

# TERMINAL FRUIT AUCTIONS

## as Marketing Agencies for Farmers' Cooperatives

by **KELSEY B. GARDNER**

XM, 9J37:519325.73  
G8  
44523

**FARM CREDIT ADMINISTRATION**

Research and Service Division

WASHINGTON, D. C.

XM, 9J37:519325.73  
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NOVEMBER 1938

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GIPE-PUNE-044523

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FARM CREDIT ADMINISTRATION  
Cooperative Research and Service Division  
WASHINGTON, D. C.

BULLETIN No. 29

NOVEMBER 1938

For sale by the Superintendent of Documents, Washington, D. C. - - - - - Price 15 cents

XM, 9(U37):519325.73  
68

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## Summary and Conclusions

**AUCTION** sales of fruits and vegetables, exclusive of bananas, by 14 companies in 12 markets during 1937 totaled 102,128 cars, with a value of \$151,727,822. Carloads of citrus fruit amounted to 61.9 percent of the total number of cars sold at auction; deciduous fruits 29.9 percent, pineapples 3 percent; and melons, vegetables, and miscellaneous products 5.2 percent.

Cooperative associations are important contributors to the business of auction companies. For the year 1934 at least 45 percent of the total carloads of all fruits and vegetables, exclusive of bananas, sold through terminal auctions was handled for cooperative associations. For the same year, over 62 percent of carlot auction sales of citrus fruit was for cooperative associations.

An analysis of auction sales of Western boxed apples in 7 markets during the 1934-35 crop-movement season showed that about 43 percent was cooperatively packed and 57 percent was packed by proprietary concerns. In each case, slightly over one-half of the quantity was sold for the account of the packer. Apple cooperatives and private sellers thus exercised no control over the offerings of substantial portions of their respective packs which were sold at auction for the account of operators other than the packer.

Auctions are important parts of the distribution machinery in large markets. Almost four-fifths of the carlot unloads of citrus fruit in auction markets were sold through terminal auction companies. Variations in the percentage of total carlot unloads of citrus fruit sold at auction in each of the markets were rather wide. The range in 1937 was from 47 percent for Baltimore and 52 percent for Pittsburgh to 91 percent for New York and 92 percent for Philadelphia.

The proportion of deciduous fruit sold at auction, while less than for citrus fruit, amounted to an average of 48 percent for all markets. Citrus and deciduous fruits together totaled over 90 percent of auction sales for the 4 years 1934-37. The combined carlot sales at auction of these two groups of fruits amounted to about 65 percent of their total carlot unloads in auction markets for the years 1930 and 1934-37. The degree of market coverage obtained through auctions, when measured by the percentage of total carlot unloads in auction markets of citrus and deciduous fruits sold at auction, showed a rather wide range for 12 auction markets in 1937. For the four largest markets, Boston, Chicago, New York and Philadelphia, the combined percentages for citrus and deciduous fruits were 60, 55, 83, and 80, respectively.

Terminal auctions are important sources of supply for out-of-town buyers. Direct billings by auction companies to purchasers with business addresses 25 or more miles distant from auction markets in 1934-35, when expressed as percentages of total auction business, ranged from 3.9 for St. Louis to 30.1 for Cincinnati. Boston, New York, and Philadelphia figures were 18.5, 4.5, and 9.7 percent, respectively. Chicago had no out-of-town billings.

One of the primary questions of concern to cooperative sales managements relates to the validity of the use of the auction price of a commodity as a basis for price quotations in private-sale transactions. On the basis of studies restricted primarily to California Valencia oranges, the conclusion was reached that monthly and weekly auction prices constituted reasonably satisfactory measures of price both at auction and at private sale. Variations in weekly prices for this commodity between auction markets and private-sale markets suggested that auction prices are not final and complete indicators of the price at which total offerings of this commodity can be sold in all markets. Factors such as variations in demand and supply conditions in individual markets, differentials in price for various brands, grades, and sizes, condition and quality of fruit, and the effect at times upon auction average prices of off-condition shipments or cars diverted to auction from other markets, must be taken into account in determining price quotations in private-sale transactions.

Inquiry into factors causing variation in monthly auction prices of California Valencia oranges at New York showed that control of supplies offered at auction in this market was necessary if price fluctuations were to be held within reasonable limits. The necessity for this control in both auction and private-sale markets is recognized and exercised by capable sales managers insofar as practicable in order that violent price fluctuations may be avoided. The necessity for control is particularly important in the case of auctions because of the extent to which auction prices are employed as a basis for price quotations in private-sale transactions.

With limited exceptions, monthly prices in 11 auctions for California Valencia oranges and lemons and for California Navel oranges in 10 auctions over a period of approximately 8 years, showed a close relationship when changes in price from month to month were examined.

An exact comparison of sales results obtained for a commodity sold through both auction and private-sale channels cannot be made except on the basis of the same grade, size, and condition of fruit. Unless data on condition and related factors are collected at the time sale is made, it is not possible to make allowance for possible discounted prices on diverted cars or for any variation in condition between lots of the same grade and size sold at auction and at private sale. However, an indication of the relationship may be observed

from an analysis for one season of weekly prices of California Valencia oranges packed under the Sunkist trade-mark and sold at auction and at private sale. This analysis showed a reasonably close agreement when comparisons were made on the basis of individual sizes.

Terminal auction buyers are for the most part jobbers. This type of purchaser either directly or through buying brokers accounted for 70.5 percent of total sales made by 12 auction companies during sample weeks in 1934 and 1935. Auction billings direct to chain stores and buying brokers were 9.5 and 7.9 percent respectively for the same periods. Similar percentages for motor truck jobbers, specialty fruit and vegetable stores, and independent retail stores were 3.3, 2.5, and 2.3 percent.

The majority of auction buyers purchased a number of commodities in order to take full advantage of the time and effort required to inspect auction offerings and to attend the sales. About 60 percent of the dollar sales of five different commodities handled by 10 auction companies for one week in 1935 was made to buyers who purchased all five commodities, which in turn comprised 91.5 percent of the total sales of all commodities for the 10 auction companies.

Auction buyers, for the most part, did not purchase the equivalent of a carload when each buyer's weekly purchases of important commodities were considered separately. About 90 percent of the buyers of California Navel oranges during 1 week purchased less than a single carload of this commodity. Similar analyses showed that over 82 percent of the California Valencia orange buyers and all of the buyers of Northwestern Winesap apples purchased at a rate of less than one carload of each commodity per week.

Purchasers at auction, for the most part, bought a limited number of sizes of oranges and apples. Sixty-five percent of the buyers of California Navel oranges each bought four sizes or less. Similar figures for California Valencia oranges and Northwestern boxed Winesap apples were 53 and 92 percent.

The dominant portion of auction buyers consisted of less-than-carload purchasers. The limited number of sizes of a single commodity purchased by these buyers emphasized the point that, for the most part, buyers were restricted as to the number of sizes which they needed to meet the requirements of their trade. From the standpoint of the shipper, private or cooperative, it is apparent that the auction outlet enables him to reach a group of buyers which could not be served directly so long as the sales unit was the carload.

Further study of the buying performance of auction purchasers showed that generally they bought regularly and frequently during 4 sample weeks in 1934 and 1935.

Analysis of the relative importance of receivers showed that one cooperative association, acting as an auction receiver for its own

members' products and also for the commodities of another cooperative association, contributed between 45.3 and 64.5 percent of the total dollar volume of 9 individual auction companies.

The trend of auction company ownership is toward trade control. Complaints against operating practices were found for the most part among the trade in some but not all of the smaller markets. No proof of the validity of these objections was obtainable. The fact that the opinions existed should be adequate reason for correcting the situation by a wider distribution of ownership or other remedial steps.

Cooperative marketing associations have not become owners of stock in auction companies. There are important reasons why cooperatives should not embark on such a program. Management of jointly controlled enterprises in terminal markets would involve important and difficult problems of cooperative business administration. Problems in the field of extension and supervision of credit would also be involved. The extent of support of a cooperatively owned auction by private or nonstockholding shippers would be a problem of first significance.

The attitudes of auction buyers toward the auction method of purchasing were significant. Only 12 percent of the jobbers interviewed showed an unfavorable attitude. Sixty-one percent of the chain-store buyers, however, exhibited an unfavorable attitude. Jobbing buyers stressed such favorable viewpoints as "purchase prices known," "size and quality inspections made readily," while chain-store buyers gave first importance to the fact that "required sizes were available." Principal objections of those jobbers who showed unfavorable attitudes toward the auctions were "speculative profits possible through carlot purchasing," "adjustments for poor quality more readily obtained on products bought at private sale" and "auction sales units too small." The most important objections of chain buyers were "carlot purchasing better (no reason stated)," "auction supply not dependable for sales purposes and purchase price known to competitors," and "savings effected in handling expenses or lower prices at private sale."

One of the most pressing problems confronting cooperative sales managements using the auction as a sales outlet is whether commodities should be sold at private sale to large-scale purchasers in markets where other buyers are required to obtain their supplies of the same association's commodities through auction channels. No definite and completely satisfactory solution to this problem appears to exist. Important sellers in some instances limit their sales activities to a single method in each market. Some are supporters of the auction, others are not. Some large-scale purchasers, including chain stores, obtain their supplies through auction channels. Others have used private-sale transactions as a means of acquiring commodities also sold at auction. Important sellers and buyers are not in agreement



upon any single method of purchase and sale. Significant points which should be carefully weighed in connection with the adoption or use of sales policies which are based on selling in carlots to large-scale purchasers in markets where other buyers are required to obtain their requirements through auction channels may be summarized as follows:

1. Citrus and deciduous fruits comprise the principal portion of the auction business. Almost 80 percent of the total carlot unloads of citrus fruit in auction markets and 47 percent of the deciduous fruit unloads are sold at auction in the cities where auctions are located.

2. If sales in carlots are to be made to all large-scale purchasers in auction markets, the probable effects of the withdrawal of the larger buyers upon the auctions as indicators of price should be carefully weighed.

3. Present pricing policies of large-scale buyers of some auction commodities acquired at private sale in auction markets leave price to be determined at the time of delivery on the basis of auction price levels existing at the time. If the present value of the auction price of a commodity were reduced by removal of important buying support at auction, some substitute pricing arrangement would be necessary. Furthermore, the necessity for more accurate determination of supplies to be offered at auction would be required in order to avoid unduly wide fluctuations in price. This determination would be made difficult because of uncertainties regarding quantities moving at private sale to large purchasers.

4. If increased quantities of a commodity now sold at auction are to be diverted through private sale, sellers must be prepared to assume increased credit risks.

**UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON: 1939**