CHAPTER 10 When You Go To Market

WHEN A FARMER FIRST GOES TO a large market, he is impressed by the fact that no one seller of farm products has much influence on the price he receives. He often feels that the buyer has full power to determine the price that is set.

There is some truth in this, but it is far short of being the whole truth or even being the most important point about prices. A farmer is aware that the amount of product he sells is only a tiny fraction of the total that is produced. On the other hand, the buyer may represent a firm doing a nationwide business which has a good deal of influence in the market. So it may be true that the buyer, especially if he represents a large firm, has more influence on prices than does a single farmer. But his influence is greatly over-rated.

How Prices Are Made

One can understand the price-making process better if attention is turned to consumers, those who are the final users of the farmer's products. Consumers seldom buy farm products in the same form in which the farmer sells them. Perhaps the farmer's product is hogs. Few consumers want a whole hog. They want pork chops, ham, bacon, sausage, luncheon meat, lard, or other pork products. Or a farmer may sell cream. The consumer wants butter, ice cream, and such. Moreover, many consumers live hundreds of miles from where the farmer delivers his produce. Weeks or months may elapse between the time the farmer sells his produce and the time that the particular product is wanted by consumers.

To take care of the many services required between the producer and consumer, a great many marketing agencies are needed. Various services are performed by dealers, processors, storage firms, transport agencies, retailers, and others. These agencies are operated as business firms, either private firms or co-operatives. Capital, labor, and management are used by them and must be paid. Many of these businesses operate with a good deal of risk; risk of price changes, spoilage of the product, and others. Risk, too, is a cost. Like farmers, some marketing firms are efficient in their operations and others are inefficient. Some make big profits and some have losses. Most have their ups and downs as do other business men.

But middle-men do not set the general level of farm prices even though they may have some influence on prices for a short period of time. Neither they nor farmers set the general level of retail food prices although either may have an influence on them for a while.

Consumer Income a Major Price-Making Factor

Consumers in the United States seem to plan to spend about one-fourth of their income for food one year with another. When their income is lower, they spend less money for food. But they spend a slightly larger share of their income for it. The reverse is true when consumer income is higher. The record of family income and spending for food for certain years is shown in Table 67.

TABLE 67

FAMILIES SPEND MORE FOR FOOD AS INCOME INCREASES

	1929	1932	1938	1942
Income, family of four*	$2,692	$1,524	$2,004	$3,432
Amount spent for food	644	364	480	748
Per cent spent for food	24	24	24	22

* U. S. income per person after taxes multiplied by four.

TABLE 68

CONSUMER INCOME, AMOUNT OF FOOD SOLD AND FARM PRICES*

	1929	1932	1938	1942
Amount of food products sold by farmers, per person	100	97	100	117
Income per family	100	57	74	127
Price of farm food products, at farm	100	50	70	107
Prices paid farmers for:				
Hogs, cwt.	$9.42	$3.84	$7.72	$13.08
Milk, cwt.	2.54	1.27	1.72	2.57
Wheat, bu.	1.04	.38	.66	1.02

* Compared to 1929 as 100 per cent.

The farmer gains in two ways in good times: consumers spend more dollars for food, farmers get a larger share of these dollars. Farmers lose in the same two ways when unemployment and similar causes reduce the total consumer income. But keep in mind that changes in income or prices are not under the control of certain firms or individuals. This is the way the distribution system works at the present time. As a system, it is far from perfect. But it is not a system run by a small group of people.

These general facts can be presented in another way. They may be set up to show changes in: consumer income, quantity of food raised by farmers, prices received by farmers, prices of certain farm products. The same four years are used in Table 68 as those above.

Obviously, it is not the meat packer, milk dealer, wheat processor, or other buyers who set the general level of prices for farm products. They do not decide whether hogs should be 4 or 13 cents per pound or wheat 40 cents or $1.00 per bushel. Rather, it is the income of consumers in total that is by far the more important factor for farmers to watch to find a clue to the likely changes in the prices of farm products.

What the Farmer Can Do for Himself

Perhaps the possibility of the farmer being able to help himself on his marketing problems seems hopeless to some people. This is by no means true. Six kinds of marketing decisions on the selling side are largely in the hands of the farmer. The wisdom with which he makes these decisions may have a good deal to do with his successs or failure in farming. These six are:

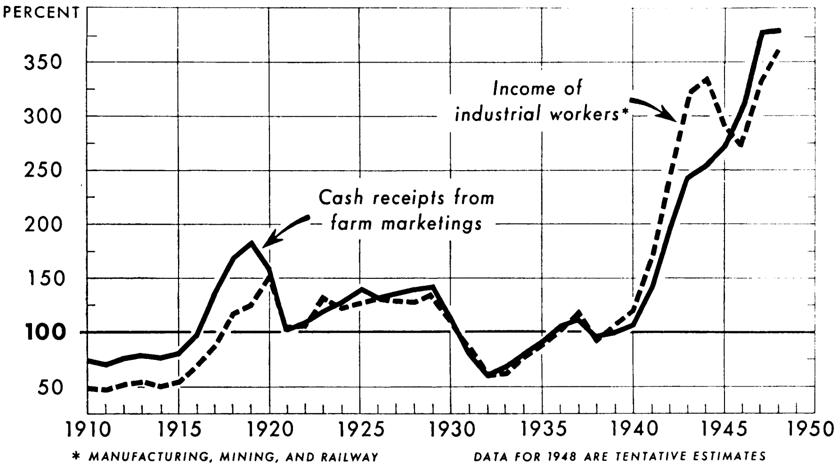

Fig. 61—Cash receipts from farm marketings, and income of industrial workers, United States, 1910–48. (Index numbers—1935–39 = 100). The income of farmers in total is closely related to that of one of their largest group of customers—industrial workers. Thus the farmer has a good market if his customers have jobs and he is producing the things his customers want to buy. *Bureau of Agricultural Economics.*

1. He decides the kind of product that he will market. He does this when he sets up his production plan.
2. He has a good deal of control over the quality of the product he sells.
3. He chooses the form of the product, whole milk or cream, for example; or the kind of container, boxed apples or apples in baskets.
4. He decides when to put his products on the market. That is, he decides this to a certain extent.
5. He decides where to sell—within limits.
6. He decides to whom he shall sell. Again this has limits.

The farmer has somewhat similar marketing opportunities on the buying side of his business. To a considerable degree, these same points apply to the buying side as well.

The farmer's goal in marketing the products he sells is to get the best return he can for them, all things considered. On the buying side, he also wants to make the best buy he can, taking the whole situation into account.

Selling problems vary a great deal depending on the product being sold and the location of the farm. If the farmer sells whole milk to a city buyer, very likely he will be a member of a milk-marketing cooperative. In this case, his personal marketing problems with milk are quite simple.

The cooperative manager and directors represent all the members in reaching a price agreement with the buying firm. Since milk is delivered every day, there is no problem of choosing the time of sale. Certain quality standards are set up in milk-marketing agreements. Keeping the milk up to these standards is more often a production than it is a marketing problem.

Look for a Dependable Buyer

It may be that the man or firm who is the direct buyer of the farmer's products is able to set the day-to-day price that he pays. If he is unfair (and some buyers are) he may take advantage of a farmer who is not well informed. But this is not likely to happen to the farmer who studies his marketing problem, watches market reports, and looks for a dependable buyer.

Marketing Is Affected by the Farm Plan

Many marketing problems are much different from those discussed above. Take the case of two neighboring farmers. Each raises 100 head of March pigs to sell in the fall.

Farmer A produces market hogs. What are his problems? Shall he sell on an early market or hold until later? Many things guide his decision: the likely price trend for hogs during the weeks ahead, his feed supply and feed prices, whether he needs the room for fall pigs or not, how badly he needs the money, and so on. He may make up a daily or weekly hog price chart from radio or newspaper reports to serve as a guide to market trends.

Shall he sell the hogs all at once or in two or three bunches? If he sells at three different times, what is the chance of getting a higher average price? A lower one? If he divides the hogs up to sell them, he must make a final decision about each group. But perhaps these hogs represent nearly half of his whole year's income. Doing a good job of selling will justify the time spent if it will increase his profits.

Where shall he sell them? Take them to the local buyer, to a nearby packing house—sell at a market auction, or take them to a large, central market? Maybe he feels that his hogs are above average in quality of carcass. Is there any place where the buyer will pay a premium for high grade hogs?

If he sells at home, he will know the price that is agreed on before the hogs leave the farm. If they are sold at an auction or a central market, he will not know the price until the sale is made. If the price is not satisfactory, there is little he can do about it. It will not pay him to bring the hogs home again. But he may decide that the greater buyer competition is worth the risk.

The farmer turns all of these things over in his mind before he decides on the place and time of sale. Based on his knowledge, past experience, and perhaps the experience of others, he makes his decision.

Actually, making the decision and carrying it out can be done while the farmer is going ahead with other parts of his farm work. No great amount of travel or out-of-pocket costs are necessary.

Selling Breeding Stock

Farmer B raises hogs for breeding purposes. He, too, has 100 head to sell. But his marketing problem is more complicated.

An early marketing decision had to be made before the pigs were grown. Probably about half of the pigs were boars, half gilts. He had to decide on the number of boars to cull out for market hogs. Some hogs in any herd are hardly suitable for breeding stock. If he expected the market for boars to be unusually good in the fall, the farmer would likely cull out only a few. But if boars would be more difficult to sell he might just as well cull out a few more at that time. The farmer had to make a decision before he knew how the selling season would turn out in the fall.

Should he exhibit his hogs at the fairs? If so, how many hogs and how many fairs? Taking hogs to a fair costs money and requires a good deal of his time. But it is cheap advertising—if the hogs place well in the show. If the hog's chances of placing aren't good, it might be better to stay away.

Later on, a sale method must be chosen. Shall an auction sale be held or will it be better to sell at private treaty?

An auction will get the whole selling job done at one time. If breeding hogs are in strong demand, they usually sell well at an auction. But auctions cost a lot of money: advertising, auctioneers' fees, perhaps a tent for sale day, extra workers, and all the rest. Suppose the price of market hogs should have a bad break just before the sale is to be held. Very likely that would sharply lower the price of breeding hogs at a sale. If the general hog market recovered from the price break a little later, the average price received for the hogs would not suffer so much if they were being sold at private treaty.

If the hogs are sold privately, that process takes a lot of time. The farmer must stay close to home. Prospective buyers who stop when he is not there may not come back later. The hogs must be kept well groomed and the premises clean and attractive. The question of how the hogs should be priced is a difficult one. If, at the start of the selling season, the price is set too high, some of the best customers may go elsewhere. If too low, the farmer gets less than the buyers would be willing to pay. If he gets the reputation of cutting prices to make a sale, word will likely get around that he usually deals in this fashion.

The best hogs usually are bought first. What about the others? How much should the price be reduced on these, to keep them moving? Well along in the selling season, a lull may come in the buying. Perhaps it finds the farmer with a fourth of his hogs left to sell. Shall he figure that the season is over or is the lull only a temporary one? If the season is about over, shall the remaining hogs be taken to a general auction or will that hurt his reputation as a breeder? Or is it better to make them into market hogs and mark off the selling season as a poor one?

The purebred man must have a policy to handle the ones returned as non-breeders. Maybe the buyer is only using this to renege on the deal. Is it worth the cost and trouble of checking up on the breeding ability of such animals? The seller must not have too hard a policy or word will get around that he doesn't make good on non-breeders. If his policy is too lenient, word to that effect may also get around.

The paper work must also be cared for promptly. Some buyers will want the animals registered, some not. Breed associations are strict about careful work being done. Such paper work is tedious to many farmers.

Marketing Returns Must Match Resources Used

Here are two rather extreme cases of marketing problems that certain farmers may have to face. Two men each sold 100 head of hogs. The feed and labor needed in raising the two groups of hogs were not much different, although they may be a little higher for the purebred breeder.

The man with market hogs had a fairly simple marketing problem that didn't interfere with his other farm work. The purebred breeder found that his marketing required additional management skill, labor, and capital. The resources he puts into 100 hogs by the time they are finally marketed are far greater than the case of the market hog man. Does he get well paid for the resources used? Is the rest of the farmer's business neglected during the peak of the marketing season? Each man must decide such questions for himself.

These cases show the differences in the marketing problems that farmers must solve. Each man had to look at the various opportunities open to him. He had to choose the course of action that seemed wisest—the one that appeared to be the most profitable. Just as is true for these two hog raisers, a farmer must analyze his own marketing problems for products he has to sell. It may be well to refer again to the six marketing choices listed earlier in the chapter and study them as to how many resources are likely to be used in marketing the products from his own farm. A similar analysis can be made in the case of items bought.

The farmer's goal is to get the most he can for his product, all things considered. The phrase "all things considered" may include many items, as the hog marketing example shows: extra work, risk, a longer waiting period, more knowledge, more capital, and so on. These, too, are among the problems a farmer must face as he tries to get the most from the resources used in his farming business.

Use Price Outlook

The farmer must use his best judgment about the outlook for prices at many stages in the farm operation both in making production plans and in deciding on the time to sell and to buy.

The first step is to estimate the general trend of prices. Usually the general level of prices does not change rapidly from year to year. But sometimes it does. In 1920 and 1929, for example, the need for adjustments in the farm business to protect against the price decline that followed was far more important in affecting profits than any change that could be made in practices. Caution should be exercised when prices rise to great heights, as in post-war years.

Caution may be needed at other times as well. Witness the price drop following 1929 and 1937. Prices then were not especially high, but dropped when business suffered a sharp set-back. On the other hand, a "full production" plan should generally be used. Profits must come from production and little profit can be expected if the farm output is small. A smaller profit, however, may seem better than the possibility of a larger loss.

The price outlook should also be used in making shorter-run production plans. Will corn or soybeans be the more profitable crop this year? Should more land on a Plains farm be put to wheat or to feed grains? Shall plans include feeder cattle for a four month's feeding period or a ten- to twelve-month period. Should an extra cow or two be milked or should they be culled out? These are short-run problems that are solved partly on the basis of the price outlook. Of course, other factors such as feed supply, available labor, and similar points must be taken into account.

Watch Current Supply and Demand Conditions

When marketing time draws near for seasonal products—hogs, steers, wheat, fruit, etc.—the farmer should give special attention to current conditions. The wheat farmer will watch crop reports in the major producing areas, the trend in business conditions, and the wheat futures market. These are guides in deciding whether to sell at harvest time or to hold until a later period. The same is true for cash crop farmers with any crop that can be stored. Those with perishable crops have much less choice, but should use price outlook as well as they can.

The livestock farmer watches current reports of the likely supply of market livestock in the period when he may be selling. Are many cattle on feed or a more limited number? When will they likely be marketed? Was the pig crop large or small? Are hogs going to market faster or slower than usual? What about storage stocks of meats of different kinds? Is business activity picking up, running even, or slowing down? These are all questions that need watching as the time to sell grows closer.

Radio market reports will help along with those from a market paper. Such reports also can help on the question of where to sell. Sometimes one market has an advantage, sometimes another. The price difference between markets is seldom very large. But a 2 to 5 per cent price difference (after allowing for transportation and other costs) may mean a considerable difference in profits.

How much one should shop around for a better market depends on the product to be sold and the amount. A farmer can scarcely take much time or go very far for all the difference it would mean with one case of eggs. But with a truck load of hogs, cattle, or potatoes, he can afford to spend some time in trying to find a better market.

Know Seasonal Market Trends

Every farmer should have a knowledge of the normal seasonal price trends for the major products that he sells and buys. Some of these have been reported in other chapters. Others are shown on several charts included with this chapter.

Keep in mind that when general economic conditions are changing rapidly, the usual seasonal price trends will be greatly modified by these conditions.

Some key points to remember are summarized below.

Commodity	Key Points to Remember
Grains and Feeds	
Wheat	Wheat prices are sensitive to world conditions. In recent years, the government loan price has generally set the usual price of wheat. If export demand is unusually good, the price may be above the loan rate. Often, the cash price is below the loan rate at harvest time. In most years, it has paid farmers to store the grain where storage costs were not excessive.
Corn	Since the corn loan program has been in operation, the loan level usually sets the corn price in years of good crops. The cash price is often below the loan level at harvest, usually reaches it by late spring. After that, new crop prospects influence the price. In short crop years, prices may be highest about harvest time.

Oats

In the Midwest as a whole, the price of oats is usually about 60 per cent of the price of corn per bushel. When oats are plentiful, the price is somewhat lower; when scarcer, somewhat higher. Some variation in the relationship between oats and corn prices is usual in different Midwest areas.

Grain Sorghum

The price per pound is about 90 per cent that of shelled corn. Variations from this are influenced by the size of the crop and livestock prices.

Protein Feeds

The price of linseed and soybean meal per 100 lbs. is usually the price of from 200 to 250 lbs. of shelled corn. Tankage sells for about the price of 300 lbs. of corn, on the average. Commercially mixed feeds sell for the cost of the ingredients plus ten to twenty dollars or more per ton for mixing and selling.

Hay

Legume hay usually sells for the price of twelve to sixteen bushels of corn depending on the hay supply. Other hays are usually cheaper. If hay is needed, it is usually best to buy it at harvest time. After a short crop, hay prices may be quite high in late winter. As soon as grass comes, the

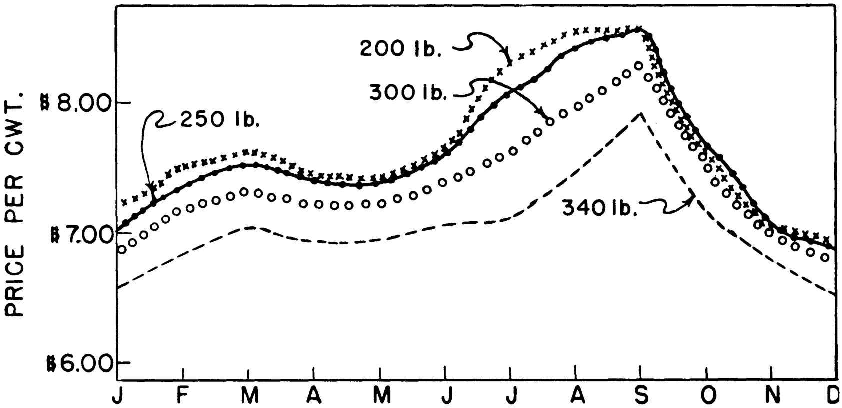

FIG. 62—Typical seasonal price pattern of four weights of butcher hogs. Hog prices are usually highest in the late summer, lowest in the early winter. A drop of about 20 per cent between the summer high and winter low is usual. There is quite a little discount for heavy hogs especially during the summer months. The hog raising plan should take seasonal prices into account. But if national business conditions or the number of hogs being raised changes a good deal, the price pattern will be modified somewhat.

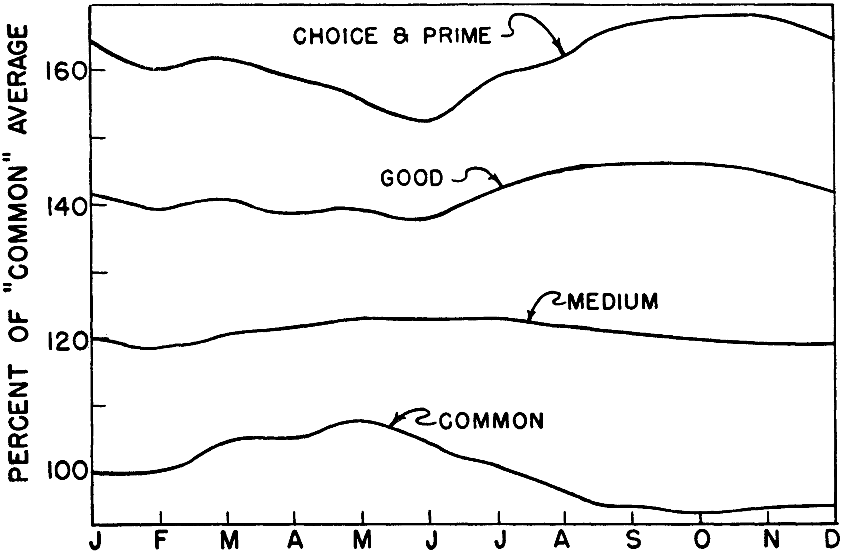

Fig. 63—Four grades of fed cattle and their seasonal price pattern. Grain fed cattle have a typical seasonal price pattern. Note the advantage of selling common and medium grades during the first half of the year, the better grades during the last half. As compared to common steers, mediums sell about 20 per cent higher, good grades near 40 per cent and choice and prime grades some 60 per cent higher. Fat cattle prices also are sensitive to changes in the income of city consumers.

price breaks sharply. Hay products, such as alfalfa meal, sell for a considerably higher price per ton. They may be worth somewhat more. But remember that hay meals are usually made up only of hay and are very little changed in their nutritional value.

Livestock and Products

Hogs

Peak prices are nearly always reached in late summer after the fall pig crop is marketed and before spring pigs move in volume. Another mild peak may occur in March or April between the two pig crop marketing periods. By getting hogs on the market either before or after the big runs, a better than average price can be secured.

Beef cattle

Seasonal trends vary by grades. Fed cattle prices are sensitive to changes in business conditions and in the week-to-week supply of fat cattle. Short feeding of cattle in the fall usually works out badly after a big corn crop. Cattle feeders are said

to have a "one year memory" as to the best time to sell cattle. The highest monthly price is seldom the same for two consecutive years.
Feeder cattle prices are usually highest in the spring when farmers are buying them to put on grass, lowest during the heavy runs in the fall.

Lambs

Native fat lambs bring the best price early in the summer. Farmers equipped to produce them should sell before hot weather, usually the earlier the better, provided the lamb is fat enough. Fat lamb prices are sensitive to business conditions, especially conditions in the large eastern cities where most of the lambs are eaten. The best selling month for fed westerns is seldom the same for two consecutive winters. The price averages higher in the late winter. But winter feeding may be more costly than feeding during the late fall.

Chickens

For spring chickens, the price is closely related to the number raised and to business conditions. Prices usually decline from the spring months through the fall. Hen prices follow a different pattern.

Turkeys

The industry has been growing so rapidly that turkeys do not have a well-established price pattern. In recent years, prices have been considerably lower for the heavier birds.

Eggs

The seasonal price pattern is well established with a high price during the fall and low one in the spring months. Some farmers get a premium in the spring by producing hatching eggs. In many areas, buyers pay more for the better quality eggs. In other areas, this is not yet the case.

Milk

In city milkshed areas, a good rate of milk production in the fall and early winter months is often necessary to secure a better than average price. Many markets have a two price system, one for the "base" and another for "surplus" milk. The base price is much the best except when the supply is short.
When milk goes to manufacturers (condenseries, driers, cheese, factories, etc.) the price is likely to have a typical seasonal pattern. Fall freshening of cows has the advantage of a somewhat higher average milk price, larger yearly production per

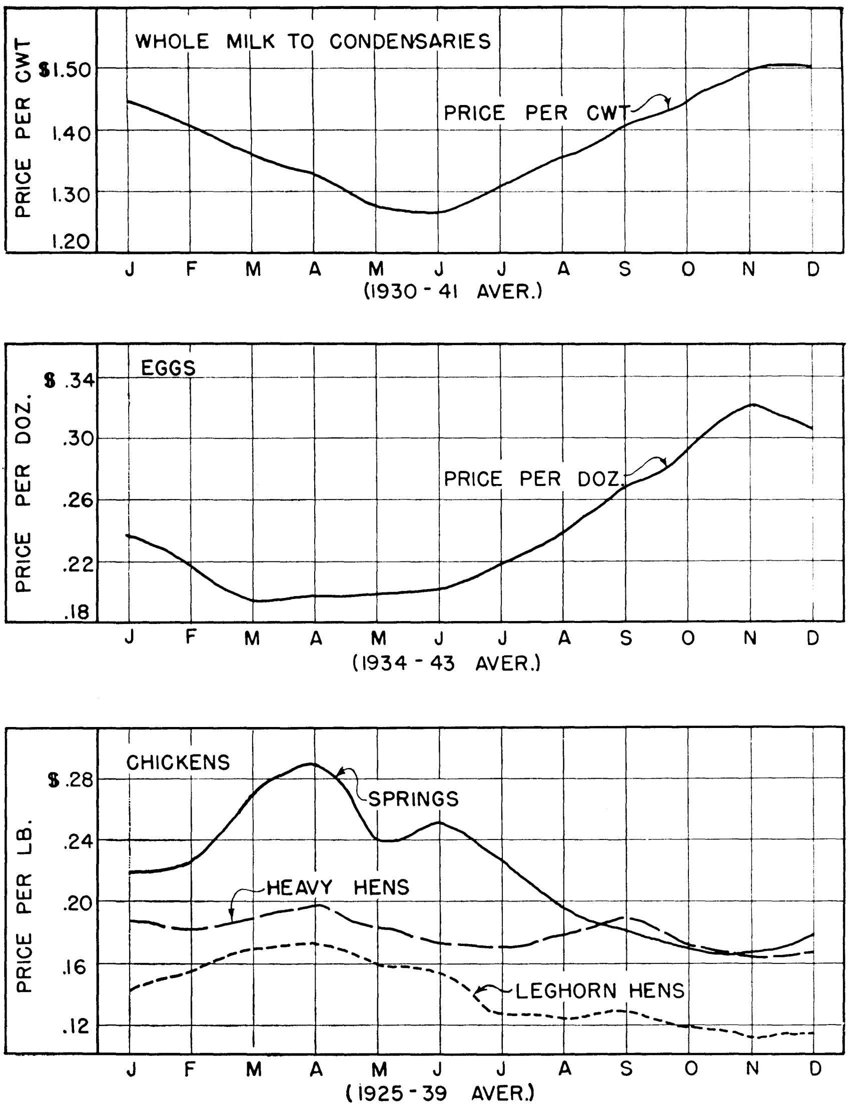

FIG. 64—Seasonal prices. Prices ordinarily go up when the seasonal supply is shortest, down when farmers sell a larger total supply. This seasonal change in supply and price can readily be seen for milk, eggs, and chickens on the charts above.

	cow, and more of the dairy work occurring during the late fall and winter season.
Butterfat	In butter producing areas, the usual seasonal price pattern is that of a higher winter price and a lower spring one, about the same as for milk outside the city milk sheds. Prices in any area are usually dominated by the major use for milk. All dairy product prices are sensitive to changes in consumer income.
Fruits and Vegetables	The size of the crop, and that for competing crops, as well as consumer income, are the major price factors. Where the crop cannot readily be stored, production plans that look ahead to the selling period are important since little choice exists on the marketing end. Cooperatives are especially useful in evening out the seasonal supply, in finding the best outlets, and in sorting and packaging to meet market demands. Cooperatives are more often found in fruit than in vegetable areas. Canning crops are often grown at a contract price. Details of the contract should be carefully studied.

Working Together

A single individual is limited in what he can do by himself in the marketing field. This emphasizes the need for farmers to work together on their marketing problems.

Many improvements can be made to help all producers become better informed. This calls for timely outlook information on probable demand and supply. It also means that the producer should know the kinds or qualities of products that are in greatest demand, which ones bring the highest price, what agencies provide the most efficient marketing services, and similar matters. In other words, a well-informed producer can sell his products to better advantage than one who has little information about market conditions.

Some Points on Cooperatives

Setting up and operating cooperative marketing associations either for selling, buying, or both is another way for farmers to work together. Sometimes this means the organizing of a new cooperative; at other times it means joining a cooperative that is already in operation. Operating cooperatives may need to be improved so they will furnish more efficient and satisfactory marketing service.

In some cases, forming a new cooperative is necessary if cooperative marketing services are to be available. Farmers must move carefully here. To be successful, a cooperative must be an efficient, well-managed business organization. Their problems are far different from the problems of the average farmer. Careful study and expert counsel will be needed to avoid the many pitfalls that exist. Cooperatives face many problems that are different from the problems of operating a farm. Usually the farmer members of the board of directors must add a great deal to their knowledge before they can serve effectively in that capacity. In any case, a highly competent manager is absolutely essential if the cooperative is to be successful.

The Government Plays a Part

The government is playing an important role in the marketing of farm products. Already it is an important factor in determining the price level for numerous farm products.

An important question that cannot be discussed here is how large a part the government should take. Should it support farm prices? If so, which ones and on what basis? From past experience with corn, wheat, cotton, and tobacco, storage stocks of these products have been inclined to increase from year to year as a result of price supports.

Milk-marketing agreements are in operation in many fluid milk markets. The federal government takes part in the price decisions reached.

While this being written, support prices are offered for a large number of Midwest products. Support prices seem certain to have an important influence on the level of prices for these products and on seasonal prices. Very likely, the seasonal price pattern shown in the several charts and discussed here will be modified while support prices are in operation. It is too early to know in just what way.

What About Buying

Although problems of selling farm products are one of the first considerations of farmers, they also have important buying problems of a somewhat similar nature.

Where the products to be bought require urban labor in their production and distribution, the price will be fairly stable. This is because of the stability of industrial wages and the large share of the cost of most manufactured products that is made up either directly or indirectly of wages.

Products that farmers buy that come directly or almost directly from other farms are more sensitive in price. For example, livestock for feeding and breeding are sold mostly from one farmer to another with comparatively little marketing machinery in between. So the price the buyer pays is very nearly or exactly the same as the price the seller receives.

Learn To Be a Good Buyer

Being a good buyer is partly a matter of judgment and partly that of knowledge. The wise farmer develops both. Some men have shrewd judgment, but have little knowledge of the demand and supply outlook for the products which they need. For example, a man may be a good judge of feeding cattle as to whether they are "good doers" but have no knowledge at all of future price prospects. Other men have the opposite advantage. They are good market students but are forever being "taken in" by someone shrewd at selling. Being a wise buyer includes both kinds of ability.

Strive for a Good Average

The best managers try for a good average in their buying and selling rather than plan to be an expert in one or two fields. For example, some farmers are experts on machinery. They know all the virtues and weaknesses of the different makes of tractors, how well they perform in tractor tests, and all the rest. They can buy a tractor intelligently. But when it comes to hogs or milk or eggs or grain, they know little about marketing them. Obviously, it is more important to be able to make wise decisions in marketing the products that are regularly bought or sold by the farmer than it is to know all the details about something that is bought once in ten years.

The wise manager makes an effort to train himself to do a good job in buying and selling those things that are important in his business. Of products that he deals with only occasionally, he seeks the counsel of people who are in position to know and depends largely on their judgment. No one has the time or ability to be an expert in all fields.