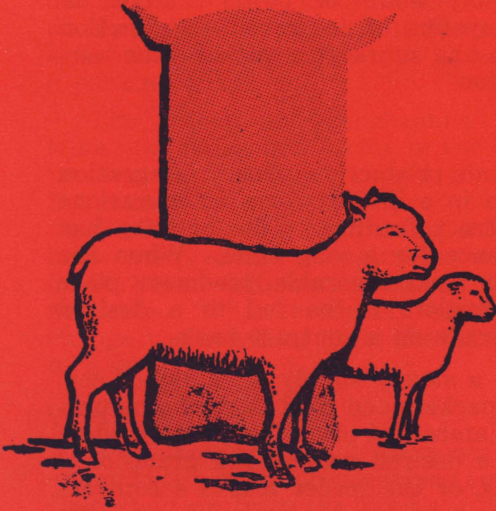


VERTICAL INTEGRATION

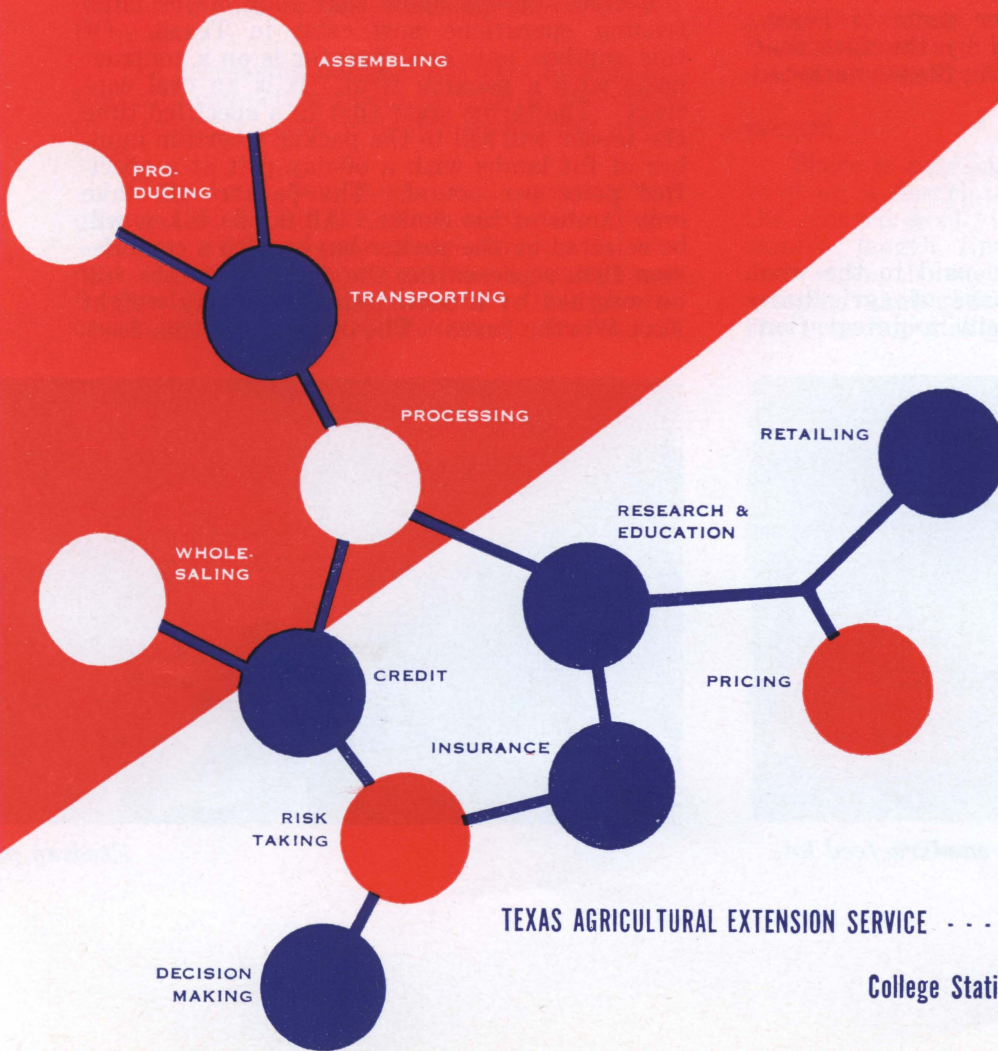
IN TEXAS AGRICULTURE

Lamb and Wool



THE JEOPARDY TO CONSUMER acceptance of lamb, brought about by intense competition with beef, pork and poultry at retail levels, may cause producers and packers to instigate production and marketing procedures which would reduce the cost of production and stabilize the supply of lamb with lighter carcass of leaner meat.

The decreasing demand for wool, caused largely by competition from man-made fibers, may cause producers to venture into related fields of marketing which have been regarded as the exclusive domain of dealers and processors.



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VERTICAL INTEGRATION IN TEXAS AGRICULTURE

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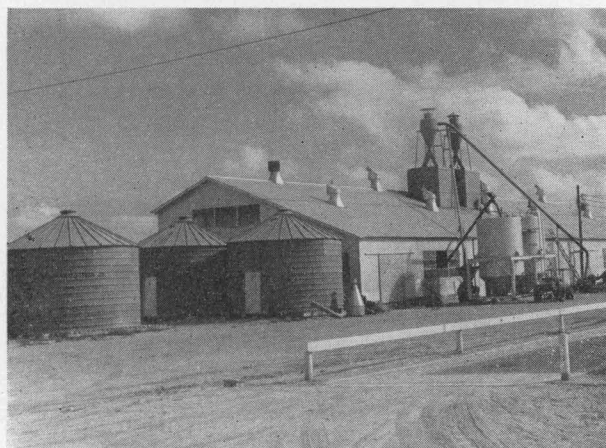
LAMB AND WOOL PRODUCTION is one of the oldest agricultural enterprises in Texas. The average total annual receipts from marketing sheep and wool in Texas in recent years have been approximately 52 million dollars. To a large percentage of producers, it has become a way of life as well as a highly organized and profitable business.

Certain practices regarding production, marketing and management, established by early producers, prevail today. One major practice is to produce with little consideration of market demands. The markets have always taken the total production at some price. All decisions regarding production, management and marketing are made by individual producers, with little outside influence other than financial arrangements in the form of standard loans. Some lending agencies make definite suggestions influencing production, management and marketing decisions when large loans are requested.

In the early stages, the industry was concentrated in certain areas of the State, principally the Edwards Plateau, but in recent years it has spread to other parts of Texas. This expansion is evidenced by the fact that 236 of the 254 counties in the State marketed wool and lambs in 1957.

Nature and Extent in the U. S. and Texas

Little attention has been paid to the wool and lamb industry as a phase of agriculture which could be adjusted easily to integration.



Feed mixing facilities at a modern feed lot.

Because of the dual products—lamb and wool—which enter different channels of trade in processing and distribution, this type of ranch enterprise possibly would be better adapted to an informal system of improved coordination of production and marketing rather than vertical integration.

LAMB

In the lamb production phase, integration has developed in a limited form as to various types of contract feeding. This activity has been in evidence for a long time. When the price situation looks favorable, producers place lambs with feeders to be fed to a desired weight and grade on a contract basis.

To insure a steady supply of lambs of certain quality, packers and food store chains purchase feeder lambs and place them with feeders to be fed to a desired weight and grade on a contract basis, or the feeder makes a contract with the packers to provide lambs of a specific weight and grade during a given period for a certain price.

Recent surveys show that four major lamb feeding operations now exist in Texas. Of this number, only one operator is on a contract basis with a packing firm. It is an oral contract. The terms state that in a specified time the feeder will sell to the packer a certain number of fat lambs with a 60-day pelt at a specified price per pound. The packer will take only lambs of his choice. All lambs taken will be selected by the packer-buyer with a commission firm representing the feeder. Lambs will be weighed by a commission firm, pay weight Fort Worth, Texas. The operator of this feed-



Feeding pen at a custom feedlot.

ing enterprise would be classified as a feeder-dealer and not as a producer. Of the other three lamb feeding facilities, one is a feeder-dealer and two are custom feeders. The feeder-dealer and one of the custom feeders expressed a desire to obtain some type of contract with a packing firm.

The season and geographical location of lamb production is a factor in the ever-present problem of stabilizing supply for the packer. Some packers divide the production areas of the State according to breeding schedules. This helps them obtain a continuous supply of fat lambs from different areas as they become available. When producers of a given area change the breeding date, the purchasing pattern is upset.

WOOL

Wool moves through many stages of processing between the producer and consumer. The first stage is from the producer to the warehouse. Many growers think that total poundage is the most important element of their clip. This is the result of the practice of selling wool without giving proper attention to variations in quality.

The decreasing demand for wool in comparison with competing fibers, is causing producers to search for more efficient marketing practices.

While total per capita mill consumption during 1955-57 for the three competing fibers—cotton, wool and man-made—was up 21 percent, the increase for cotton was 2 percent and for wool, 7 percent; for man-made fiber the increase was 235 percent. This type of increasing

competition could lead to vertically integrated arrangements for wool marketing.

Future Consideration

LAMB

With many lamb producers adhering to the traditional custom of producing heavy lambs, with little concern for consumer preferences, packers and food chains probably will work for contractual marketing.

In the future, packers and food store chains may offer contracts to producers. One possible arrangement would be for packers to supply producers with certain types of ewes and rams. The producer would agree to follow supervised production, feeding, management and market practices to produce lambs to meet consumer preferences.

Since the bulk of Texas lambs are grown by large producers, the packers would have to offer contracts which would specify that lambs be delivered at peak condition and at a lighter weight. Feeder lambs would be delivered at a lighter weight with a premium price, and heavier lambs at a penalty price. Heavy lambs are now penalized.

WOOL

There is a definite trend toward marketing wool on a descriptive basis. In this system, the scoured wool yield is determined by a core sample; length, fineness, crimp per inch, color and strength are determined from random samples taken with a hook. With this information, the top-maker and the textile manufac-



A Texas wool warehouse.

turer can make an good estimate of the quality of the finished product.

Many wool producers are aware of this trend and are making an effort to produce wool that will meet certain specifications. Producers could combine their efforts and, by working with warehousemen, produce and market wool of uniform quality in such quantity as to merit a market advantage.

Certain types of partial vertical integration operate in the present system of wool marketing. In recent years a few producers have had their clips scoured at one of the three Texas scouring plants and sold on a clean basis. Indications are that further integration will occur.

Increasing numbers of textile mills are buying direct from ranchmen in the Northwestern States rather than through dealers. One large Western textile firm, after establishing its quality needs, purchases approximately 85 percent of its wool direct from growers. No wool is bought on contract with the grower, but in some cases preshearing advances at the rate of \$1.00 per fleece are made on clips of wool. This firm operates facilities for receiving, grading and scouring all its wool needs. In some cases, when wool is purchased on a core test, negotiable warehouse receipts are issued to the producer. This firm processes all the wool it uses. The operations extend from the grease wool to finished wearing apparel.

Management Arrangements Now Used

At present, no definite long-range management arrangements are in force in Texas lamb or wool production. Indications are that any management arrangements in the near future will be in the form of contracts executed between packers and producers regarding delivery weight of range lambs.

Management arrangements between processors and producers of wool are likely to expand in the future; particularly for sorting, baling, transporting and scouring.

Guide Posts to Producers

LAMBS

If integration develops in lamb production, producers should be careful in entering into a contract with an integrator. Many packers may increase their direct buying of lambs and will offer contracts for the entire crop.

When a producer is offered a contract for future delivery of lambs, the contract should be in writing and should state clearly the following:

1. Date and conditions of delivery
2. Prices per pound (contractors probably will offer two prices in any future contracts because of overweights)
3. Any cash advances (these should be large enough to remove speculation)
4. The percentage and the conditions governing unmerchantable lambs
5. Provisions for a disinterested person to act as arbitrator for settling any differences which might arise at delivery time

WOOL

With a definite trend toward a system for marketing wool on a descriptive basis, wool producers should know the following:

1. The method of preparation of wool for market
2. The grades which will be the most acceptable to mills
3. Who shall do the grading and sorting and where
4. Who shall pay for the grading and sorting
5. The time of acceptance by the buyers
6. What provisions shall be made for acceptance of below-grade and off-sort wools

Vertical integration refers to the linking together of two or more stages of production, processing or marketing activities under one management. The key feature of vertical integration is the centralization of decision-making, risk-bearing, and supervision.

This is the tenth leaflet in the series "Vertical Integration in Texas Agriculture." Similar releases on other crops and livestock important to the Texas economy will follow.

By bringing together present knowledge and current practices regarding vertical integration in Texas agriculture, the staff of the Texas Agricultural Extension Service and Texas Agricultural Experiment Station in the Department of Agricultural Economics and Sociology hope to help you make wiser decisions about this matter.

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