

California Egg Buying Systems

factors affecting wholesale prices of eggs in principal markets influenced by dominant buying system of local area

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Two types of wholesale egg buying systems are in general use in the principal consumer markets of California. Usually, eggs move directly from the ranches in the adjacent area to the retail outlets through the egg dealer-distributor. In these markets both formal and informal agreements have been made which tie the egg producers, the dealer-distributors, and the retail outlets into semi-independent but integral units.

Weight Buying

One system—size or weight buying—is based on farm classification of eggs into large, medium, and small minimum-weight classes in accordance with egg-grade law. Stained, dirty, or checked eggs are packed separately by weight classes. Off-grade eggs packed in cases with the regular-run eggs may cause the entire lot to be penalized.

The producer prices for regular-run eggs are determined by differentials under prices charged to retail outlets appearing in the Federal-State Market News Service daily reports or from other trade-accepted sources. The predominantly accepted level of prices is the top quotation for A quality.

Pricing formula used for off grades packed separately varies. It may be a differential under the regular pack or it may be a percentage of the specified regular pack price.

The date of the price quotation may be the day the eggs are picked up, or the day they are sold, or some selected day of the week.

The regular-run eggs purchased by the three weight classes—large, medium, or small—are graded for exterior and internal quality and are cartoned by the egg dealer-distributor for sale to retail outlets.

A variation of weight buying is the value score system. Regular packs of large eggs are evaluated for quality by government inspectors. Differentials are negotiated between the dealer and the producer group on a value score composed of a three-months' running average of these evaluations and historical price relationships of the large-egg grades concerned. This method is designed to give premiums to the producers of high-quality eggs. The medium and small eggs

and the off grades are purchased in a manner similar to the regular weight buying. This general form of local variation is used predominantly by co-operative bargaining groups of producers who negotiate with dealers for the group's entire block of eggs on a firm contract for a specified period of time.

Quality Buying

In the second type of wholesale buying—the quality or grade-out system—eggs are purchased by the distributor on the quality grades and weight classes which he sells to the retail and wholesale trade. Producers are paid on the basis of their grade-out records and differential prices based on trade-accepted sources.

In principal markets, there are firms buying on a per-dozen price offer based upon their estimates of the market instead of differentials under published prices.

Resale Price Structure

Some form of both types of buying systems is used in all markets, with the price structure determined by the buying system of the dominant firms. The secondary system adjusts to the existing market structure so that long-term net returns to producers are comparable.

In markets using A quality as a paying base in the weight-buying system, the net return to the dealer-distributor for a given volume is directly related to the margin of AA quality eggs over A quality and to the proportion of AA eggs sold.

The joint upper limits are set by market demand and competitive pressure; the lower limits, by normal operating and procurement costs. When declining market conditions prevent maintaining lower limits intact, adjustments are made by offering lower prices for the buying base or, at times, by increased differentials under the existing buying base.

Under recent market conditions, the margin between the Large AA and A has tended to be stable. For the other size classes, margins between the grades fluctuated more freely.

The value score buying system is also subject to similar restrictions in spite of

the quality grade-out techniques used. The current supply and demand pattern is not reflected by the value score system because it includes the market supply pattern of the two preceding months. Valuations of the grades are tied to historic price relationships. The differentials reflect the supply influence of deficit periods and apply to all eggs in the large-weight class.

Spread Between Prices

The spread between the buying and selling prices—under the quality system—covers the estimated normal operating costs, variations in consumer grades packed within specified size and grade, and the expected proportion of grade-out losses. In markets where this method is dominant, the market prices move in accordance with the available supply and local demand for each weight and quality grade.

The quality system of egg buying provides a sound economic basis for equity in the payments to various producers who supply eggs having different grade composition.

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CALIFORNIA AGRICULTURE

Progress Reports of Agricultural Research, published monthly by the University of California Division of Agricultural Sciences.

William F. Calkins.....*Manager*
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