

A More Efficient and Effective Approach to Marketing Lambs:

Pooling and Tel-o-auctions

by

John O. Early

University of Idaho

What is a market? What are the necessary functions of a market? How can these functions be most efficiently preformed? What conditions are required for efficiently preforming these necessary functions? These are the pertinent questions to be answered in planning and developing a marketing system.

The dictionary defines a market as "a meeting together of people for the purpose of trade by private purchase and sale; a meeting of buyers and sellers". Beckman and Davidson 1/ defines market as "a sphere within which price-making forces operate and in which exchanges of title tend to be accompanied by the acutal movement of the goods affected".

While these definitions are adequate for general purposes, they fail to describe the kind of meeting or sphere occurring in a modern commodity system making use of a network of communications media. A more descriptive concept of a market as it functions in a modern commodity system is set forth in a handbook The Livestock Marketing Firm. 2/

1/ Beckman, Theodore N. and William R. Davidson, Marketing, 7th Edition The Ronald Press Co, New York, page 4.

2/ The Livestock Marketing Firm MB 93, Extension Division, Virginia Polytechnic Institute, Blacksburg, Virginia, September 1969, page 8.

A MARKET EXISTS WHENEVER, HOWEVER, AND WHEREVER BUYERS AND SELLERS COMMUNICATE CONCERNING AN EXCHANGE TRANSACTION.

This concept requires a distinction between a market and a market facility. A livestock auction, a terminal livestock yards or a packing plant unloading dock is only the place where buyers and sellers meet. Without communications between those with product to sell and those wanting to buy the product, no market exists. Communication between buyers and sellers is the prerequisite for a market to exist.

Under some circumstances communication may not only be a necessary condition but the only condition required for a market. With well-defined and understood descriptions of the commodity and terms of trade, together with knowledge and skills associated with effective price negotiations between buyers and sellers, communications provide the sufficient conditions for a market to exist.

Using modern communications media, buyers and sellers may extend themselves to "meet" over vast distances in many markets in zero time. The telephone, teletype, closed-circuit television, and computer tie-ins are available and are being used by many industries to facilitate rapid and positive communications. These means of communication carry the messages which include product description, prices bid and asked, and the terms of trade. An established, recognized and accepted product description and terms fo trade increases greatly the efficient of the communications.

Product Description - Grading

A major change in the movement of slaughter livestock has been brought about by the geographic decentralization of slaughter plants from terminal locations to country points in or near the areas of productions. Terminal markets have handled a declining share of each species of livestock and

a number of terminal livestock yards have closed since World War II. The terminals had two major functions that smaller individual markets could not perform:

(1) establish the basic prices with volume selling and competitive bidding by many buyers.

(2) offer buyers an opportunity to purchase quantities of a specific quality of livestock. The buyer's representatives were able to visually inspect quantities of livestock and then bid to fill their needs. The buyer could reject livestock not meeting his requirements as the volume available offered alternatives not present at smaller markets. The buyer in essence graded the lots of livestock on the hoof before bidding

Using the modern high-speed communications media, visual inspection of each lot is not possible. A verbal description - understood and accepted by both buyers and sellers is a major factor in the communication between buyers and sellers. An established system of quality grades facilitates the communications without long verbal descriptions.

An accepted grading standard administered by individuals who have gained the confidence of both parties to a sale is a prerequisite to selling without visual inspections. Equitably administered quality and cutability standards is required to gain the needed confidence. Lack of confidence in the grading by either or both the buyer and seller has been the down fall of many livestock market pooling operations.

Terms of Trade

Terms of trade consist of those points of agreement that must be reached prior to the establishment and transfer of title. A rather specific set of terms of trade is needed when marketing through modern communications media. These terms of trade need to be equal for all buyers in order for given bids to be comparable. Agreement on terms of trade is a

necessary but not sufficient condition for transfer of ownership. With agreement on terms, price then becomes the only negotiated point of agreement.

The specific items included in the terms of trade may have greater significance to buyers than sellers or the reverse. One or more of the following terms of trade may be of utmost importance to the prospective buyer and/or seller:

(1) Quantity - The size of lots offered for bidding need to meet requirements for shipping and, yet, not be so large as to eliminate bidders from competing.

(2) Quality - The weight ranges, quality grade and yield grades of lambs need to be specifically stated and adhered too. Deviations from the standard and specified quality cause buyers to lose confidence quickly.

(3) Time, Place and Method of Weighing - This is one of the most important terms of trade to both the buyers and sellers of lamb. Shrinkage and transportation costs are greatly influenced by weighing conditions.

(4) Time, Place and Method of Delivery - This likewise is an important consideration to both the buyers and sellers. Buyers are concerned with processing schedules, therefore, time of delivery is important to them. Place of delivery is important to the sellers as they provide the transportation. Time in transit, and cost of transportations are important considerations affecting the negotiations for transfer of ownership.

(5) Time of payment - The time of payment is an important terms of trade in livestock marketing with large amounts of capital changing hands. Markets subject to Packers and Stockyards Acts are required to pay promptly and sellers of live lambs expect prompt payment.

(6) Transportation and Insurance - The cost of transporting and insuring livestock against various losses must be born by someone in the marketing system. This needs to be included in the terms of trade.

(7) Health - Guarantees of health or lack of them may be given consideration during price negotiations. A statement of health guarantees should be included in the terms of trade.

(8) Use Classification of Livestock - In selling lambs for slaughter purposes ewe and wether lambs sell together without distinction. The age of lambs being pooled will be specified and checked during the grading.

(10) Uniformity - Both buyers and sellers are concerned with uniformity. The seller is interested in presenting his livestock in lots of uniform weight and grade, uniform quality, and uniform degree of fleshiness with the expectation of receiving a price differential above lots lacking uniformity. Buyers are likewise interested in uniformity and attach value to this feature.

Negotiating Prices

The auction method is widely used as a means of negotiating livestock prices. The Tel-o-auction is one particular variation of this method being used in several parts of the country. Prospective buyers are contacted, assigned bidding numbers, and advised of a sale date and time. Just prior to the start of a sale all prospective buyers are "connected" to the auctioneer via telephone conference lines. The auctioneer reads the sales order, giving the number, grade, weight, and other terms of trade. Prospective telephone bidders do their bidding by calling out their assigned numbers and offered prices. The sale is made to the highest bidder.

More prospective buyers can be attracted for a given number of lambs utilizing the Tel-o-auction as described above and variations of this method.

Pooled graded lambs in convenient size lots attract more competition in bidding. Packers can reduce their buying expenses through a reduced buying force, travel expenses etc. when participating in a Tel-o-auction and a portion of this savings can logically be expected to be passed on to the producers in increased bid prices for the lambs offered.

With increased competition from a wider area, the producers in a particular location are less susceptible to the supply-demand conditions of local buyers. A more uniform price for a geographical region can be anticipated and ultimately a national price basis may prevail.

Several livestock pools using telephone or teletype connections are currently in operation in the United States. Canadian livestock producers have been successfully selling major portions of their livestock through pools and modern communication connections for a number of years. I will mention several of the United States pooling operations. I have, also, secured substantial information on one rather successful lamb pool in the United States. Part of this information is included in the handout material for this presentation.

A group of Missouri feeder pig producers have banded together and established a telephone auction system with the assistance of the Missouri Farmers Association. Graded feeder pigs are sold throughout a 4 or 5 state area by phone connections. Correspondence from this organization indicated grading the feeder pigs into uniform lots and guaranteeing healthy pigs on arrival at the buyers' facilities are major factors in their success.

The Colorado Farm Bureau is currently operating a hog marketing program in Grand Junction, Colorado that has several similarities to a telephone auction. This pooling arrangement has exhibited reasonable success.

The latest development in Tel-o-auction selling of lambs is an attempt to establish a pool at Hutchinson, Kansas. This group of farm flock producers met in May 1973 to investigate the opportunities available through Tel-o-auction selling. A recent phone conversation with the local Agricultural Extension Agent indicated the group has been slow to form, especially with increased lamb prices last summer.

Lamb pools have been in operation in many areas of the United States for years. Correspondence from a number of men associated with the pools indicate the success of a given pool depends greatly on the integrity of the grader. The grader must have the confidence of the buyers if they are expected to bid their "high-dollar" on lambs they have not personally inspected.

Correspondence concerning the Eastern Lamb Producers has been received from two Cooperative Extension Specialists: David L. Holder, Marketing, and G. A. Allen, Jr., Animal Science, from Virginia Polytechnic Institute. This appears to be the strongest and most successful Tel-o-auction system presently in operation. The total system is currently used for slaughter lambs, slaughter cattle, and feeder pigs and is being considered for slaughter hogs and feeder cattle. Lambs from Virginia, West Virginia, and North Carolina are being sold through Eastern Lamb Producers Tel-o-auction.

The Eastern Lamb Producers Tel-o-auction has changed their situation from a monopsonistic structure -- one dominate buyer -- to a more competitive structure -- with bids being submitted from packers throughout the Eastern and East-Central United States. "The most tangible advantage of Eastern Lamb is that all lamb prices in the area have been raised \$.50-\$1.00 per hundred weight when comparing Virginia-Carolina markets with national markets both before and after the cooperative started operation in

April 1971" says David Holder.

Mr. Holder lists the following advantages for the Tel-o-auctions system as conducted by Eastern Lamb Producers:

The advantages to the producer are:

- (1) Slaughter animals (not feeder animals) are graded on the farm and stay there. Hence, they can be "no saled" if price is not high enough.
- (2) Increases the number of buyers bidding on a lots of animals.
- (3) Some farmers have complained a little about getting animals "up" twice--once to grade and again to load. But this is a small inconvenience, and the grader, especially of lambs, can often encourage farmers to hold lighter animals to heavier, more profitable weights.

The advantages to the packer are:

- (1) Save travel time and expense.
- (2) Can pick up animals at any time (after proper notice) within seven days of sale, thereby he can fit them into his kill schedule.

Current charges for the Tel-o-auction are \$.70/head which compares favorably with auction market charges of \$.35 - \$.50/head plus 1% of selling price. A copy of the operating procedures, spelling out the duties of all parties concerned in Eastern Lamb Producers Tel-o-auction, and a general description of the organization and the operation of the cooperative by G. A. Allen, Jr. are attached to this paper.

In conclusion, the Lamb Pool using telephone or teletype connections with prospective buyers over a wide geographical region should increase the competition for lambs from a local area. Increased competition should result in increased returns to individual lamb producers. The integrity of the graders appears to be of utmost importance in the success of the venture.

We are in the process of establishing a Tel-o-auction in Southwestern Idaho and Eastern Oregon. We have several active lamb pools established and are attempting to combine the lambs for volume selling. A survey of the farm flock producers is underway to determine possible participation and interest. It is planned to start operations with this coming spring lamb crop.

EASTERN LAMB PRODUCERS COOPERATIVE, INC.

OPERATING PROCEDURES FOR MARKETING LAMBS

Association

1. The Eastern Lamb Producers Cooperative, Inc. (the Association), composed of lamb producers, is the sponsoring organization.
2. Any lamb producers located in Virginia, West Virginia or North Carolina may become a member of the Association by marketing lambs through the Association and paying the prescribed marketing fees, not to exceed 75¢ per head.
3. The Association will determine the rules and regulations of the sales, select sale dates, stimulate participation among producers and promote buyer interest.
4. The Association will contract with a marketing agent to conduct the sales.
5. Tel-o-auction sales will be conducted around 11:00 a.m. on Friday of the week selected by the Association.
6. Lambs will remain on the farm until after the sale and the delivery date and time have been established.
7. The assembly point will be announced on each lot of lambs at the time of sale.

Marketing Agent

The marketing agent will handle the mechanics of the sale. He will:

- (a) Assemble lambs into truckload lots; inform prospective buyers of the lambs available for sale; conduct the sale; and notify live-stock markets and producers of shipping dates.
- (b) Provide an auctioneer and telephone facilities.
- (c) Have the privilege of rejecting any and all bids because of price or other reasons.
- (d) Stimulate buyer interest.
- (e) Perform other duties as prescribed by the Board of Directors of the Association.

Livestock Market

1. The livestock market will assemble lambs as directed by the marketing agent.
2. The livestock market will collect from buyers, deduct marketing fees, and pay consignors.
3. The livestock market will forward appropriate fees and a copy of the Market Sales Record to the Association's Secretary-Treasurer.

Consignor

1. A producer must consign his lambs ten days prior to sale date. Consignments may be made through a county coordinator or one of the following area coordinators:
 - (a) Ed Eller, Abingdon, Va. 24210 (703-628-6261)
 - (b) Reggie Reynolds, Roanoke, Va. 24012 (703-362-1606)
 - (c) Roy Meek, Draper, Va. 23424 and Dublin, Va. 24084 (703-980-4481)
and (674-5311)
 - (d) Randall Updike, Harrisonburg, Va. 22801 (703-434-0779)
 - (e) Sam Tuckwiller, Lewisburg, W. Va. 24901 (304-645-3909)
 - (f) Hansel Hedrick, Riverton, W. Va. 26814 (Macksville 3F16)
 - (g) Donald Van Deavner, Marlinton, W. Va. 24954 (304-799-4554)
 - (h) Dana Tugman, Laurel Springs, N.C. 28644 (919-982-2501)
2. An area coordinator will arrange to have representatives of the Livestock Grading Section of the respective state grade the lambs on the farm prior to the sale.
3. After the sale the consignor is responsible for delivering his lambs to the designated assembly point at the time chosen by the buyer.

Buyer

1. The buyer will choose the date for picking up the lambs but it must be within 7 days after the sale. There will be no Sunday take-ups.
2. The buyer will be responsible for moving the lambs from the designated assembly point to his plant. However, the marketing agent will, upon request, arrange trucking and bill the buyer.
3. Settlement must be made by the close of the following business day after the lambs are received.
4. The Association requests that packers supply yield and other information for product improvement.

Eastern Lamb Producers Cooperative

The Eastern Lamb Producers Cooperative was formed in March, 1971, to market lambs in Virginia, West Virginia and North Carolina.

During the late 1960's lamb marketing had become rather unsatisfactory in this area for a number of reasons; sheep numbers had declined and several Eastern packing plants had closed. In most of the area there was one order buyer and even though prices were not far out of line with other sections, producers did not feel they were selling on a competitive market and wondered how long there would be a lamb market.

For several years small groups of producers had attempted to develop a more competitive marketing program, but most of these had not proven satisfactory. In November, 1969, a Sheep Production and Marketing Symposium was held at Blacksburg, Virginia, sponsored by the Sheep Industry Development Program, with representation from nine states. During a discussion period, it soon became evident that the greatest concern and perhaps the most discouraging thing about sheep production in the area was lamb marketing. At this time a committee, with representatives from each state, was appointed to see if a satisfactory program could be worked out. The committee met under the sponsorship of Sheep Industry Development several times. In February, 1971, a meeting was held in Roanoke, Virginia, to which a large number of sheep producers in Virginia, West Virginia and North Carolina had been invited. Approximately 70 producers attended the meeting and indicated their interest in selling approximately 10,000 lambs through a new marketing program. At this time it was decided to set up a cooperative and officers and directors were elected to complete the marketing plans and be ready to sell lambs by late April.

Roy Meek was employed as manager of the cooperative and the marketing plan was completed. County and area producer meetings were held with Virginia Extension and Department of Agriculture representatives present at which time the program was

explained, producers were invited to join the cooperative and packers throughout the Eastern and Midwestern United States were contacted.

The first sale was held on April 28, 1971, when 445 lambs were sold and during the first year of operation almost 22,000 lambs were sold. During 1972 over 24,000 lambs were sold which is approximately one-half of the lambs produced in the area representing parts of the three states.

The procedure used by the cooperative is as follows: just before the lamb marketing season starts, producers are contacted by letter and asked how many lambs they expect to sell and during which months of the year. Each county has a contact man, usually the County Extension Agent or in some cases, a sheep producer. When a producer thinks he has lambs ready to sell, he notifies his County contact man. Counties report to a central coordinator who is an area Livestock Marketing Agent for the Virginia Department of Agriculture. These men work out a grading schedule, producers are notified when to have their lambs up and an employee of the State Grading Service grades the lambs on the farm and estimates their average weight. From the grading reports, the lambs are assembled into truck load lots (300 to 380 lambs) at 11:00 a.m. each Friday the lambs are sold by Telo-Auction. The buyer of each load of lambs has seven days from the time of sale to pick up the lambs at an assembly point (a local livestock market) or have them delivered to his plant.

This whole procedure from the time the producer gives notice that he has lambs ready for market until they are delivered requires from one to as much as two weeks, depending on how soon after the sale the buyers want the lambs. During this time the lambs are on the farm, on delivery date they are brought to the local assembly point, weighed and usually on the road to the packing plant within an hour for slaughter the next morning.

Total cost of the marketing program is \$.70 per head, \$.40 goes to the livestock market where lambs are weighed, assembled and paid for, \$.10 to the grading service,

\$.10 for sale expenses and \$.10 to the cooperative to carry on promotional activities and to pay miscellaneous expenses.

The Telo-Auction is a rather unique method of selling, it is a conference telephone call in which buyers can sit in their office, hear the auctioneer and all the other bidders. At the first sale this year a total of 15 buyers from the Eastern and Midwestern United States and Canada were on the phone. Three loads of lambs and one load of slaughter ewes were sold in about 15 minutes.

Most producers feel the marketing system is highly successful. Since the program started, the cooperative has established the market not only in the area where it operates but in surrounding areas. For example, in 1971 it appeared that the price advantage to producers who sold through the cooperative was \$1.25 per hundred and \$1.00 per hundred for lambs sold in the regular manner in the area and about \$.50 per hundred in other sections of the state. In Virginia it looks like the program made sheep producers about \$100,000 the first year with only one-fifth of the lambs actually being sold through the cooperative.

The program requires more work and coordination on the part of several people than the conventional selling systems, but producers feel they are getting paid for getting their lambs up twice. Packers are pleased because they are getting fresh, higher yielding lambs. Because of the uniform grading program packers can depend on the quality of lambs they will receive. Perhaps the biggest benefit of the program is the fact that producers know they will get a fair market price for their lambs and this has resulted in a renewed faith in the sheep business.

To date over 400 producers have sold anywhere from 1 to 2000 lambs through the cooperative and interest is growing in surrounding areas. The program is an excellent example of what can be done to solve a problem when industry leaders, dedicated producers, Extension and Department of Agriculture personnel coordinate their efforts.