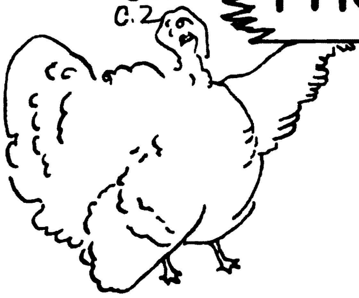
The Market Review of



PEEP AND MOO

**Virginia Polytechnic Institute and the United States Department of Agriculture Cooperating:
Extension Service, L. B. Dietrick, Director, Blacksburg, Virginia**

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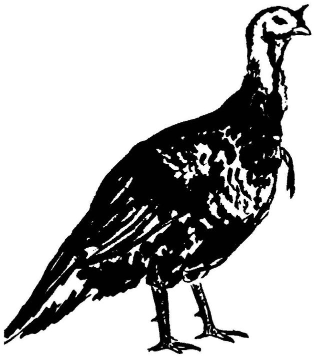
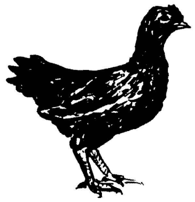
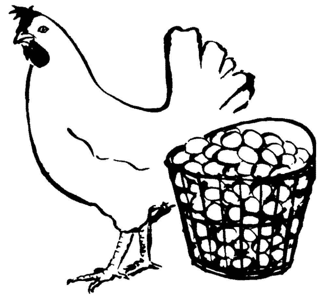


MARKETING turkeys eggs broilers





January 1960

THE TWO-PRICE SYSTEM - DOES IT WORK?

In recent years the large retail chain store systems have been criticized for their two-price methods of selling broilers. Both producer and industry groups have condemned this policy and blamed these retail chains for the economic troubles in the broiler business. They felt that the broiler industry would have been better off if the retailers had maintained a stable, conservative, pricing policy. They argued that consumers postponed purchase of broilers when sold at higher prices (40 to 55 cents per pound) in order that they might take advantage of the featured broiler specials (28 to 38 cents).

The supermarket is one of the most important voting places where decisions are made about the income of various farm producers. The consumer casts ballots, via purchases, which determine what shall be produced and at what price it will be sold. Many factors influence the consumer's choice. Among the most important are the relative prices of substitutable products, and the newspaper feature advertising which calls attention to price. For the broiler industry, the relative prices of competing meats are very important.

Fred Nordhauser and Paul L. Farris, of the Agricultural Economics Department at Purdue University, decided to study this problem and find out more about fryer sales. They attempted to learn how consumer purchases of fryers were influenced by (1) changes in fryer prices, (2) fryer price features, and (3) changes in prices of other meat items.

Six Indiana supermarkets were studied in 1958. Three of the stores were in Indianapolis, and one each in Lafayette, Martinsville, and Rushville. All of the stores were owned and operated by the same nationally known retail chain corporation; consequently, all followed similar pricing and advertising policies. The sample stores were selected to represent a variety of clientele (for example, low, medium and high income, as well as Negro and white families). Weekly data were collected for the first six months of 1958. (The data included the pounds of fryer sold at each fryer price, fryer prices and the prices of some 700 other individual meat items. Newspaper feature advertising information was also obtained).

Price was the most important factor affecting fryer sales. During the weeks when fryers were not featured at special prices, a price change of 10 percent was associated with a change in the number of pounds sold of about 18 percent in the opposite direction. Thus, increasing the price from 30 to 33 cents would reduce the amount of broilers sold by 18 percent. Since the 10 percent change in price brought about a change in the quantity purchased of greater than 10 percent in the opposite direction, the demand is said to be elastic.

Total dollar returns from a product with an elastic demand (i.e. broilers) are greater at low than at high prices.

In addition, newspaper advertisements featuring price specials apparently increased fryer sales more than the unpublicized price-cut alone. For example--when the weeks of advertised price features were included in the analysis, the quantity sold increased 25 to 35 percent in response to a 10 percent decrease in fryer prices. (This figure contrasts with the 18 percent change in the absence of newspaper price features.)

This relationship remains true whether price moves down or up. In moving from a week of featured low prices to a week of non-featured higher prices, the decrease in quantity sold in response to a 10 percent increase in price would be about 25 to 35 percent. In other words, the volume sold would return to the normal level.

There was no evidence in any of the stores studied that featuring fryer specials one week had any influence on sales the next week. Therefore, fryer sales tended to be as high immediately after weeks of fryer advertising and low prices as during other weeks when fryers had not been featured at low prices. Thus the increase in quantity of fryers sold during the sale periods appeared to be a net gain in the quantity of broilers sold.

The much criticized two-price system has therefore been a valuable tool in aiding the broiler industry in disposing of its large stocks of broilers. Regular low or moderate prices would not have increased the sale of broilers as much as the fluctuating price policy which calls the consumers attention to the economy of poultry meats.

The housewife is, apparently, quite willing to substitute retail meat items for each other in response to relative price changes. In each store there were certain important meat items whose price changes were associated with changes in fryer sales. However, these were not the same items in all stores. Each store's clientele differed in their substitution of other meat items for fryers, but the stores did not differ significantly in fryer sales response to price changes. Thus, the elasticity of broiler demand was about the same in all stores.

It may be suggested that the increased volume of fryers sold during the featured price specials was partly associated with an increase in the number of customers per store. This did not appear to be the case. In none of the stores was the number of customers per store significantly related to fryer prices.

This research closely parallels that done by other workers on the problem of price elasticity of demand for briolers. While these studies apply specifically to local conditions and times, it appears that more broilers can be sold, and a greater total dollar volume obtained, by maintaining a flexible two-price system.

The above article is adapted from research reports based on a study conducted by Nordhauser and Farris of Purdue University.

In interpreting the report, I must emphasize that the results are based on short-run changes that occurred in specific supermarkets located in certain areas. These results may differ from results one might obtain in other stores or market areas.

W. R. Luckham
Poultry Marketing Specialist
Agricultural Extension Service

EGG PRICES - Average From December 1, 1959 to December 31, 1959 1/

Market Area	U. S. Grade A Large	Medium	Small	Grade B Large
		- cents per dozen-		
Virginia	34.20	28.45	22.70	27.90

1/ Values being used in adjusting to a common denominator are: (1) Delivered to plant --0 to 1¢ (2) Cases exchanged--1¢ (3) Farm refrigeration--0 to 3 1/2¢ (4) Minimum 5 case lots--0 to 2¢. When the conversions are completed each day, statewide prices will be comparable and both producers and egg marketing firms will have a sounder basis for buying and selling.

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

Market Area	Ave. 1/ Price
Virginia	17.60
Del-Mar-Va	19.20
West Virginia	18.20
North Carolina	16.55
North Georgia	16.55

Weekly Summary of Purchases in Virginia

Week Ending	No. Birds Purchased	Weighted Av. Price (cents)
12/4	568,400	14.04
12/11	818,072	18.20
12/18	572,400	19.05
12/28	220,100	16.55
Total	2,178,972	17.17

1/ Unweighted average.

Average Virginia Poultry Feed Prices and Feed-Price Ratio

Date	Price Per 100 Pounds: Laying Mash	Broiler Growing Mash	Turkey Growing Mash	Feed-Price Ratios 1/: Egg	Broiler	Turkey
		-dollars -				
Dec. 15, 1958	4.70	5.00	5.00	11.8	2.9	6.3
Nov. 15, 1959	4.50	4.75	4.80	9.9	3.0	7.5
Dec. 15, 1959	4.55	4.85	4.90	10.3	3.6	8.8

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

January 1960

Upper Chesapeake Bay Federal Order

A Federal milk marketing order regulating the handling of milk in the Upper Chesapeake Bay area became effective January 1, 1960. Pricing and payment provisions of the order, however, will not become effective until February 1, 1960.

The marketing area to be regulated by this order includes the city of Baltimore and the counties of Anne Arundel, Baltimore, Caroline, Carrol, Cecil, Dorchester, Harford, Howard, Kent, Queen Annes, Somerset, Talbot, Wicomico, and Worcester; the town of Laurel in Prince Georges County and that portion of Calvert County not now in the Washington, D. C. milk marketing area; all in the State of Maryland.

Dairymen in the counties of Loudoun, Clarke, and Frederick, Virginia who ship milk to handlers regulated by this order will be producers on the Upper Chesapeake Bay market. They will receive payment for their milk on the basis of the marketwide pool and will come under the base-excess provisions of the order.

Prices for Class I and Class II milk will be the same as those under the Washington, D.C. Federal milk marketing order, with a 12-cent location differential for Class I milk received at plants located 75 miles from Baltimore or Salisbury whichever is nearer. Beyond that distance an additional 1 1/2 cents will be allowed for each additional 10 miles or fraction thereof.

Market Administrator for Bristol and Bluefield Changes

Mr. Charles S. McDonald, former market administrator for the Appalachian and Bluefield Federal milk marketing areas, has been named as the new market administrator for the three Federal milk marketing orders of Central Arkansas, Memphis, Tenn. and Ft. Smith, Arkansas. Mr. McDonald succeeds E. Hickman Greene, who has been designated market administrator for the new Upper Chesapeake Bay (Md.) Federal milk marketing order.

Mr. Wiley M. Richardson replaces Mr. McDonald as market administrator of the Appalachian and Bluefield Federal milk marketing orders. Mr. Richardson has been associated with the Nashville, Tenn. Federal milk marketing order for 12 years. Prior to that he was employed by USDA in Huntington W. Va., as an auditor in connection with Federal milk order work in that area.

Mr. McDonald has administered the Appalachian milk order since 1954, and the Bluefield order since 1956.

The changes became effective January 1, 1960.

Integrated Dairy Operations of Farmer Cooperatives

The Farmers Cooperative Service of the USDA recently made a study to determine the types and extent of integrated dairy operations performed by farmer cooperatives. In this study Anne L. Gessner points out some facts which should be of interest to dairymen, milk processors and distributors, and farmer cooperatives. This report shows the quantities of products handled and functions performed at the four major levels of operation. These are: (1) Receiving and bargaining, (2) manufacturing, (3) distributing at wholesale, and (4) distributing at retail.

Of particular interest is the quantities of manufactured products handled by dairy cooperatives. This study showed the following: Slightly more than 75 percent of all dairy cooperatives manufactured at least one or more dairy products in 1957. Some of the major dairy products manufactured by cooperatives in 1957 included creamery butter. American cheddar cheese, condensed skim milk, and non-fat dry milk.

Cooperative production of creamery butter in 1957 amounted to 825 million pounds which was nearly 60 percent of the total production in the United States. Total U.S. production of creamery butter was slightly more than 1.4 billion pounds in 1957.

Cooperatives produced 215 million pounds of American cheddar cheese in 1957. This was a little more than 23 percent of the 924 million pounds produced in the United States.

Almost 14 percent of the condensed skim milk (sweetened and unsweetened) produced in the United States during 1957 was manufactured by cooperatives.

Cooperatives played a major role in the production of nonfat dry milk, including nonfat dry milk for animal feed. Production of nonfat dry milk by cooperatives amounted to 1.25 billion pounds in 1957 nearly 75 percent of the total U.S. production of 1.69 billion pounds.

Other dairy products manufactured by cooperatives in 1957 included 70 percent of the dry buttermilk, 7 percent of the cottage cheese, 8 percent of the other cheeses, 14 percent of the dry milk, and 4 percent of the ice cream produced in the United States.

For more information on integrated dairy operations through farmer cooperatives, a copy of this report can be obtained by writing, Information Division, Farmer Cooperative Service, U.S. Department of Agriculture, Washington 25, D.C. The publication is "Integrated Dairy Operations Through Farmer Cooperatives" General Report 69, by Anne L. Gessner.

Dairy Price Support

Price-support purchases of dairy products were down 23 percent in the first 11 months of 1959 compared to the same period of 1958, the U.S. Department of Agriculture reported today in a year-end summary of dairy price-support activities.

A better supply-demand situation, resulting in strengthened markets, made it possible for USDA to carry out its mandatory dairy price-support obligations with less buying than in previous years.

Disposals of dairy products, reflecting the reduced purchasing, were also down from a comparable 1958 period by more than 25 percent. However, disposal activity was at a high enough rate to reduce USDA's uncommitted dairy stocks to their lowest level since mid-June 1951.

Total purchases of dairy products during the Jan.-Nov. 1959 period amounted to 853.9 million pounds, including 123.7 million pounds of butter, 57.2 million pounds of cheddar cheese, and 673 million pounds of nonfat dry milk. During the same period of 1958, total purchases came to 1.1 billion pounds, including 183.4 million pounds of butter, 78.3 million pounds of cheese, 696.2 million pounds of nonfat dry milk purchased for price support, and 150.5 million pounds of nonfat dry milk purchased directly with Section 32 funds for domestic donation.

During the first 11 months of 1959, about 900 million pounds of dairy products were committed for movement into various outlets, compared to 1.2 billion pounds in the same 1958 period.

The total uncommitted holdings of dairy products at the end of November were down to only 7.6 million pounds (all cheese), compared with 34.1 million a year ago and 53.8 million pounds on Jan. 1, 1959.

Of the 900 million pounds of dairy products committed to various outlets in the first 11 months of 1959, more than 600 million pounds was for domestic and foreign donation programs. Export movement for dollar sale, for foreign currency, and under barter amounted to 188.7 million pounds. Commercial domestic sales accounted for 44.5 million pounds, and transfers to the U.S. Army and Veterans Administration for 32.1 million pounds.

Special Milk Program Consumption of milk by children is being continually increased through the successful operation of the Special Milk Program of the U.S. Department of Agriculture. The Agricultural Marketing Service reports that the amount of milk moved into use through the program rose to a new high in the year ending June 30, 1959, and has increased further this school year.

In the fiscal year which ended June 30, a total of 2.2 billion half-pints of milk was used in the program, in addition to milk served with lunches under the National School Lunch Program. Preliminary reports indicate that the program has continued to expand this school year.

The number of participants climbed to an all-time high of more than 81,500 schools, child-care institutions, and summer camps in 1959. This represents an increase from the previous year of over 5,000 participating organizations in the program.

The Special Milk Program has been steadily growing since its inauguration in September 1954. The original authorization provided for the operation of the program through June 30, 1956. However, the success of the program both in increasing milk consumption by children and in expanding the market for fluid milk has twice led Congress to extend the program and to increase the original annual authorization of $50 million.

The present legislation provides for operation of the program through the 1961 fiscal year. The authorized maximum expenditure of Commodity Credit Corporation funds for the program this year is $81 million and a total of up to $84 million for 1961.

Schools, nursery schools, settlement houses, summer camps, and other childcare institutions have found that children want to drink more milk. The more opportunities found to serve milk at additional times during the day, the more milk the youngsters will drink. The opportunity to make milk available to them at a special price--lower than they would ordinarily pay--through operation of the Special Milk Program has resulted in substantial extra sales and increased milk comsumption by children.

Records Help With Filing Tax Forms Many dairymen are now wishing that at this time last year they had begun to keep good records of their farm operations. Good records can save time and money at tax filling time as well as provide a basis for making adjustments and planning the next year's operation. Don't be caught in a similar situation next year at this time. Start now and keep an accurate record of your farm operation throughout 1960.

Albert Ortego, Jr.
Dairy Marketing Specialist
Agricultural Extension Service