions, the total unit cost under the integrated operation will be increased.

The dominant pattern of egg marketing of the present century has been the sale of products by producers to country-point assemblers or to city wholesalers. The prices arrived at through open market trading direct the flow of products through marketing channels. Quality is encouraged through price premiums based on Federal, State or private grades, or upon the reputation of the handler and the producers supplying him. Dr. Baker concluded that this method of price determination has failed to solve many of the problems of quality control and seasonal distribution of production. The conventional production and distribution methods also result in higher costs of production and marketing than appear possible with integrated operations.

As retail stores become larger and fewer, it becomes more economical to grade and carton eggs at country-points and deliver them to the stores, thus reducing the length and complexity of the market channels. Many retailers have assumed the wholesaling function in order to obtain a more dependable supply of high quality eggs. Consumers have demanded a greater uniformity of yolk color and egg quality than can be obtained by candling eggs which have been produced under varying conditions. In addition to the inability of candling to separate good eggs from excellent eggs is the possibility that handling practices (both on and off the farm) may result in quality deterioration after the eggs have been candled. Following uniformly good practices gives greater assurance of consistently high egg quality. These factors indicate a need for quality-control programs. Quality-control is most effectively carried out under some type of contractual arrangement.

Classification of Programs

There are three main types of integrated egg production programs. The first of these is a Contract Marketing and Quality Control program wherein the producer agrees to market eggs under certain conditions. The production and marketing practices are specified and checked by the integrator. In return for abiding by the terms of the contract the producer is paid a premium or differential from a fluctuating market base such as a well known market quotation. As a result the producer bears certain production and marketing risks.

The second major type of program is Contract Egg Production. The producer is under contract to produce eggs for a specific firm and is paid a given amount per dozen eggs, or per 1,000 hens, for a specified time. Under other types of contracts the producer rents the layers. Payment or rent is based on the number of dozens of eggs produced and the prices received for them. Under the production contract the majority of the production and marketing risks are assumed by the integrator.

The final type of integration studied was that of Owner Integration. There are thousands of owner integrator operations, but nearly all are small. Consideration was limited to operations of 100,000 or more laying hens. The facilities for egg production as well as the birds are under one ownership, and the eggs are marketed directly to retailers or consumers. The control of production and quality maintenance is direct. All of the price and production risks are assumed by the owner.

Reasons for Quality Control Programs

Quality control programs are all based on an economic foundation. They started either from specific problems of the marketing firm or the desire on the part of raw material suppliers (either feed or chicks) to sell their products to the producer.

The uneven seasonal distribution of egg production and the lack of uniformly high quality eggs at all seasons were the primary reasons for initiating quality control programs. Contract programs were developed since non-contract or voluntary programs were ineffective in alleviating these problems. The contracts stipulate certain management practices including the strain or type of bird to be used, and provide for the proper handling of eggs both on and off the farm. Quality is usually determined by means of a small, broken-out sample.

In order to assure an even seasonal distribution of eggs, some plans required the producer to indicate the number of dozens of eggs that he would deliver during each month of the following laying period. If the quantity delivered did not vary appreciably from season to season, he was paid an additional premium per dozen. The stipulation of management practices was dependent upon those currently being followed by producers in the area. Thus only those practices which were deemed to be desirable and were not being followed by the producers were specified in the marketing contract.

Financing of Producer Operations on Contract Quality Control Programs

Most of the firms offered short-time credit to their producers. The payment for feed was required at the succeeding delivery or within 30 days. A few firms financed the feed for growing pullet replacements. These payments were scheduled in accordance with the expected rate of lay.

Effects of Contract Quality Control Programs

The yields of top-grade eggs were increased and the quality within the top grades was improved. The latter was considered to be as important as the former.

The uneven seasonal distribution of both the quality and the size of eggs was still a problem in most areas. The west coast area has solved this problem

since 40 per cent of the egg-type chicks placed on the west coast were hatched during the last half of the year.

Quality control has generally increased flock sizes. The number of participating members has been relatively stable in the west coast area.

The plant operators reported that their volume of operation had been increased and their costs of operation decreased since the quality control program started. Their lowered costs stem from: (1) candlers being able to candle more high quality eggs per hour; (2) the use of flash candling and electronic equipment to remove defective eggs; and (3) the reduced procurement costs due to larger flock sizes.

The increased field supervision did not appear to be a problem to most plants since they were able to use their currently employed personnel.

Contract Production Programs

All of these programs were operated by privately owned independent firms. These firms sold their eggs to nearby markets, but only one-half of them sold cartoned eggs.

Contract production programs were started for the same purposes as were the quality-control programs. In addition, however, some businessmen believed that they could obtain a good return on their investment by supplying local markets with high quality eggs at reasonable prices, and at the same time raise the income of producers in the area. Others believed that because of lower housing and production costs, eggs could be produced cheaper in their region than in any other section of the country.

Methods of Quality-Control

The methods used in obtaining high quality eggs were very similar to those previously discussed. However the producer did not participate in making the production or marketing decisions. The integrator controlled the placement of chicks and thus the total supply and seasonality of eggs produced.

Financing Producer Operations

Producers had the responsibility to obtain the necessary financing to participate in the program. However the program personnel assisted in making contacts with the local banks and other lending agencies. In all cases the loan was a direct agreement between the producer and the lending agency.

Payment to Producers

Each program studied used a different method of determining producer payment. One firm paid the producer \$150 for the first month and \$200 a month thereafter for each unit of 2,000 hens. Other programs paid producers on the basis of the number of eggs produced. The base payment ranged between 5 and 7 1/2 cents per dozen for clean, sound shelled eggs.

Effects of Contract Production Programs

These programs have shifted some of the egg production from the midwest to the southeast. In addition, the combination of quality control and close supervision has resulted in 85-90 per cent of the eggs produced being of top quality. Almost all of the producers in the contract production programs have formerly been engaged in farming, with very few being commercial egg producers prior to the advent of production contracts in their area.

Appraisal of Egg Programs

The trend toward a greater degree of vertical integration in egg production and marketing has grown out of many conditions. Some of these are (1) the need on the part of producers for financing in order to achieve more efficient operations; (2) the opportunity to lower costs through combining production and marketing under a single control; (3) the increasing awareness of retailers of the consumers desires for uniformly high quality eggs; (4) the inadequacy of candling as a method of standardization; (5) the inability of present pricing methods to induce uniform seasonal production of high quality eggs; and (6) the ability to sell more feed by developing contractual arrangements.

These conditions provided the opportunity for developing better methods of producing and marketing eggs. The advantages of a well coordinated program over the traditional egg production and marketing operation are likely to result in the continued development of these programs. Centralized decision making can remove inefficiencies by coordinating the various phases of the production and marketing operations. In addition, many of the overhead, selling, and transfer costs of non-integrated operations can be reduced or eliminated.

Probable Impact of Egg Programs

The integration of production and marketing functions will affect all segments of the egg industry. Egg production costs and returns will likely be lowered. Total egg production may increase faster than the population. Since eggs tend to have a low price elasticity of demand, the increased egg production could result in proportionately greater declines in egg prices than the increase in egg production per person. Hence, unless there is a per capita increase in egg consumption, or methods developed for making eggs more convenient to use, or new uses and markets developed, egg prices may decline in the years ahead. The

resultant lowered prices may force the egg producers to dovetail their operations efficiently, or to reallocate their resources in another enterprise.

The payment of a volume differential will encourage continued development of larger flocks. These differentials will decrease and become no higher than handling cost differences as flocks generally become larger. The incentive to follow quality control practices will shift from price premiums to requirements which must be met to sell table eggs.

The regional price differentials are likely to decline as additional marketing programs develop. The deficit areas will experience lower relative prices as they shift to surplus production.

Direct trading between country-point plants and large retailers can be expected to increase in importance. A further decline in the proportion of total eggs moving through city wholesalers will result. This will have an increasing effect on our pricing policies. Since a small minority of the eggs moving through wholesale channels are used to determine the base prices, serious consideration will need to be given to different methods of arriving at a satisfactory price.

At the present time, contract marketing and quality control account for approximately 10 per cent of the nation's eggs. Contract production accounts for an additional 5 per cent. These programs can be expected to increase in future years. However, contract egg production is not likely to account for as high a percentage of total egg production as it did for 1958 broiler production.

These programs have been developed in an effort to help solve quality, supply, and cost problems.



W. R. Luckham
Assistant Agricultural Economist

EGG PRICES - Average From August 1, 1959 to August 31, 1959 ^{1/}

Market Area	U. S. Grade A			Grade B	Grade C
	Large	Medium	Small	Large	Large
- cents per dozen -					
Harrisonburg	35.5	22.2	13.3	20.9	13.3
Richmond	37.5	22.1	14.2	29.2	16.4
Roanoke	37.6	22.1	14.2	28.6	15.5

^{1/} Unweighted averages: some buyers paying additional 1-2¢ over grade yield prices and up to 4 1/2¢ over commercially graded prices for delivery of eggs in large lots, sizing, farm refrigerated, and other contractual arrangements.

BROILER PRICES - Average From August 1, 1959 to August 31, 1959

Market Area	Ave. ^{1/} Price	Weekly Summary of Purchases in Virginia		
		Week Ending	No. Birds Purchased	Weighted Av. Price (cents)
Virginia	15.50	7/7	933,200	15.49
Del-Mar-Va	16.45	7/14	1,002,162	15.19
West Virginia	16.10	7/21	1,053,600	15.57
North Carolina	14.85	7/28	933,036	15.71
North Georgia	14.60			
		Total	3,921,998	15.49

^{1/} Unweighted average.

Average Virginia Poultry Feed Prices and Feed-Price Ratio

Date	Price Per 100 Pounds			Feed-Price Ratios ^{1/}		
	Laying Mash	Broiler Growing Mash	Turkey Growing Mash	Egg	Broiler	Turkey
-dollars-						
Aug. 15, 1958	4.85	5.20	5.30	11.9	3.3	6.3
July 15, 1959	4.70	5.00	5.10	9.9	3.2	5.6
Aug. 15, 1959	4.65	4.95	5.00	10.2	3.2	5.3

^{1/} Number of pounds of feed equal in value to one dozen eggs, one pound of broiler live weight, or one pound of turkey live weight.

Dairy



Section

August-September 1959

U. S. MILK PRODUCTION DOWN

During the first seven months of this year, United States milk production totaled 76.907 billion pounds, a drop of 635 million pounds from the 77.542 billion pounds for the same period of 1958. This is about 0.8 per cent less than production during the first seven months of last year.

Consumption of fluid milk per person so far this year is running slightly higher than in 1958. With our increasing population, total consumption of fluid milk has been a little larger than a year ago. Thus, with production slightly less than a year earlier and consumption slightly higher, a better balance between production and consumption of milk seems likely for this year.

The better balance between production and consumption thus far in 1959 has resulted in smaller purchases of milk products by the government under the price support program (Table 1).

Uncommitted supplies of government owned dairy products as of July 31, 1959, are considerably less than uncommitted supplies a year ago (Table 1). Utilization of dairy products acquired under the price support program was less than during the

same period of the previous marketing year. This was due primarily to smaller purchases and reduced stocks. However, utilization of nonfat dry milk was up above that for the same period of a year previous.

VIRGINIA SITUATION

Statistics, from the Virginia State Milk Commission, the Bluefield Federal Milk Marketing Order, and the Bristol Federal Order, show that fluid milk sales have increased more rapidly than Grade A milk deliveries during the first six months of 1959. Fluid milk sales in these areas during the first half of 1959 were 5.8 per cent above sales during the same period of 1958. Deliveries of Grade A milk were 3.1 per cent more than during the first six months of last year (Table 2).

In markets controlled by the State Milk Commission producer deliveries were up 2.6 per cent above the same period a year earlier while fluid sales increased 4.0 per cent. In the Bluefield market producer deliveries were up 3.5 per cent and sales 2.4 per cent. Production in this market increased more rapidly than sales during the first six months of 1959. In the Bristol marketing area producer deliveries were 5.0 per cent greater during January through June 1959 than for the same period of 1958. However, fluid milk sales were

Table 1. Purchases and Estimated Uncommitted Supplies of Butter, Cheese and Nonfat Dry Milk, Price Support Program, April 1 - July 31, 1959, With Comparisons

Purchases	Butter (lbs.)	Cheese (lbs.)	Nonfat Dry Milk (lbs.)
April 1 - July 31, 1959	76,487,518	34,794,126	300,903,243
April 1 - July 31, 1958	94,714,414	22,723,965	334,168,986 <u>1/</u>
Estimated Uncommitted Supplies			
July 31, 1959	50,010,883	30,736,693	45,222,740
July 31, 1958	96,764,676	57,388,664	155,954,795

1/ Does not include purchases of nonfat dry milk made by USDA with Section 32 funds--61,626,798 pounds.

Source: Dairy Price Support Activity Report, USDA, August 5, 1959.

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Table 2. Producer Deliveries and Fluid Milk Sales for Virginia Milk Commission Controlled Markets, Bluefield Federal Milk Market, and Appalachian Federal Milk Market (Bristol), January Through June, 1958-1959.

Market	1958 (lbs.)	1959 (lbs.)	Per Cent Increase	1958	1959	Per Cent Increase
State Controlled	246,755,116	253,082,004	2.6	200,221,533	208,329,675	4.0
Bluefield	25,865,342	26,777,497	3.5	24,509,118	25,098,943	2.4
Appalachian	68,912,003	72,330,813	5.0	57,905,368	65,599,868	13.2
Total	341,532,461	352,190,354	3.1	282,636,019	299,028,486	5.8

up 13.2 per cent during the first six months of 1959. If fluid sales continue to increase more rapidly than milk deliveries for the remainder of 1959, dairymen should receive a smaller proportion of their milk at lower class prices. However, the situation varies between markets and distributors. Production and sales data for the Washington, D. C. market were not available at the time of this writing.

UNIFORM PRICE FOR WASHINGTON The Federal Milk Market Administrator for the Washington, D. C. Marketing Area announced the uniform price to be paid producers for milk delivered during July 1959 on August 10. The uniform (blend) price for the first month (July) of federal regulation in the Washington market was computed to be \$4.73 per hundredweight for milk containing 3.5 per cent butterfat.

PRICING PROVISIONS DISCUSSED AT BLUEFIELD HEARING A public hearing was held by the U. S. D. A. in Bluefield, West Virginia, on August 20. The hearing was called by the U. S. D. A. because provisions of the Bluefield Milk Marketing Order for determining price of Class I (bottling) milk will expire on October 31. Consideration was also given to amending the Class II (manufacturing milk) pricing provisions.

Producer representatives presented testimony for continuation of the present pricing provisions of the Federal Order. Producers felt that these provisions maintained orderly marketing of fluid milk and would maintain an adequate supply of pure and wholesome milk. The producer representative indicated that the

order price for Class II milk was too low. However, since the producer cooperative markets most of the excess milk outside the market at prices above the Order Class II price, it is unnecessary that this provision be changed at the present time.

Distributors in the Bluefield Marketing Area also presented testimony in support of the continuation of the present pricing provisions of the order.

September 15 was set as the deadline for filing briefs pertaining to the testimony submitted at the Bluefield hearing.

RESALE PRICING ENDS IN NORTHERN VIRGINIA At the request of more than 50 per cent of the producers and distributors in the Arlington-Alexandria marketing area, the State Milk Commission discontinued the regulation of resale milk prices on August 27, 1959. The request came shortly before a scheduled hearing for the purpose of obtaining testimony on the feasibility of removing resale price regulations from that area.

Section 3-358 of the Code of Virginia of 1950 states, "The Commission shall withdraw the exercise of its powers from any market upon written application of a majority of the producers, measured by volume of milk produced, and a majority of the distributors, measured by volume of milk distributed, in such market acting jointly."

Thus, the Milk Commission had no choice but to withdraw from the market entirely. In this market the price paid to dairymen for milk is determined by the Washington Federal Milk Marketing Order which was established July 1, 1959.

STAUNTON-WAYNESBORO As a result
MARKETS COMBINED of a hearing
 held in Staun-
ton on August 20, 1959, the State
Milk Commission combined Staunton
and Waynesboro into one market to
be known as the Staunton-Waynesboro
Marketing Area. From 1934 to 1952
these two markets were regulated as

one market. In 1952 the Milk Com-
mission considered conditions in the
area justified separate markets and
set these up as such. The Commission
now feels that present conditions in
these markets warrant the merging of
the two areas into one market. The
combination of the Staunton-Waynesboro
Markets become effective October 1, 1959.

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