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More $ For Your Livestock: Gaining Market Power Through Pooling

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MORE $ FOR YOUR LIVESTOCK: GAINING MARKET POWER THROUGH POOLING

Several innovative approaches to livestock marketing have been introduced in the Pacific Northwest in the past several years. All are based on the concept of increased buyer competition for the particular livestock being offered for sale. Pooling of livestock from a number of producers has attracted buyers from a wider geographic area for greater numbers of animals. The increased competitive bidding from a wider market area has brought major market center prices to livestock producers who formerly received only locally offered bids from one or a few buyers.

The telephone auction is one of the latest successful developments in the selling of lambs in the Pacific Northwest. The PNW Livestock Producers Marketing Cooperative, operating in Idaho and Oregon, was established in May, 1974. This organization was developed because lamb prices in the area had normally been $3 to $10 below West Coast and Denver prices. Producers were confronted with less and less competition for their lambs in local auction markets. Many producers were members of the local wool pools and so these pools became the nucleus of the regional association.

The auction method has been widely used as a means of negotiating livestock prices for many years. However. the competition among buyers at many local auction markets has waned in recent years and leaves much to be desired. Expenses of maintaining a force of buyer representatives to travel from auction to auction have increased substantially. Coupled with declining numbers of specific types of slaughter livestock at individual local auctions, the cost per head of livestock purchased has risen markedly. Therefore, fewer buyers compete for the available livestock.

The telephone auction of pooled livestock is a variation of the auction method utilized in several parts of the country to overcome the decline in local competitive bidding. More prospective buyers can be attracted for a given number of livestock using this marketing technique. With increased competition from a wider area, the producers in a particular location are less limited 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 and teletype connections are currently in operation in the United States. Canadian livestock producers have been successfully selling major portions of their livestock through pooling arrangements and modern communication connections for a number of years. Feeder pigs have been successfully sold via a telephone auction system in several parts of the mid-West for a number of years. Lamb producers have formed cooperatives in both the East and Inter-Mountain regions to successfully utilize this same method of selling.

Well defined and understood descriptions of a commodity and the terms of trade, together with the knowledge and skills associated with effective price negotiations between buyers and sellers are requirements for using modern communications media in marketing. Buyers and sellers may extend themselves to meet over vast distances in many markets requiring a minimum of time by using the telephone, teletype, closed circuit television, and computer tie-ins. An established, recognized and accepted producer description and terms of trade increases greatly the efficiency of these high speed communications systems.

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 standards are required to gain the needed confidence. Lack of confidence in the grading by either or both the buyer and seller has been the downfall of many livestock market pooling operations. A verbal description understood and accepted by both parties of the trade is a major factor in rapid communications and selling.

Terms of Trade

Terms of trade consist of those points of agreement that must be reached prior to the establishment and transfer of title. Some of the factors to be determined are: 1) size of the lots to be offered, 2) weight ranges and quality grades of animals, 3) time, place and method of weighing including shrinkage, 4) time, place and method of delivery, 5) time of payment, 6) responsibility for transportation and insurance, 7) health guarantees and inspection, 8) use classification (feeders or slaughter lambs), and 9) uniformity of lots. 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 condition for transfer of ownership. With agreement on terms, price then becomes the only negotiated point of agreement.

The Telephone Auction System

A general pattern has been developed for the pooling and auctioning of lambs using the telephone auction method.

1. Lambs are graded and marked on the farm or ranch by trained graders.
2. Lots of lambs are "assembled on paper" with number, weights and description known.

3. Prospective buyers are contacted prior to a given sale and assigned a number to be used in bidding.
4. At the sale time, all prospective buyers are "connected" to the auction via telephone conference lines.
5. The auctioneer reads the sales order, giving the number weight, grade and other terms of trade for all lots to be offered during that particular sale.
6. The auctioneer then describes the first lot of lambs to be sold and asks for bids as in a regular auction. Prospective telephone bidders do their bidding by calling out their assigned numbers and the auctioneer moves the asked price upward. The sale is made to the highest bidder.
7. The successful bidders are called following completion of the sale for shipping instructions. Buyers may take delivery to fit their schedules within seven days of the sale.
8. Producers are then notified of the date, time and delivery point for their lambs. Lambs are weighed as delivered, then commingled and loaded for shipment. In order to assemble a load of 400-440 lambs more than one assembly point may be used.
9. The lambs become the property of the buyer when weighed across the local assembly point scales and the producer is paid on the basis of that weight. The association collects from the buyer for the lambs weighed, deducts the predetermined marketing changes and pays the producer. Producers may receive their checks immediately or within a specified time as set forth by the association.

Advantages

More prospective buyers can be attracted for a given number of lambs utilizing the telephone auction as described above and with variations of this method. Pooled graded lambs in convenient size lots attract more competitive bidding. Semi-truck load lots reduce the transaction costs to the buyers. Packers can reduce their buying expenses through a reduced buying force, travel expense, etc. A portion of these savings can logically be expected to be passed on to the producers in increased bid prices for the lambs offered.

PNW Livestock Producers Marketing Association

The inception of PNW Livestock Producers Marketing Association came about through the naming of the Sheep for Profit Task Force by American Sheep Producers Council - Sheep Industry Development. The task force members include Dr. John Landers, Extension Livestock Specialist from Oregon State University; Dr. John Miller, Extension Meat Specialist; and Dr. John Early, Extension Economist from the University of Idaho. Dr. Early introduced the idea of a telephone lamb auction at the Sheep Industry Development Symposium in Denver, Colorado, in October, 1973. Discussions of pooling lambs for sale as with wool had already been carried on with directors of wool pools in Eastern Oregon and Southwest Idaho during the spring and summer of 1973.

During the fall and winter of 1973-74 the three task force members, with the assistance of Dr. Steve Marks, Extension Economist from Oregon State University, and Dr. Dave Holder, Economist with Farm Cooperative Service, U.S.D.A., conducted educational meetings with County Extension Agents, key sheep producers, and wool pool directors to explain the merits and requirements of pooling and telephone auction selling. A group of wool pool representatives met periodically in Baker, Oregon and developed a marketing procedure modeled after one described above and used by Eastern Lamb Producers Marketing Association of Virginia and the Carolinas using the telephone conference call to sell lambs directly to the packer by auction.

The original marketing area extended from LaGrande to Enterprise, Oregon to Boise and Council, Idaho. The founding groups were primarily made up of farm flock producers. Assembly points with scales and loading facilities were established at six locations within the area. The organization was officially incorporated in Oregon and registered as a foreign corporation in Idaho with offices at Ontario, Oregon. The Ontario Livestock Commission Company of Ontario, Oregon was contracted by the Cooperative as the selling agent. Lamb producers were trained as graders by the organization.

Early Experience

Cull ewes were sold at the first two sales in May, 1974 to test the system before the more valuable lambs were sold. Lamb sales were held each week from June until December, 1974, and periodically until March, 1975. A total of 61,400 ewes and lambs were marketed through the system during this period with a record sale day of 11,000 head. By August, 1974, the area of operation had expanded eastward to include all of South Idaho and some lambs from bordering states were sold. Lambs from several range bands were also marketed through PNW.

Prices received through PNW telephone auction ranged from $3.50 to $7.50 per hundredweight above the local markets. PNW cooperators received within 50 cents per hundredweight, at local assembly points, of the same day's market price at lamb marketing centers such as Dixon, California and San Angelo, Texas. Prices received by the producers selling through PNW were also in line with the East and West Coast dressed lamb market for the same week.

Packer representatives called PNW early in the marketing season and asked to be placed on the conference call lines. Many buyers were repeat bidders and buyers throughout the sales period. As many as 15 bidders participated in an individual sale with a maximum of 18 potential buyers on the lines. Lambs were sold to all the major lamb slaughterers West of the Mississippi. Buyers indicated they were well pleased with the system because the sheep that were delivered met or exceeded the description and the terms of trade were consistent.

What Lies Ahead?

The future of PNW Livestock Producers Cooperative Marketing Association appears particularly bright. The individual farm flock owner can now pool his lambs with those of other producers and sell directly to the packer in truckload lots. The range sheep producer can also use this method of selling to advantage as was demonstrated in 1974 with 30,600 lambs from range bands sold through the telephone auction.

Considerable expansion has taken place since the inception of the co-operative. Lambs and ewes were sold from an area extending from Klamath Falls, Oregon to Billings, Montana, including parts or all of the states of Oregon, Idaho, Washington, Montana, and Wyoming. Additional areas in Washington, Northern Nevada and Utah may be included in the selling territory as interest in joining PNW has been expressed by wool pool members and individual producers from these states.

Private Treaty Forward Contract Selling

A second approach being used to enhance the competitive position of sheep and lamb producers was started by the Idaho range flock operators: Rocky Mountain Sheep Association was formed in the spring of 1975 for the purpose of selling range lambs through forward contracting. Prospective buyers are contacted by telephone regarding specific lots of lamb offered for sale currently or at a future date. Several buyers are contacted on a particular lot until a price acceptable to the seller is offered. This method of selling is considered private treaty selling, with an effort to secure bids from several buyers for each lot. This approach appears to be working successfully for the range flock producers.

Video Auction System

A third recent development in the Pacific Northwest toward increasing competitive bidding for livestock involves the use of slide pictures and cooperative pooling of livestock to secure numbers sufficient to draw many prospective buyers. This technique was used in Jefferson County, Oregon (Madras) in the fall of 1975 to sell feeder cattle. The sale was promoted throughout the Pacific Northwest and drew feedlot buyers from outside the three state area.

The cattle were graded into lots on the ranches and slide pictures were taken of the lots. On sale day the slides were exhibited on a screen in the meeting room and auctioned off to the highest bidder. Bidders from seven states were present. Buyers were satisfied because the cattle received were as described in pictures. Sellers were satisfied as the sale prices were about $2.00 above the general feeder price the week of the sale.

A similar technique has been used for feeder sales at Ely and Sparks, Nevada. The sale at Sparks, held April 9, 1976, drew 150 buyers from seven states for the 17,020 head of feeders sold. Reported prices for this sale averaged $1.50 to $2.00 above the quoted market prices for that week for similar weights and grades of feeder cattle.

On-The-Ranch Auction

A fourth selling technique will be tried in July, 1976 at (Enterprise), Oregon. The beef producers of Wallowa County are planning a two day sale with buyers invited to visit the producer ranches. A chartered bus will be used to transport buyers to the individual ranches, the cattle to be sold will be viewed on the range area and sold by auction for delivery at a specified time up to three months later. This sale will combine the pooling technique to draw numbers of buyers, the auction method of selling, and forward contracting. There appear to be several positive benefits from this approach to marketing feeder cattle. It may be a method useful in areas with a number of fairly large ranches but would probably not work well for small operators because of the time required to visit large numbers of herds.

Pooled Rail Shipment To Midwest Markets

A fifth method of marketing livestock has been used by producers in Northwest Montana for a number of years, with satisfactory results. The Northwest Montana Cattle Marketing Association has been pooling cattle for shipment by special train to markets in the Corn Belt since 1959. A special feeder day is advertised by the markets, such as Omaha, Nebraska to attract buyers for the cattle. Each producers' cattle are identified, mingled with other producers' cattle, sorted into convenient lots of similar quality and size and sold either through the auction ring or a commission house at the market. This group of cooperators has been sending 12,000 to 16,000 head to the Corn Belt area yearly. Sellers have been satisfied with this method of marketing. Prices of locally sold cattle have been strenghtened because producers have the option of consigning to the special feeder shipments. This approach to feeder cattle marketing requires close cooperation from producers and the consignment of 2,500 to 4,000 head for a particular shipment.

SPECIAL FEEDER CATTLE AUCTIONS

Several special sales of feeder cattle are held in the Pacific Northwest each fall. One of particular note is held at Mackey, Idaho with consignments from a three county area. This sale appears to require about 600 head of a like kind of cattle and 600 head of yearling cattle or weaner calves to attract sufficient buyers for active bidding. Sales are conducted several times each fall depending on the cattle consigned. Many producers who have consigned cattle continue to do so annually and have developed a reputation for their cattle with buyers from a distance.

The major common attribute of each of these selling methods is the pooling of producers' animals to get numbers sufficient to attract additional buyers and thereby increase competitive bidding. Competitive bidding has increased the prices of individual lots of livestock over that offered on the ranch or obtained through the local livestock auction on a normal sale day.

The telephone auction system offers distinct advantages for small producers of livestock going directly to slaughter. Packer buyers are very willing to bid on carload lots of lambs, cattle, and hogs on the basis of a verbal description. This system is also used successfully for selling feeder pigs.

Cattle feeders, in particular, seem to desire visual inspection of the animals prior to purchase. This requires on-the-site viewing of the cattle or pictures may prove adequate. Additional experiences are needed to test this method of pool selling.