BUYING HOGS ON CARCASS WEIGHT AND GRADE

Carroll Plager

GEO. A. HORMEL AND CO., AUSTIN, MINN.

The first statement I should like to make is that all plans offered by Hormel and Company have been optional with the producer. It is our opinion that the plan will either sell itself or fail on this basis. We do not enjoy having programs forced down our throat and believe producers feel the same way. Furthermore, if the program cannot sell itself on a voluntary basis, it should not be adopted. To succeed, it must benefit the industry more than plans now in use.

The first plan was offered in February of 1933. The plan included a complete breakdown of carcasses with the Chicago provision market, less a freight differential, as the basis for calculating values. A standard deduction was taken from the gross returns to cover the cost of processing and to allow for a very nominal margin of profit. Needless to say, the plan failed. It was not readily accepted by producers and proved cumbersome for us to operate. It was abandoned the same year and replaced by a more acceptable and workable plan that lasted until June of 1940.

The second plan was an improvement over the first since prices were assigned to carcasses of various weights and grades rather than the breakdown of them. This enabled us to make returns available to the producers more readily and to reduce the chances of errors in cost accounting. In both of these first two plans, the producer was paid the full market for livestock free of disease and bruises. Producers who delivered livestock that were either diseased, bruised, or both, paid the full penalty for these losses through a discount on their account sales. The theory of this plan was that the farmer with disease and bruise free livestock should not be asked to pay the bill of the careless farmer who failed to deliver his livestock free of bruises, etc. All producers voiced hearty approval of this feature, but in actual practice, the majority shied from it. They believed in the principle 364 days of the year--every day but the day they sold their hogs. This experience taught us in unmistakable terms that any plan which might be adopted would need to receive the approval of both buyer and seller. Some theories, right in principle, are thus being discarded because they fail to gain acceptance.

Our experience during price ceilings can be reviewed in a very few words. We were forced to discontinue the plan at that time since prices in excess of ceilings could not be paid. Naturally, the plan could not operate with penalties permitted and premiums prohibited.

The plan now in effect lists two sets of weights. The first list includes the regular weight brackets used in the market classification of live hogs. The second includes comparable carcass weights based on standard yields for good to choice hogs of their respective weights. You will readily understand why these two sets of weights must be synchronized. Producers want to interpret their returns in terms of what they would have received had they sold on the live weight basis.
A fact many people are not aware of is that these standard yields do not remain constant; as a matter of fact, they vary both between weights and with seasons. Other things being equal, the heavier the hog, the more it will yield. Butcher hogs and sows of comparable weights do not usually yield alike. Butcher hogs yield higher on the average.

Conditions that prevail during certain seasons of the year have a very direct influence on yields. Cold weather, which finds many hog producers with inadequate watering facilities, promotes high yields. On the other hand, the early fall season with new corn making up a sizable part of the hog ration, accounts for very disappointing yields. These influences are common enough to change the average yields of hogs of the same weight. Accordingly, we need to adjust our standard yields to coincide with prevailing conditions.

In contrast to the fluctuation of standard yields, grades remain constant. The percentage of hogs that fall within certain grades may vary considerably, depending upon the presence or absence of a good corn crop, but the standards by which a hog is graded remain unchanged. The margin of value between grades may also change. This is due primarily to the percent that fall within the specific grades. If very few hogs are thin, the discount on such hogs will be materially less than if the same grades are marketed in large numbers.

Many people are curious about the classes, grades, and weights of hogs that have been sold to us on the carcass yield and grade basis. It is a rather common belief that only medium weight butchers of an extremely high grade are offered for sale. This isn't entirely true. We have producers selling packing sows and heavyweight butchers as well as lightweight butchers. The plan is equipped to handle one class or weight and grade of hogs as well as another. When a producer sells a hog to us on this plan, the thing he is actually doing is demonstrating confidence in his produce. He is predicting that this hog will yield and/or grade higher than the average good to choice hog of the same weight and class. For instance, if he should be marketing a 350 pound packing sow, he is simply wagering that his sow will prove to have more value to us either through a higher yield, a higher grade, or both than the average good to choice 350 pound sow coming to our market at that time.

The plan has been used as a jury for questionable fills. Should there be a difference of opinion on an occasional hog regarding the degree of fill, we offer to have such hogs slaughtered on the yield and grade basis, and if the killing report proves we were in error, we pay the producer the correct price. If, on the other hand, we not only were correct in insisting on a discount but didn't insist on enough, we expect the producer to abide by the evidence from the killing report and accept the full discount. This plan has reduced the kind of wrangling that can result from a difference of opinion on degree of fill.

Most important of all appears to be the effect the plan has on the attitude of both producers and buyers. Producers who have adopted carcass yield and grade as a method of sale have been relieved of the belief they need to fill counterfeit livestock and develop trade maneuvers. Instead, they spend their time and energy improving the weight and grades of market livestock. The item of fill, long considered a necessary evil by many producers, is pushed completely out of the transaction. Stress is placed on weight and grade, things that can be treated intelligently and have value, not things that detract from it. The incentive offered through this plan has prompted progressive livestock producers to do an improved job of producing
market livestock. Many of these producers have used the plan to verify or void their ideas of hog type and hog feeds. They are learning to recognize proper weight and finish and are marketing a more valuable product. They are the kind of producers who are making friends with the consumer.

In summarizing, may I say we have found yield to be the largest single disturbing element faced by the livestock buyer. I have said disturbing because it exerts such a tremendous influence on live values and is the most difficult value determining factor to judge accurately. It is wrong to think of it as the only factor since we all know there can be a great deal of difference between the grades of two animals of the same live weight and yield. An intelligent analysis of this plan cannot be made without giving consideration to both yield and grade and to give to each its proportionate share of emphasis.

---

CHAIRMAN COLE: Carroll, we certainly appreciate having you here, and I for one, think that the plan as you have presented it does have merit, and I hope that you get more and more stock on this plan.

This does conclude our portion of the program.

In my opening remarks, I mentioned that we have tried to not get it too complicated, but maybe it is too simplified.

I hope that in our report that comes out, there will be something of benefit, especially to the younger men in their carcass evaluation work.

(Mr. W. H. Tomhave assumed the Chair.)

CHAIRMAN TOMHAVE: It was very considerate of you to rush your program through, and we very much appreciated it.

I do not want you to have the feeling that we are trying to rush the program through without giving every phase of the subject due consideration. We must, however, also realize that in fairness to those that are to follow, that we should not infringe upon the time that has been allotted to them, and we certainly appreciate your cooperation.

We will stand adjourned until 1:30 sharp.

(The meeting recessed at 12:30 p.m.)

# # #