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F. W. Peck, Director

MINNESOTA FARM BUSINESS NOTES

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COMPETITION AMONG MINNESOTA CREAMERIES*

Prepared by E. Fred Koller

In recent years Minnesota creameries have been experiencing increasingly severe competition in obtaining butterfat. A variety of factors has contributed to this situation, chief among which is the great improvement in transportation. With the limited means of transportation available prior to 1910, when most of the creameries were organized, it was necessary to establish many small plants within easy access of butterfat producers. The result has been a dense distribution of creameries and other types of dairy plants in various parts of the state, many of which obtain insufficient butterfat to operate efficiently under present day conditions. Table 1 shows that 129 of the 175 creameries, included in a recent survey by the Division of Agricultural Economics, have from three to nine creameries or other buyers of butterfat located within a ten-mile radius of their plants. This table also shows that some creameries have thirteen or more such outlets located in this limited area, each withdrawing a certain amount of available butterfat.

Table 1

Classification of 175 Minnesota Creameries According to the Number
of Competing Butterfat Buyers and the Number of Buyers Operating Trucks
within a Ten-Mile Radius

No. of competitors	No. of creameries having specified no. of competing buyers	No. of creameries having specified no. of buyers operating trucks in territory
None	2	39
1 - 2	22	77
3 - 4	48	49
5 - 6	46	7
7 - 8	35	3
9 - 10	8	-
11 - 12	7	-
13 and over	7	-
Total	<u>175</u>	<u>175</u>

The development of truck transportation has intensified competition for butterfat from both within and outside the ten-mile radius. Plants located at distances as great as 100 miles have found it possible to encroach upon the terri-

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tory of the local creamery. The last column of Table 1 shows that all but 39 of the 175 creameries are confronted with competitors operating one or more truck routes in their natural supply areas. Three creameries reported as many as seven different organizations, some with several truck routes, assembling butterfat in their territories.

The general practice of employing cream haulers on a commission basis has increased competition between dairy plants. Generally, these haulers are unrestricted in their choice of territories. Under these conditions the supply areas of creameries have been expanded but not without retaliation. The result has been that the butterfat producer has been burdened with the unnecessary cost of even more duplicated assembly services.

Increased effort on the part of creamery managers to expand volume in order to reduce per unit operating costs is a basic factor underlying the present competitive situation. Such efforts have been stimulated by various technical developments in dairy plants making large-scale operations desirable, and by an increasing recognition of the importance of volume in cost reduction. The advantage which many Minnesota creameries may gain by increasing volume is illustrated by the 1936 operating results of 170 Minnesota creameries (Table 2). The table shows that the operating costs of plants with volumes exceeding 500,000 pounds are approximately one cent lower than in plants producing less than 125,000 pounds.

Table 2

Creamery Costs, Prices Paid for Butterfat, and Net Receipts per Pound of Butterfat Handled by 170 Minnesota Creameries Classified According to Pounds of Butter Made, 1936

Pounds of butter made	No. of creameries	Total operating cost per pound (cents)	Price paid per pound butterfat (cents)	Net receipts available per pound butterfat (cents)
All groups	170	2.61	36.21	36.37
Less than 125,000	9	3.44	34.93	35.00
125,000 - 249,999	52	2.95	35.15	35.14
250,000 - 374,999	49	2.70	35.33	35.11
375,000 - 499,999	32	2.62	36.53	36.98
500,000 - 624,999	15	2.56	37.09	37.44
625,000 and over	13	2.17	37.37	37.70

Competition generally manifests itself either in the payment of higher prices for butterfat, or in additional services to producers, or both. It is, of course, legitimate for a creamery to pay higher prices than its competitors if it is able to do so because it has lower operating costs, or receives higher net prices for its butter, or both. Table 2 shows that the creameries with the advantage of larger volume and lower cost tend to pay farmers higher prices for butterfat. Creameries with average costs of 2.17 cents for each pound of butter made actually paid 37.37 cents a pound for butterfat and could have paid 37.70 cents if none of the earnings had been retained in surplus.

Frequently prices paid by the efficient creamery are in some manner or other equalled by less efficient competitors, thus eliminating price advantage as a basis for attracting patronage. In such cases, some have found it advantageous to pay at a lower rate currently and then distribute a patronage dividend at the end of the year.

With an increased tendency for all buyers in an area to pay the same prices, creameries have resorted to various forms of service competition in order to obtain and hold patronage. Among these service inducements extended to producers are butterfat assembly services which have often been paid for in whole or in part by the cream buyer; special financial services such as cash payment for butterfat or liberal cash advances; cow testing aid; receipt of cream on Wednesday or Saturday evenings; free buttermilk; and, a variety of sideline services oftentimes offered on a liberal credit basis.

Indicative of the emphasis on service in order to obtain butterfat is the notable increase in the use of trucks for the assembly of butterfat. Prior to 1920 only 28 of the 175 creameries surveyed had regular truck routes. By 1935, 117 or 67 per cent were providing all or part of their patrons with this service. In 18 cases the creameries made this service appear even more attractive by absorbing all the hauling costs, paying the same prices on the farm as at the plant. Forty creameries absorbed part of the hauling cost in order to attract additional patronage. This competitive device has been very effective in obtaining patronage from longer distances. However, since costs absorbed by the creamery must ultimately be borne by all the butterfat handled, this method has favored distant patrons at the expense of those producers near the creamery who deliver their own product. An amendment to the Minnesota Unfair Discrimination Law passed at the recent session of the legislature restricts this competitive practice by requiring butterfat buyers to deduct the full cost of transportation up to two cents from the purchase price paid the producer.

Many creameries hold or obtain a competitive advantage by unethical, unfair, or illegal methods. In some cases, competitors overpay merely because their accounting records are so inadequate that important expenses such as depreciation have been neglected. There are other cases in which the capital of the organization is knowingly dissipated in maintaining prices at higher levels than the available receipts warrant.

Some creameries pressed by competition or desiring to gain a competitive advantage may resort to illegal practices. In order to pay higher prices, some creameries may manipulate weights, tests, and overrun. Prosecutions by the state indicate that such practices are employed in some cases. Other buyers of cream violate the State grading law in order to give certain patrons higher prices than the quality of their product deserves.

A solution of the competitive problems of Minnesota's creamery industry calls for a series of major readjustments in individual plants and in the industry as a whole. The consolidation of plants and the elimination of costly duplications in the truck assembly of butterfat are necessary if the producers are to receive the best possible net returns. These important adjustments may be effected by the continuance of ruthless competitive processes. This course is slow, will involve many losses, and will provide no assurance that those creameries will be continued whose survival is justified. These difficulties are too complex to be solved by the action of individual creameries. A rational solution of problems such as these calls for mutual planning and coordinated action on the part of groups of creameries united by the desire to eliminate unnecessary costs in assembling and processing butterfat. Individuals and agencies in a position to supply unbiased information and guidance in efficient creamery business organization and operations can be very helpful to creameries in the development of such a program.

MINNESOTA FARM PRICES FOR JUNE, 1937
Prepared by W. C. Waite and W. B. Garver

The index number of Minnesota farm prices for the month of June, 1937 was 96. When the average of farm prices of the three Junes 1924-25-26 is represented by 100, the indexes for June of each year from 1924 to date are as follows:

June 1924 - 84	June 1931 - 58
" 1925 - 108	" 1932 - 39
" 1926 - 110	" 1933 - 48
" 1927 - 100	" 1934 - 56
" 1928 - 110	" 1935 - 78
" 1929 - 109	" 1936 - 78*
" 1930 - 90	" 1937 - 96*

*Preliminary

The price index of 96 for the past month is the net result of increases and decreases in the prices of farm products in June, 1937 over the average of June, 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index,
June 15, 1937, with Comparisons*

	June 15, 1937	May 15, 1937	June 15, 1936	Av. June 1924-25- 26	% June 15, 1937 is of May 15, 1937	% June 15, 1937 is of June 15, 1936	% June 15, 1937 is of June 15, 1924-25-26
Wheat	\$1.14	\$1.21	\$.88	\$1.36	94	130	84
Corn	1.05	1.15	.45	.69	91	233	152
Oats	.39	.45	.19	.39	87	205	100
Barley	.61	.84	.38	.59	73	161	103
Rye	.79	.92	.41	.74	86	193	107
Flax	1.73	1.93	1.51	2.31	90	115	75
Potatoes	1.05	1.25	.65	.84	84	162	125
Hogs	10.30	9.60	9.10	9.87	107	113	104
Cattle	7.70	7.60	6.00	6.26	101	128	123
Calves	8.30	7.90	7.80	8.44	105	106	98
Lambs-sheep	8.98	9.34	8.47	11.28	96	106	80
Chickens	.125	.119	.143	.180	105	87	156
Eggs	.160	.168	.179	.24	95	89	67
Butterfat	.33	.34	.29	.40	97	114	82
Hay	7.82	9.52	4.48	11.57	82	175	68
Milk	1.70	1.70	1.58	1.98	100	108	86

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture*

	June 1937	May 1937	June 1936	Av. June 1924-26
U.S. farm price index	89.0	93.0	77.0	100.0
Minnesota farm price index	96.0	99.0	78.0	100.0
U.S. purchasing power of farm products	103.0	108.0	97.0	100.0
Minnesota purchasing power of farm products	110.0	115.0	99.0	100.0
U.S. hog-corn ratio	8.5	7.7	14.5	12.2
Minnesota hog-corn ratio	9.8	8.3	20.2	14.5
Minnesota egg-grain ratio	9.2	8.8	17.4	14.5
Minnesota butterfat-farm-grain ratio	23.6	20.6	41.7	33.2

*Explanations of the computation of these data may be had upon request.