

Poultry Marketing and Pricing

in the Los Angeles area affected by absence of central market and lack of definitions of classes and grades

Kenneth D. Naden

During the first half of 1949, prices per pound of live fryers in Los Angeles varied from five cents below to 13 cents above fryers in Chicago.

Much poultry is shipped in to Los Angeles from out of state and local prices should maintain some normal relationship with those in the surplus regions but the above figures typify the wide fluctuations in poultry prices that occur in Los Angeles.

The sharp price changes are due primarily to changes in local supply and the low degree of substitution of fresh for frozen poultry. The sharp changes in local supply are a symptom of a poor pricing system insofar as they are caused by insufficient information available to producers.

The lack of a central poultry market place in the Los Angeles area prevents information on daily supply from being collected easily—and knowledge of changes in supply and demand is extremely important in arriving at sound prices.

Poultry produced in the Los Angeles area is assembled by numerous country buyers, and processed by about 15 large processors and about 75 small operators.

Changes in supply and demand are first revealed by the reluctance or eagerness of buyers to secure a supply. This creates uncertainties concerning market outlets which producers attempt to offset by making special arrangements or contracts with buyers or processors. The poultry from producers not so protected contributes to gluts and shortages and to violent price fluctuations.

In addition to this problem, small processors do not have equal access to the supply. Such processors pay from two to five cents per pound more for fryers than do large processors and producers cannot determine if the higher price paid by these processors is reflected back to them.

The daily *Price Report*—published by the United States Department of Agriculture—contains the only information available concerning prices in the Los Angeles market. It is widely distributed and used as a basis for practically all buying and selling. Yet it is inadequate as a source of information for the level of competition required.

The *Price Report* includes prices paid

by the larger processors but not those of the small; it includes prices of No. 1 quality live and Grade A dressed poultry but not of other grades; and it does not report information on daily shipments of live poultry into the market.

Another market imperfection is that all buyers and sellers do not speak a common language concerning classes of poultry or grades within classes. There are about eight different classes which are recognized at the farm and wholesale levels, yet these are compressed into three or four classes at retail.

An incentive exists, under these conditions, for handlers to buy poultry as one class and resell it as another.

A high level of competition is necessary to insure that prices which consumers pay are fully reflected back to producers. This level of competition cannot exist without uniform definitions for a product throughout the market.

Tests made by the Los Angeles County Extension Service and the USDA Grading Service show there is a wide range of quality of poultry produced locally. Yet farm buying is done in such a way that few fryers or colored hens are graded at all, and most Leghorn hens are graded down severely. The opinion of most poultry trade members is that only a nominal relationship exists between the grading currently done and that which would be done if official grades were adopted.

This lack of grades is considered a serious deficiency and has its most marked effects on farmers and consumers.

It is an ordinary buying practice to pay extremely low prices for all poultry bought as No. 2 quality. Hence, the number of birds placed in each grade has a major influence on price received. The division of a lot into grades, rather than the price, depends upon relative bargaining power of the parties. Since the prices for the two grades are so far apart, the low prices for chickens called No. 2 quality may be subsidizing high prices for those called No. 1 quality.

Farmers have no way of determining the actual quality of the poultry they produce or of making a management decision concerning the profitability of which quality is best for them to produce.

It is impossible to determine if retail selling prices are being accurately reflected in farm prices. Prices received by

farmers are poor guides to profitable production.

An important criteria of a sound price-making system is that there is unimpaired consumer choice between products and between grades of a product. It is just as important that the grades in use for a commodity conform to the uses and values placed on them by buyers.

Consumers of poultry in Los Angeles have little opportunity to express a choice between grades of the product. Retail stores do not label poultry by grades. Usually all grades are lumped together in one case, or a store buys only one grade.

It is probable that a specific consumer prejudice against white hens is reinforced because consumers usually compare all colored with all white hens, instead of specific grades of each.

There is no assurance that both classes of hens are offered in each store; or if they are, that they will be of the same grade.

The existing pricing and marketing situation in the Los Angeles area contributes to consumer dissatisfaction with poultry and probably reduces its consumption.

Kenneth D. Naden is Instructor in Agricultural Economics, Junior Agricultural Economist in the Experiment Station, and Junior Agricultural Economist on the Giannini Foundation, Los Angeles.

CALIFORNIA AGRICULTURE

Progress Reports of Agricultural Research, published monthly by the University of California College of Agriculture, Agricultural Experiment Station.

Harold Ellis Director
Agricultural Information
W. G. Wilde Editor and Manager

CALIFORNIA AGRICULTURE will be sent free upon request to the University of California College of Agriculture, 22 Giannini Hall, Berkeley 4, California. Please allow about two weeks between your request and the arrival of your first copy.

Permission to reprint any or all of the material in CALIFORNIA AGRICULTURE is hereby granted.

In order that the information in CALIFORNIA AGRICULTURE may be simplified, it is sometimes necessary to use trade names of products or equipment. No endorsement of named products is intended nor is criticism implied of similar products which are not mentioned.

