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Farm Size in Relation to Market Outlets and Forward Contracts for Major Field Crops and Beef Cattle, Texas Rolling Plains

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by

Donald S. Moore and J. Rod Martin*

Agricultural producers are continually adjusting to changing marketing channels. Some farmers obviously seek these changes, while others are only later affected by the changing conditions. One example of changing marketing channels is the use of contracts in marketing agricultural products, which has become more frequent in recent years.

This study estimated the importance of the various types of first handler markets, including contracting, and the relationship between the various types of markets and the farms utilizing them in the Rolling Plains. The study area was selected because farming in the Rolling Plains of Texas involves a mixture of basic commodities, including cotton, grain sorghum, wheat, and beef cattle, which are important in the regional area of the south and southwest. Farm operations in this area appear to be typical in terms of operator attitudes and farm sizes.

The findings reveal a strong relationship between farm size and contracting. The use of both crop and beef cattle contracts is associated with the larger farm producing units. The results suggest that larger farm operators are either more active and aggressive in seeking contracts or have advantages in being able to obtain contracts. This situation has implications for farm firm survival, structural changes, and adjustments in farming. In the event that contracting leads to lower marketing costs, more efficient marketing, or lower marketing risks, the larger producers may have the additional advantages in terms of mobilizing capital and other farm resources and in the growth and development of their farm operations.

*Respectively, associate professor, The Texas Agricultural Experiment Station (Department of Agricultural Economics), and agricultural economist, National Economic Analysis Division, ESCS-USDA, College Station, Texas.

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About one-fourth of all crop farm operators made a contract for the sale of either cotton, grain sorghum, or wheat in 1973. Other than farm size, there did not appear to be any distinguishing characteristics between crop farms that contracted and those that did not contract. A substantially higher proportion of the larger size operating units made contracts than did the smaller size units. About one-half of those operators who operated 600 or more acres of cropland made a contract for one or more crops. In contrast, only about 14 percent of the operators with units of less than 150 acres of cropland made a contract in 1973. Contracts for cotton were made with considerably more frequency than contracts for either grain sorghum or wheat. If size is measured in terms of acres of cotton planted, rather than acres of cropland in the farm, the relationship between farm size and crop contracted is even more pronounced. Approximately three-fourths of the growers who planted 500 acres or more of cotton contracted all or a portion of their crop, compared with about one-fourth of the growers who planted less than 500 acres of cotton.

Beef cattle contracts are mainly used to purchase feeder cattle produced in connection with large wheat-stocker type operations where calves are grown out to feeder weights. Seventy percent of the cattle marketed through contracts appeared to be from stocker type enterprises that involved wheat and/or other types of cropland grazing activities. While only 7 percent of beef cattle producers used contracts to sell or market beef cattle, more than 20 percent of all beef cattle marketed in 1973 were sold under contract because larger producers were more inclined to market cattle this way. No beef producers with sales of less than 20 head and only 0.3 percent of the beef cattle producers with cattle sales between 20 and 59 head sold beef cattle through a contract, while a high proportion of the larger beef producers utilized contracts in 1973. The use of beef cattle contracts has increased with the growth and development of cattle feeding. Many producers who started to contract before 1973 continue to use contracts and deal with the same contractor each year. Order buyers usually act as agents for the feedlots in making the contracts.

The crop contracts utilized in the Rolling Plains must be classified as forward pricing contracts or advanced sale agreements. Production practices generally were not specified, other than prohibiting certain harvesting practices, such as picking cotton off the ground and the specification that producers practice good farming methods. The contracts usually specified a price in relation to a stated quality and a quantity, including all production from a specified number of acres. If a grower's contract was written in terms of all production from a specified acreage, the usual procedure was for him to contract all the acreage which he planted or expected to harvest. Those growers who contracted a specified volume of production usually contracted a substantially smaller volume than the amount they expected to produce.

Beef cattle contracts usually specify a specific price, amount of part payment involved, description and location of the cattle, delivery rate, FOB delivery point, allowable 10-percent cut for the buyer to sort out undersirable cattle, 3-percent pencil shrink, scales to be used to determine pay rates, and health and brand certificates which must be furnished by the seller. Although the beef cattle contracts cannot be classified as production contracts, a number of them specify certain production practices that must be followed, such as no use of implants and no grain fed and/or limiting supplemental feed to a certain level when needed during drouthy periods or during other bad weather. Certain advantages, such as lower marketing costs, less handling, and personal contracts with producers, may exist in connection with the use of beef cattle contracts, but costs savings to buyers are apparently possible only when they are associated with larger producing units.

In terms of all market outlets, local merchants or elevators were by far the major purchasers of the three principal field crops (cotton, grain sorghum, and wheat). There appears to be no significant relationship between farm size and the utilization of local markets. Central market merchants ranked second in importance as purchasers of cotton, accounting for 17 percent of the total sales, but were not important markets for grain sorghum and wheat. Farmers' cooperative associations purchased 15 percent of the cotton sold by farmers in the Rolling Plains and 11 percent of the wheat, but they accounted for only 4 percent of grain sorghum sales. Through cotton merchants, foreign buyers made some purchases from operators of medium-size farms but did not deal with the small or largest cotton producers.

Small beef cattle producers tended to utilize auction markets and large beef cattle producers tended to sell through order buyers. Although 86 percent of the producers utilized auction markets, only 47 percent of all cattle and calves were sold through auctions in 1973. Only 15 percent of the producers sold cattle and calves through order buyers, but 40 percent of all cattle and calves sold were sold through order buyers.