5-1-1954

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BULLETIN 517 MAY, 1954

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AGRICULTURAL EXPERIMENT STATION
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This publication reports on a Mississippi phase of the Southern Regional Cotton Marketing Project SM-1 which was financed in part from Title I 9(b) 1 and 2 and 9(b) 3 funds made available under provisions of the Research and Marketing Act of 1946.

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COTTON MARKETING IN THE UPLAND AREA OF MISSISSIPPI

By

CHESTER M. WELLS, JR. and JAMES M. BEAIRD

SUMMARY AND CONCLUSIONS

The numerous textile mills throughout the world manufacture finished textile products of many kinds or constructions, the qualities of which sometimes vary over a wide range. For each textile construction of any particular quality, raw cotton of a specific quality is a necessity. Textile constructions of different qualities have different values, consequently the qualities of raw cotton used in their manufacture have different values. The value of cotton to a textile mill is also influenced by the spinning performance of the cotton consumed. Spinning performance is determined by character as well as grade and staple. Consuming textile establishments recognize the value differentials of cotton of different grade, staple, and character and are willing to pay for them. In fact, because of a high degree of competition they must pay prices in line with the spinning values of specific qualities of cotton. Because of this condition, prices paid by mills can be accepted as the true spinning value of cotton.

The cotton purchased by consuming establishments usually is in lots of 100 bales all of which are of one specific quality. It is the function of the cotton merchandising system to assemble the production of the many widely scattered cotton farms and to make available to textile mills "even-running" lots of cotton of desired specific qualities. In performing this function the merchandising system must serve the interest of both users and producers of cotton. To serve either group effectively the merchandising system must pay to producers prices which reflect the spinning values of specific qualities of cotton. Such prices encourage farmers to attempt to produce the qualities of cotton demanded by mills. In many instances the marketing system does not reflect such values to producers, thus failing to serve the best interest of producers and of users of cotton.

The extent to which spinning values are not reflected by prices varies considerably among types of markets. The types of markets found in the cotton merchandising system are: (1) futures' markets in which supply and demand are brought together establishing the price level for cotton, (2) spinners' markets in which the spinning value of specific qualities of cotton is determined, (3) merchants' markets in which cotton is combined into "even-running" lots for shipment to mills, and (4) farmers' markets in which the cotton of individual producers is concentrated, usually for resale as mixed lots in merchants' markets.

As a result of the high degree of competition in futures markets, quoted futures prices can be accepted as an accurate market appraisal of current supply and demand conditions. Also, as has already been pointed out, prices paid by mills can be accepted as the true spinning value of cotton. Furthermore, all available data indicate that prices paid in merchants' markets available to Mississippi farmers generally reflect the spinning value of cotton less necessary marketing costs and reasonable returns to cotton shippers. It remains, therefore, that failure of the marketing system to reflect spinning values to producers is largely the result of inadequate marketing services in farmers' markets.

Some of the inadequacies of farmers' markets are readily apparent. First, due to the small volume of cotton marketed, the typical farmers' market in the Upland area of Mississippi contains a limited number of buyers, many of whom are unable to determine the market value of individual bales of cotton on the basis of all quality factors. Second, the lack of competition due to the small number of buyers in these markets results in prices to producers that are below market values. Third, as a result of the high per-bale cost of handling a small volume of cotton, the value of cotton sold in these markets is less than the value of a comparable quality sold in merchants' markets.

Producers could, in most cases, increase their income from cotton sales by selling cotton somewhere other than in small farmers' markets such as those just described. One alternative is to sell through a recognized sales agency in merchants' markets. Producers in some areas of the cotton belt merchandise significant proportions of their production through sales agencies in merchants' markets. In the Upland area of Mississippi, however, producers have not taken full advantage of this method of sale.

In recent years a new marketing outlet has been available to producers in the Upland area. Recognizing the need of improving the competitive marketing position of producers in the area, Mississippi Federated Cooperatives (AAL) organized a cotton marketing department in 1940. Since the organization of its cotton department, this cooperative has maintained facilities for handling a large volume of cotton. It also has attempted to appeal to producers by offering a wide variety of merchandising services.

Producers have failed, however, to utilize fully the available merchandising services but have tended to use the cotton marketing department of this cooperative primarily as a means of placing cotton in the Government loan. As a result, Mississippi Federated Cooperatives has received relatively small quantities of cotton in years when the market price has been significantly above support levels and has received large quantities when market prices and support prices have been near the same level.

The failure of producers to consistently patronize the cotton department has resulted in considerable fluctuation in the per-bale cost of handling cotton. This fluctuation has been due primarily to the nature of the cost structure of cotton merchandising firms. Such firms have high fixed costs and must handle large volumes of cotton in order to operate efficiently. Large volume in some years has resulted in low per-bale cost of operation by Mississippi Federated; small volume in other years has resulted in high per-bale cost.

Variability of volume handled has resulted in highly variable income of the cotton department of Mississippi Federated Cooperatives. In years when volume of cotton handled has been large, income has been high. In years when volume has been small, income has been low.

The effect of variability of volume is reflected in net earnings of the marketing department of the cooperative. Net earnings of the cotton department have tended to be high when volume has been large and low when volume has been small. This, of course, has influenced directly the returns to producers since larger earnings have resulted in larger patronage refunds.

Returns to producers who have marketed cotton through Mississippi Federated Cooperatives have been satisfactory for two reasons: (1) the sales force has accomplished something that most producers cannot accomplish themselves, that is, it has sold cotton for its actual value, and (2) the cost of merchandising has, in most years, been kept below the charges made and patronage refunds have been paid to producers. These refunds would have been substantially larger, in most years, if producers had provided sufficient volume to permit lower per-bale cost of operation. Patrons of the cooperative should be led to realize that these patronage refunds are of secondary importance and that the real gain to producers comes from the efficient merchandising program.

RECOMMENDATIONS

In order to utilize more fully available marketing facilities and thus reduce per-bale overhead cost, the cooperative has been forced to resort to the practice of buying cotton outright. This practice, if incorporated as a permanent feature, may ultimately accrue to the detriment of those producers who patronize the organization as a sales agency. The future policy of the organization is, of course, the joint responsibility of the membership, the Board of Directors, and the hired management. As a step in the direction of expanding and improving the marketing program it is urged that these responsible groups give careful consideration to the following recommendations:

1. Since uncertainty of receipts imposes the greatest limitations on the organization, efforts should be made to induce producers to patronize the cooperative consistently. An effective educational program seems to be the best approach to the problem of low volume and uncertain receipts. Mississippi Federated Cooperatives should initiate a program to teach farmers the facts of cotton marketing and to acquaint them with the nature of the services offered by the organization.

2. When the educational program becomes effective and constant participation by producers becomes a reality, the cooperative should discontinue outright purchase of cotton. When this stage of development is reached, the merchandising program should be limited to (1) making of cash advances to producers for cotton received, (2) placing cotton in and withdrawing cotton from the Government loan, and (3) selling of cotton and of loan equities.

3. No cotton should be accepted by Mississippi Federated Cooperatives for placement in the Government loan unless the producer signs an agreement permitting the sales department, at its discretion, to withdraw and sell equities in Government loan cotton. Such an arrangement would permit efficient merchandising of loan equities because cotton could be grouped into "even-running" lots of grade and staple and sold when market conditions improved. It is the sale of "even-running" lots of cotton in merchants' markets that causes the value of cotton in such markets to be greater than the value in farmers' markets. By permitting the sales department to assume this greater responsibility, producers can increase the value of their product and realize the resulting higher prices.

INTRODUCTION

The numerous textile mills throughout the world manufacture finished textile products of many kinds or constructions, the qualities of each sometimes varying over a wide range. For each textile construction of any particular quality, raw cotton of a specific quality is a necessity. Different textile constructions and different qualities of each construction have different values; consequently, the qualities of raw cotton used in their manufacture have different values. The value of cotton to a spinning establishment is influenced not only by grade and staple but also by spinning performance which influences the cost of manufacturing yarns. For example, two bales of cotton of the same grade and staple might yield end products of equal quality but one might be worth more to the spinner because its use resulted in lower costs of processing due to differences in strength, fineness, uniformity, maturity, and/or other fiber characteristics. Consuming textile establishments recognize these value differentials and are willing to pay for them. In fact, because of a high degree of competition they must pay prices in line with the spinning values of specific qualities of cotton. Because of this condition prices paid by mills can be accepted as the true spinning value of cotton.

The needs of manufacturers and the conditions of production make cotton one of the most difficult commodities to market. On the one hand, the cotton purchased by consuming establishments usually is in lots of 100 bales, each composed of one specific quality. On the other hand, the cotton produced on many widely scattered farms has a wide range of distinctive, measurable qualities. It is the function of the cotton merchandising system to assemble the production of the many widely scattered cotton farms and to make available to textile mills "even-running" lots of cotton of desired specific qualities.

In performing this function the merchandising system must serve the interests of both users and producers of cotton. To serve either group effectively the merchandising system must pay to producers prices which reflect the spinning values[1] of specific qualities of cotton. Such prices encourage farmers to attempt to produce the qualities of cotton demanded by mills. Prices will not serve as guides to production unless prices paid to farmers reflect the true spinning values of cotton. In many instances the marketing system does not reflect such values to producers, thus failing to serve the best interests of producers and users of cotton.

Prices paid to producers may fail to reflect true spinning values by being below the prevailing level of price or by not recognizing the relative values of different qualities of cotton. This condition may be the result of: (1) failure of producers to follow best known marketing practices and/or to utilize the most efficient marketing facilities available, (2) excessive cost of performing many of the marketing functions, due either to inefficient operation of marketing agencies or to the small volumes of cotton marketed and (3) excessive profits due to inadequate competition.

Purpose and Method of Study

The extent to which excessive costs and profits result in prices to producers that fail to reflect true spinning values of cotton varies considerably between types of markets. The purpose of this study is to investigate the possibilities of improving the competitive position of the cotton farmer in the Upland area[2] of Mississippi so that he may be able to sell cotton for prices more nearly in line with true spinning values. This was done by briefly appraising the organization of, the degree of competition within and the services performed by different types of markets and by studying in detail the possibilities of marketing cotton cooperatively.

Since early in 1948 the Mississippi Agricultural Experiment Station has participated in the Southern Regional Cotton Marketing Project. Appraisal of the organization of, the degree of competition within, and the services performed by different types of markets was based on the cumulative results of this regional research project, on observations made while doing field work for this project and on published research findings of other agricultural agencies.

The detailed study of possibilities of marketing cotton cooperatively was based on data obtained from Mississippi Federated Cooperatives (AAL). This organization has for a number of years provided cooperative cotton marketing services for producers in the State. Complete records were obtained for each of the marketing seasons beginning with 1940-41 and ending with 1951-52.

In addition to providing a basis for appraising the possibilities of improving the competitive marketing position of all producers in the area, it was felt that study of the experiences of this firm might disclose means of improving its marketing methods, thus improving the marketing position of patrons of the organization.

[1] Spinning value, in terms of prices received by farmers, is the price paid by mills minus the marketing costs necessary to make cotton available to mills.

[2] The Upland cotton producing area of Mississippi is composed of all the counties in the State other than the eleven Delta counties of Tunica, Coahoma, Quitman, Bolivar, Sunflower, Leflore, Washington, Humphreys, Issaquena, and Tallahatchie.

THE MARKETING SYSTEM AND THE COTTON QUALITY PROBLEM

Over the years a highly refined and complex cotton marketing system has developed. The system as it exists today can be classified into two separate and distinct phases.

> "One deals with the transactions and activities involved in the transfer of ownership of cotton through purchases and sales, and the other deals with transactions and activities involved in the physical distribution of cotton. The former constitutes price bargaining, including both price and delivery terms. The latter constitutes the physical distribution of cotton and involves all the services necessary in making cotton of specific qualities and quantities available at specific times and places according to contract agreements. The two sides of cotton marketing are inseparable, for it is impossible to arrive at a price for cotton without an agreement or contract specifying the quantity and quality of it to be delivered and the time, place and terms of delivery."[3]

The two phases of cotton marketing are conducted in two major types of markets: **futures markets** and **"spot" markets.**

Cotton futures markets are centers in which trading is done in futures' contracts.[4] Although futures' contracts call for delivery of physical cotton at some future date, few contracts ever mature and involve delivery of physical cotton. The vast majority of futures' contracts are closed out by the execution of offsetting contracts before the delivery date. Since all futures' contracts must be liquidated with delivery of "spot" cotton or by offsetting contracts, the cotton futures markets cannot function apart from or independently of "spot" markets. Futures' markets are extremely important because it is in these markets that supply and demand are brought together establishing the price level for cotton.

"Spot" cotton markets are trading centers in which transactions calling for immediate delivery of physical cotton are made. In actual practice each bale of cotton usually is located in a warehouse and a bonded warehouse receipt is accepted by the buyer as evidence of existence of the bale of cotton. In most cases a bale of cotton remains in the warehouse of original storage until it is ordered shipped to a consuming mill. "Spot" cotton markets are of three types: (1) spinners' markets, (2) merchants' markets, and (3) farmers' markets.

As was pointed out above, individual producers usually market cotton in small lots of mixed quality while buyers for textile mills purchase relatively large lots of "even-running" quality. This marked difference in sales by producers and purchases by textile mills gives rise to the complex merchandising system which exists today. In moving through the system the cotton of individual producers is combined into larger and larger lots until finally assembled into "even-running" lots, usually of 100 bales.

The process of combining cotton into larger lots usually begins in farmers' markets. Typical buyers in the farmers' markets of the Upland area of Mississippi do nothing more than assemble cotton into mixed lots and subsequently sell to buyers in merchants' markets. Only rarely do they endeavor to assemble cotton into "even-running" lots for direct shipment to textile plants.

Assembling cotton into "even-running" lots that meet the needs of textile plants is a function that is performed by buyers in the merchants' markets. These are highly organized

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[3] Cox, A. B., **Cotton Demand Supply Merchandising**, (Austin, Texas, 1953), pp. 11-12.

[4] A futures contract calls for delivery of a specified quality (M 15/16 inch) but under rules of the exchange and provisions of the United States Cotton Futures Act other qualities may be delivered. The quantity designated by a futures contract is either 25,000 pounds or 50,000 pounds, depending upon the rules of the exchange. Cotton may be delivered at any one of several designated warehouses at the will of the seller.

markets that do a complete job of merchandising cotton. The merchants and shippers in these markets are the contact points between farmers' markets and spinners' markets. They assemble cotton into "even-running" lots and ship to export or domestic mills.

Determining Value

At any given time the base price of cotton is set by trading on the futures' markets (primarily the New York Cotton Exchange). This base price applies to middling 15/16 inch cotton delivered to certain designated warehouses located at Atlantic and Gulf ports. The "spot" price of middling 15/16 inch cotton in "spot" cotton markets reflects primarily the futures price adjusted for carrying charges (storage, insurance, interest, and risk elements) between time periods and for transportation differentials between areas. Actual "spot" prices may vary from the adjusted futures price because of differences in the character of cotton sold in the "spot" market or because of market imperfections.

In any "spot" market the value of qualities other than the base quality is determined by adding points (100 points equal one cent) for better qualities and subtracting points for poorer qualities. The amount of the premium or discount paid for a particular quality is determined by the supply of and demand for that quality.

Determining the value of cotton is an extremely complex problem. The minimum requirements for accurate value determination are a knowledge of grade and staple,[5] of latest price quotations[6] and of discounts due to size and location of markets. See Appendix 1 on page 21 for examples that can be used as a guide in determining the value of cotton. Price determination by the methods illustrated in the examples is, at best, an approximation. This is true for at least two reasons:

First, both the base price (futures' quotation) and the premiums and discounts are subject to constant change. The cotton producer can usually obtain a current futures price quotation from some local radio station. Available quotations of premiums and discounts for different qualities are one, or more, days old. The price determined by using a current futures quotation and a day old, or older, quotation of premiums and discounts may differ appreciably from the actual market value on a given day.

Second, the price determined by the method illustrated is an approximation of the value in the Memphis market. Cotton sold in small farmers' markets is worth less than cotton of the same quality sold in Memphis. The reasons for this will be pointed out in the section of this bulletin entitled "Farmers' Markets."

The examples given in Appendix 1 are not recommended for general use by farmers. They are intended to serve as a guide for farmers who continue to sell cotton directly to buyers in farmers' markets, and to indicate the difficulty associated with price determination in local markets. In most cases the farmer would increase the net return from sale of his cotton if he utilized the services of a recognized sales agency in an organized market where current market quotations are available and where market prices are higher.

What the Producer Sells

Far too often the producer evaluates his cotton market only in terms of the level of price in the market. Such statements as "the market is 33 cents" are often misleading and, if accepted by the producer, may prove costly to him. The flat price quotation given as the local market price is usually the value of the average grade and staple being sold in the market at any one time. Better-than-average qualities are worth more; and, of course, poorer qualities are worth less.

Intelligent merchandising of cotton involves not only selection of a market where the level of prices is highest but also bargaining for maximum premiums

[5] The U.S.D.A. will class cotton for the farmer without charge. Your County Agent can tell you how to obtain this service.

[6] Price quotations can be obtained from the sources indicated in Appendix 1.

and minimum discounts for qualities that are better than or poorer than middling 15/16 inch.

Cotton Quality Is Important

If the marketing system reflects to producers the spinning value of specific qualities of cotton, production of a quality product becomes a matter of concern to producers. An examination of central market "spot" price quotations reveals the possible gain from producing cotton of higher grades and longer staples. Equally as important to the cotton producer are the substantial discounts levied against cotton of lower grades and shorter staples. Still further discounts result from improper ginning, in particular for those bales that are classed gin-cut.

Quite frequently two bales of cotton of the same grade and staple have different values to the spinner. This value differential usually is associated with differences in the character of the cotton lint. As has been pointed out, character is determined by quality characteristics other than grade and staple, the most important of which are strength, fineness, maturity, and uniformity of fibers.

If cotton is sold in such a way as to reflect the spinning value of specific qualities, the producer of cotton of high quality will be rewarded adequately.

How to Insure Quality

Although influenced to some extent by soil type and climatic conditions, staple length is primarily a varietal characteristic. Since climatic conditions are beyond the control of the producer and since the soil types on a given farm cannot be changed, the only means by which the producer can influence the length of staple produced is his choice of variety. Normally, the producer chooses a variety because of those agronomic characteristics that are closely associated with yield and gin "turn-out." Such a choice may not always be wise. The discount in price for a shorter staple may be a costly penalty for a slightly higher gin "turn-out" or a slightly increased yield. Moreover several varieties with similar agronomic characteristics may produce different staple lengths. Here again the choice of an inferior variety may prove costly.

The character of cotton lint is determined largely by the same factors that influence staple length. As is true with staple length, the producer has little control other than in his choice of variety. A variety should be chosen which produces lint possessing fiber characteristics desired by the users of the lint as well as possessing other desirable agronomic properties such as high yield or high percentage lint "turn-out."

Producers should consult their Extension cotton specialists and their county agents when selecting the variety to be planted. These men are well informed and are in a position to recommend varieties that possess desirable staple length and character in addition to other needed agronomic properties.

Grade is a different matter and can, to a great extent, be controlled by the producer. The major components of grade are color, amount of foreign material and preparation. Color is determined primarily by weather conditions and by the length of time that the open bolls are exposed to the elements. The amount of foreign material is affected by the length of time that open bolls are left in the field, by the way cotton is picked and handled, and by the way it is ginned. Preparation is a composite result of the condition of cotton when it arrives at the gin (primarily moisture content) and of the ginning operation.

Selection of an approved variety, timeliness of picking, care in picking and handling, and careful ginning will result in a finished product of high quality. Cotton of better quality, if properly marketed, will bring premium prices which will increase substantially the cash returns to producers.

BRIEF APPRAISAL OF TYPES OF "SPOT" MARKETS

As has been pointed out, the high degree of competition in spinners' markets results in prices which can be accepted as the true spinning value of cotton. Since this is true, it must be concluded that failure of the merchandising system to reflect true spinning values to producers is the result of merchandising practices in merchants' markets and/or farmers' markets.

Merchants' Markets

Merchants' markets are of two kinds. The type of merchants' market that is best known is the central "spot" market that is designated by the U.S.D.A. as a price reporting market. There are in addition to the designated markets many smaller and not-so-well known merchants' markets from which significant volumes of cotton of "even-running" quality are shipped directly to textile mills. From the standpoint of volume of cotton handled and services rendered, these smaller merchants' markets are of great importance to the cotton industry.

Merchants' markets are organized markets and differ markedly from farmers' markets in methods of operation and in organization. The distinguishing characteristics of merchants' markets are: (1) Buyers and sellers in the market are members of an exchange which defines and enforces trade practices. (2) The volume of cotton handled in the market is relatively large. (3) Significant proportions of the cotton handled are grouped into "even-running" lots for shipment to spinners' markets. (4) There are firms that specialize in selling cotton for others and receive a brokerage fee for their services.

Published price quotations are available for major spinners' markets and for many merchants' markets. Quotations for spinners' markets are for "even-running" lots delivered to mills while quotations for merchants' markets are for mixed lots delivered uncompressed in warehouses in the local area. Even though the price spread between spinners' markets and merchants' markets is wide, it appears to be in line with necessary marketing costs. In a recent study[7] it was found that, for the 1949-50 season, the average total marketing margin between Greenwood, Mississippi, and Group B Mill Points in the Carolinas was 190 points or $9.50 per bale. Of this total margin, $8.10 or 162 points was reported by Delta shippers as the average total cost of moving cotton to these mill points. This cost was made up of 83 points for transportation, 20 points for compression, 21 points for overhead, 18 points for merchandising services, 12 points for storage, insurance and other compress expense, and 8 points for bank expense. The difference of 28 points or $1.40 per bale between the total margin of $9.50 per bale and the total cost of $8.10 per bale was the return to the shipper out of which he had to recover the interest on his own capital, the cost of disposing of bales rejected by mills, losses in weight, assembly into "even-runnnig" lots, cost of arbitration and hedging, and risk, as well as the returns for his own services. This figure appears entirely reasonable and within the limits of what would be expected in competitive markets.

In a later study McLure and Fortenberry[8] found that (for the 1951-52 season) the average total marketing margin between Greenwood and Group B Mill Points in the Southeast was 206 points or $10.30 per bale. In that season transportation accounted for 91 points; overhead and profit, 47 points, and all other costs, 68 points. In this same study it was also found that (for the 1951-52 season) the total marketing margin between Memphis and Group B Mill Points in the Southeast was 208 points[9] or $10.40 per bale. Of this total

[7] Wells, Chester M., Jr. and Faught, William A., **Marketing Mississippi Delta Cotton,** Mississippi Agricultural Experiment Station, Bulletin 484.

[8] McLure, Joe H. and Fortenberry, A. J., **Cost In The Marketing of Cotton From Central Markets to Southeastern Mills,** U.S.D.A., PMA, Cotton Branch, Washington, October, 1953, p. 8.

[9] Ibid, p. 8.

margin, transportation accounted for 85 points: compression, concentration, interest and exchange, insurance, mill brokerage and miscellaneous expenses accounted for 79 points; and the margin for overhead and profit accounted for 44 points or $2.20 per bale.

Unpublished data available in the Department of Agricultural Economics, Mississippi Agricultural Experiment Station, reveal that prices in other merchants' markets in the Delta tend to follow Memphis and Greenwood prices very closely but are generally a few points below Greenwood. These lower prices would be expected because market values in these markets are lower. Market values are lower because (1) the volume of cotton sold is smaller, (2) the size of lots sold is usually smaller and (3) less cotton is sold in "even-running" lots.

All available data indicate that prices paid in Memphis, Greenwood and the smaller merchants' markets in the Delta generally reflect the spinning value of cotton, less necessary marketing costs and reasonable returns to cotton shippers. The small margins for overhead and profit indicate the competitive nature of these markets. It should be pointed out that competition is probably greater than these raw margins indicate because part of the margins is the result of the fact that prices for merchants' markets are for mixed lots while mill prices are for "even-running" lots.

The results of these studies support the belief, long held by members of the cotton trade and professional workers in agriculture, that prices received for cotton sold by sales agencies[10] in merchants' markets generally reflect the spinning value of specific qualities. Producers in the Delta have recognized this and have used the services of sales agencies. In 1949-50, for example, over one-half of the cotton sold by producers in the Delta was sold across the tables of commission firms.[11] On the other hand, producers in the Upland area have not utilized the services of brokerage firms, probably either because they did not know of these services or because they distrusted such distantly located marketing agencies.

Farmers' Markets

The average producer in the Upland area has a relatively small volume of cotton to offer for sale. Furthermore, the total volume of cotton produced in many local areas is small. The small volume of cotton handled in many farmers' markets causes the marketing services available to producers to be inadequate.[12]

If the producer sells in his local area, he generally must look to ginners, bankers, merchants and small-town buyers as market outlets. Many of these buyers are unable to determine the market value of individual bales of cotton on the basis of the quality factors—grade, staple, and character. Buyers experienced in the merchandising of cotton and who might provide efficient marketing services hesitate to locate in the small farmers' markets because of the small volume of cotton that is marketed.

To the extent that buyers in farmers' markets are unable to determine the market value of individual bales of cotton, the prices received by producers tend to differ from the spinning value of the specific quality sold. The buyer who is unable to determine accurately the value of a bale of cotton will normally discount the price in an attempt to reduce the risk associated with his uncertainty.

The inability of buyers to evaluate individual bales of cotton leads to the undesirable practice of purchasing "hog-round" or on the basis of average quality. This method of pricing fails to re-

[10] Sales agencies are usually called factors. In effect they are commission firms, either private or cooperative.

[11] Wells, Chester M., Jr., and Faught, William A., **Marketing Mississippi Delta Cotton,** Mississippi Agricultural Experiment Station, Bulletin 484, p. 4.

[12] For an appraisal of buying practices in the Upland area of Mississippi see: Wells, Chester M., Jr., **A Comparison of Marketing Practices In Organized and Unorganized Cotton Communities In Mississippi,** Master's Thesis, Mississippi State College, May 1949; and Faught, William A., **Cotton Marketing Practices In Selected Communities, 1947-48,** Southern Cooperative Series, Bulletin No. 8, September, 1950.

ward producers of cotton of better-than average quality, nor does it penalize producers of cotton of below-average quality. Generally, varieties of cotton of short staples produce larger yields and higher gin "turn-out." If the marketing system does not reflect penalties for short staples, farmers will tend to produce these varieties. Furthermore, if premiums are not paid for high grades, there is no incentive for the farmer to handle his cotton carefully and to see that it is ginned properly. To the extent that "hog-round" buying is practiced in farmers' markets the marketing system causes the cotton quality improvement work of State and Federal agricultural agencies to be less effective.

The small number of buyers in farmers' markets, where the volume of cotton marketed is small, is an indication of a lack of competition among buyers. The lack of effective competition among buyers, even in those cases where buyers are able to properly evaluate each bale, usually results in prices which are below the actual local market value.

To this can be added the fact that the value of cotton sold in local markets is less than the value of a comparable bale sold in a larger, more highly organized market. This is true because the small volume of cotton handled results in higher costs per bale handled. In other markets where the volume of cotton handled is larger, buyers are able to take advantage of economies of scale and reduce costs per bale.

The marketing practices of producers tend to aggravate the inadequacies of local markets. In previous studies[13] it was found that a large percentage of producers interviewed only one buyer prior to sale. Because of the limited number of buyers in many local markets, this will usually be true if the producer confines his sales to these markets.

It was found that many producers followed the practice of selling cotton immediately after it was ginned. The reasons most frequently given for immediate sale were that it was customary or was necessary to meet immediate obligations. This custom is costly and should be changed. The producer should extend his credit commitments long enough to permit effective merchandising of his cotton.

Immediate sale of cotton necessitates sale on gin weights. Sale on gin weights is undesirable for at least two reasons: First, gin weights are in many instances inaccurate. This is shown by differences in gin weights and bonded warehouse weights. Second, the producer who sells on gin weights is necessarily limited to sale in his local market. The producer should in all cases have his cotton delivered to a bonded warehouse and should sell his cotton on the basis of a warehouse sample and a bonded warehouse weight. Even if the producer sells in his local market on the basis of gin weights, he still has to bear the cost of delivery to a warehouse plus a receiving charge and storage for one month. The first buyer recognizes these costs as merchandising costs and shifts them to the producer. In addition to being assured of an accurate weight the producer who stores cotton in a bonded warehouse is no longer limited to sale in his local market. If he has a warehouse sample and a warehouse receipt, he is no further from a recognized sales agent in an organized market than he is from his mail box. Storage of cotton in a bonded warehouse prior to sale is a major step in the direction of improved marketing.

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[13] For an appraisal of selling practices of farmers in the Upland area of Mississippi see: Wells, Chester M., Jr., **A Comparison of Marketing Practices In Organized and Unorganized Cotton Communities In Mississippi,** Master's Thesis, Mississippi State College, May 1949; and Faught, William A., **Cotton Marketing Practices In Selected Communities, 1947-48,** Southern Cooperative Series, Bulletin No. 8, September, 1950.

COTTON DEPARTMENT OF MISSISSIPPI FEDERATED COOPERATIVES (AAL)

Even though there are only a limited number of competitive merchants' markets in the Upland area of Mississippi, there are opportunities for the producer in the area to avail himself of adequate merchandising facilities. With a bonded warehouse receipt he can sell through a sales agency in any merchants' market. If he does not choose to sell through a sales agency in one of the older, more widely recognized merchants' markets, he still may divorce himself from farmers' market conditions by selling through a cooperative. Mississippi Federated Cooperatives (AAL) is one such cooperative outlet.

Marketing Services

Since the beginning of the cotton marketing operation in the 1940-41 season, Mississippi Federated Cooperatives has provided several marketing services to producers. These may be described briefly as follows:

(1) The cooperative will receive cotton from producers and place it in the so-called "optional pool." Here the cotton remains until the producer decides what to do with it. If the producer so desires, he may obtain a cash advance against cotton entering the "optional pool." If a cash advance is made, interest at 4 percent is charged.

(2) The cooperative will sell "spot" cotton for producers. Under this arrangement, bids are obtained from buyers and sales are made to the highest bidder. A nominal fee (usually $1.00) is charged for this service.

(3) The cooperative will purchase cotton and loan equities from producers and will purchase cotton from cotton buyers. This cotton is then sold for the best price obtainable.

(4) The cooperative will place cotton in the Government loan for producers. The cooperative will also withdraw cotton from the Government loan and purchase the farmer's equity or return the warehouse receipt to the producer or his authorized agent.

In the 1940-41 season, the only services offered by Mississippi Federated Cooperatives were the direct purchase of and the placing of cotton in the Government loan. Since that time the four different services described in the preceding paragraph have been offered continuously.

Farmer patrons might utilize any one or more of these services in disposing of a single bale of cotton. For example, a bale might be placed in the optional pool, be transferred later to the Government loan and subsequently be purchased by the cooperative.

The most apparent advantages offered by the cooperative are expert classing and expert marketing. Each bale of cotton is properly classed and is sold on the basis of quality characteristics. Bargaining between the sales force and buyers is keen and prices received reflect the value of specific qualities sold.

The most apparent disadvantage associated with the activity of the cooperative is the outright purchase of cotton. Even if cotton is hedged against price drops, risk exists and, in some years, losses are almost certain to occur. Any losses thus incurred must be absorbed by those producers who use the cooperative as a sales agency. On the other hand, such producers may gain from outright purchase by the cooperative because of higher prices normally resulting from the larger volume of cotton sold. Further gains may be experienced as the result of patronage refunds paid from earnings made on purchased cotton.

Use by Farmers

Since its organization the cotton department of Mississippi Federated Cooperatives has maintained facilities for handling a large volume of cotton. As indicated above it also has attempted to appeal to producers by offering a variety of merchandising services. Although facilities and services have been more than adequate, producers have disposed of a relatively small portion of their total production through Mississippi Federated Cooperatives, Table 1. Moreover, the extent to which producers in the various districts have utilized the facilities has varied sharply. Districts 1 and 4 which constitute the Delta and which had the largest volume of cotton produced, marketed the smallest proportion of their production through Mississippi Federated Cooperatives. This small volume from the Delta is normal because the cooperative has made no conscious effort to solicit patronage from the area. The most important sources of cotton handled by Mississippi Federated Cooperatives have been District 5, Central Mississippi, and District 3. Northeast Mississippi. The data in Table 1 give an indication of the areas of greatest opportunity for expanded service by Mississippi Federated Cooperatives. The crop reporting districts indicated in Table 1 are outlined in Chart 1.

A highly significant factor affecting the operation of the cotton department has been the marked variation in number of bales handled which has ranged from 5,579 bales in 1950-51 to 123,260 bales in 1948-49. In addition to causing per-bale costs to fluctuate violently from year to year, this variation in volume has tended to reduce the number of buyers operating in the Jackson market.

Table 1. Cotton production, bales handled by Mississippi Federated Cooperatives (AAL) and bales handled as percent of production, by crop reporting districts in Mississippi for the twelve year period 1940-41 through 1951-52.

District	Bales produced in 12-year period*	Bales handled by MFC in 12-year period**	Bales handled by MFC as percent of production
			Percent
1	5,241,823	6,517	0.1
2	2,040,023	40,015	2.0
3	1,449,753	144,539	10.0
4	5,476,109	13,802	0.2
5	1,605,565	169,350	10.5
6	1,229,607	70,598	5.7
7	831,459	53,536	6.4
8	999,142	51,058	5.1
9	474,625	60,241	12.7
Total	19,348,106	609,656	3.2

*Computed from: Heidelberg, L. C., "Cotton Estimates by Counties," U.S.D.A. Bureau of Agricultural Economics. Office of the Agricultural Statistician, Gulfport, Mississippi. Mimeographed report for the years 1940 through 1951.

**Number of bales handled differs from number of bales received because some bales were handled in more than on way. See section entitled "Marketing Services" for a description of methods of handling cotton.

It is apparent that farmers have failed to realize fully the potential benefits from marketing through the cotton department. Farmers have not used the cotton department consistently as a merchandising agency but have used it primarily as a means of placing cotton in the Government loan. In years when cotton prices have not been near the support level, producers have followed the traditional practice of selling to local buyers and have not utilized the services offered by their cooperative.

Cost of Operation of Cotton Department

Nature of Costs. Most cotton merchandising firms have relatively high fixed or overhead costs. In nearly all firms, expense items of a fixed or overhead nature make up the major portion of total operating costs. This is particularly true of those firms which specialize in rendering marketing services for producers and do not make direct purchases of any appreciable volume of cotton. A firm of this type, in order to operate efficiently, must keep its per-bale operating cost relatively low. With high fixed cost, low per-bale cost can be achieved only if facilities are utilized at or near capacity.

Maintenance by Mississippi Federated Cooperatives of the personnel and physical facilities necessary to handle a large volume of cotton and to provide adequate marketing services has resulted in rather high cost of an overhead nature. In each year, wages and salaries have been by far the most important expense items. Other fixed items of expense, such as rent, communications, and office expense have contributed materially to the cost of operation. The one major expense which had some of the characteristics of a variable cost item has been insurance. In two seasons, 1943-44 and 1944-45, insurance costs were significantly larger than average. In these two seasons Mississippi Federated Co-

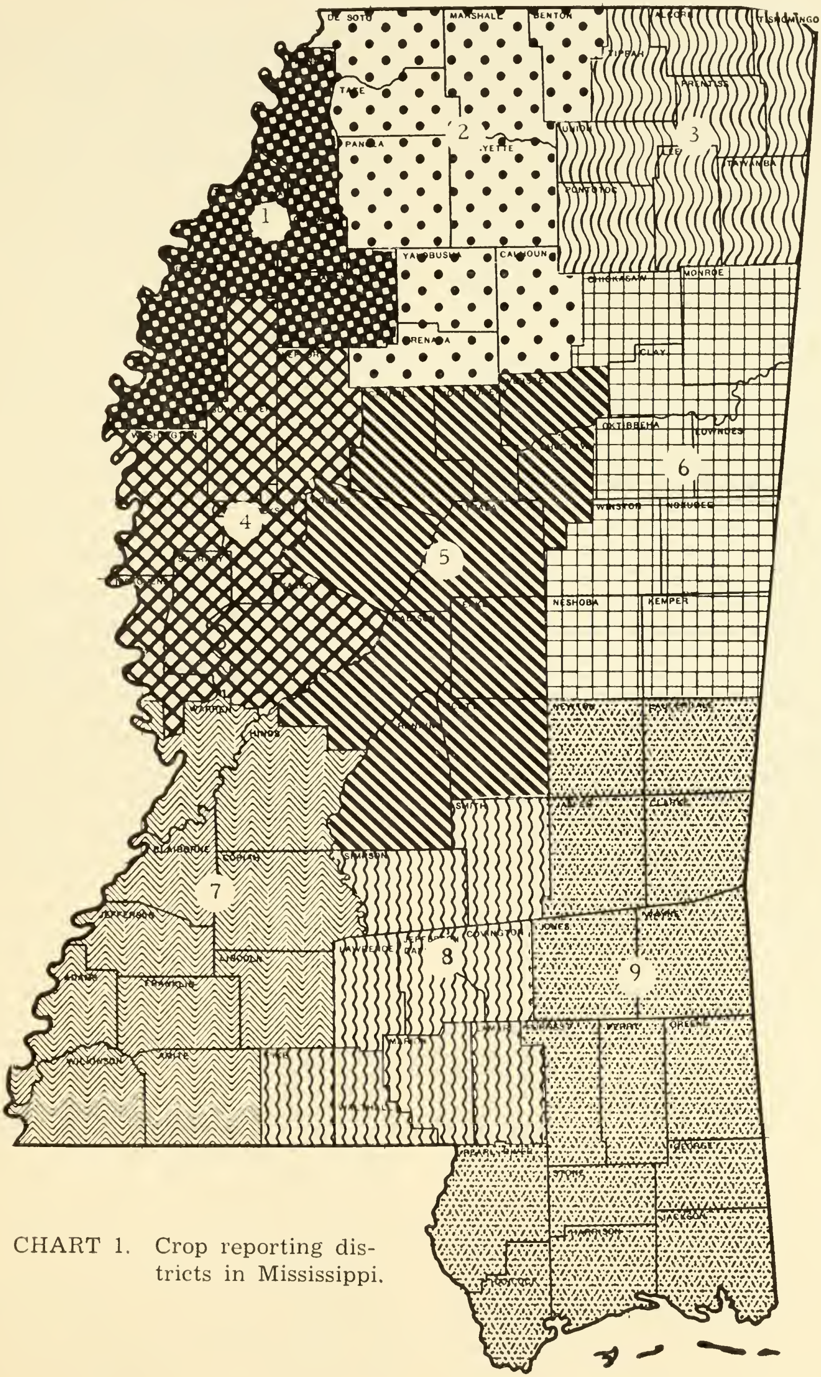

CHART 1. Crop reporting districts in Mississippi.

operatives purchased relatively large volumes of cotton and the increase in insurance expense was primarily the result of insurance paid on this cotton.

Variation of Costs. The total operating cost of the cotton department has risen about in proportion to the general inflationary conditions that have prevailed during its period of operation. In some years total operating costs have varied significantly from the rising trend. These variations have been associated with widely varying volumes of cotton handled. In years when the volume of cotton handled has been small, total operating cost has tended to be low. In years when the volume of cotton handled has been large, total operating cost has tended to be high. This indicates that, even though overhead costs are of major importance, there are certain expense items that vary directly with volume.

The effect of varying volume on per-bale cost has been different from that on total cost. Rather than tending to vary directly with volume as has total cost, per-bale cost has varied inversely. In addition to varying inversely with volume, per-bale cost has varied more than proportionately. The years of extreme variation in volume of cotton handled illustrate quite clearly the importance of the effect of changing volume on both total cost and per-bale cost. In 1948-49 the cotton department handled 123,260 bales of cotton. Total operating cost in this season was $88,968.68, while per-bale cost was only 72 cents. In contrast, in 1950-51, only 5,579 bales were handled at a total cost of $66,662.27 and per-bale cost of $11.95.

Income of Cotton Department

Sources of Income. Similar to any other organization that handles cotton on a brokerage basis, Mississippi Federated Cooperatives has made certain per-bale service charges. Charges have been assessed for selling cotton and for placing cotton in the Government loan. Cotton usually has been pledged to the Government loan through a county cooperative. In this event the county cooperative received 50 cents and Mississippi Federated Cooperatives received 75 cents of the total $1.25 per-bale service charge.

Additional income has resulted from the purchase and subsequent sale of cotton and of loan equities. The amount of income resulting from such transactions has, of course, been determined by the volume of sales, by market prices, and by the effectiveness of the sales staff.

As was pointed out earlier, producers have tended to use the services of Mississippi Federated Cooperatives in years when market prices have been near support prices. This has influenced greatly the amount of income that has resulted from the performance of different merchandising services. Most of the revenue that has been received has been the result of loan placements. In most years, the most important sources of revenue have been loan placements and withdrawals and purchase and sale operations. Actually, loan placements have, to a great extent, made possible income from merchandising operations. Usually when cotton was placed in the loan, the cooperative eventually had an opportunity to make withdrawals and purchase equities for subsequent sale.

In most seasons, interest has proven to be an additional source of income. Interest at 4 percent has been charged on cash advances made to producers. The net rate of interest accruing to the cooperative has been one-half of one percent or less.

Variation of Income. The volume of cotton handled and gross revenue have varied directly. In years when volume of cotton handled has been small, total revenue has been low. When the volume handled has been large, total revenue has been high. The relationship between changes in volume of cotton handled and changes in total revenue has not, however, been in direct proportion. This has been true primarily because income from purchase and sale operations has not been influenced as much by volume as by differences in purchase price and sale price.

Net Earnings. Total net earnings have been a result of total operating cost and total revenue both of which have been affected by the volume of cotton handled. As a result of the relationship between volume of cotton handled, total operating cost, and total revenue, total net earnings have tended to be greater in years when volume of cotton handled has been large.

As was pointed out above, the charges which Mississippi Federated Cooperatives has made for rendering different marketing services have been fixed, that is, the charge has been a specified amount per bale for each service rendered. Since the income from handling cotton has come from fixed charges per bale,[14] it has been necessary that per-bale handling cost be kept below per-bale revenue so that losses would not be incurred. In each of the years included in this study, per-bale handling cost has been kept below per-bale revenue and net earnings have been experienced.

Returns to Producers

The returns which have accrued to producers who have utilized the marketing services offered by Mississippi Federated Cooperatives have been the result of prices received and of patronage refunds. To the extent that prices received for cotton marketed through the cooperative have been higher than prices that could have been received through farmers' market outlets, producers who have sold through the cooperative have received larger incomes. The incomes of producers have been further increased as a result of earnings of the cotton department; earnings which have been rebated as patronage refunds.

Prices Received. For purposes of determining whether or not Mississippi Federated Cooperatives sold cotton for prices in line with its value, data were collected for 154 lot sales made from November, 1951 through July, 1952. For each lot, the data collected included the average price received, the number of bales of each grade and staple and the date of sale. The Memphis value of each lot was then determined on the basis of Memphis quotations for each grade and staple. This was done by use of a weighted average in which the Memphis quotation for each grade and staple was multiplied by the number of bales of each grade and staple, the products totaled and the sum divided by the total number of bales in the lot.

Examination of individual lot sales revealed that only a very few bales, brought prices appreciably below their Memphis evaluation. All other sales were made at prices above or only a few points below Memphis values. The data clearly revealed that prices received generally reflected the values of different qualities.

The results of comparing prices received to Memphis values, summarized for each month as well as for the season, are shown in Table 2. Prices received by Mississippi Federated Cooperatives for 21,261 bales of cotton sold during the nine-month period average only .02 cents per pound less than the weighted average Memphis evaluation. Since, as was pointed out above, the value of cotton sold in small markets is normally expected to be less than the value of comparable qualities sold in larger markets, the narrow spread between Memphis values and prices received by Mississippi Federated Cooperatives was surprising. The data indicate clearly that the sales department of Mississippi Federated Cooperatives has served its patrons well by selling their cotton effectively.

Patronage Refunds. As was pointed out above the cotton department has experienced net earnings in each year of operation included in this study. These earnings have been returned to patrons in the form of a patronage refund. Such refunds have been paid in eleven of the twelve years, Table 3.

For years in which refunds were paid, the average per-bale rebate ranged from 29 cents in 1944 to $2.01 in 1947. During the twelve-year period an average refund of 66 cents was paid on each of the 609,656 bales of cotton handled in different ways by the cooperative. The amount of the patronage rebate per bale has been related to the

[14] This has not been true for cotton purchased outright and subsequently sold. The income from this cotton was determined by the difference in purchase price and sales price less direct marketing costs.

number of services performed for the producer and to the cost of the cooperative of performing these services. For example, in the 1947-48 season when the average rebate was $2.01, the rebate on individual bales ranged from 22 cents to $3.40. If producers had utilized more completely the services of the cotton department, rebates would have been larger in many years because the increased volume would have permitted more efficient operation and earnings would have been larger.

Patronage refunds are incidental to the marketing program of Mississippi Federated Cooperatives and should not be the deciding factor in whether or not a farmer becomes a patron. At best, if the cooperative assessed a service charge of $1.00 and operated without cost, the refund could only be $1.00. The real basis of choice should be the service offered. If the producer feels that his farmers' market does not return the market value of his product, payment of $1.00 for marketing services that would return market value would be money well spent.

Table 2. Weighted average spread between Memphis equivalent values and prices received by Mississippi Federated Cooperatives, by months and for the season.*

Month of sale	Number of lots	Number of bales	Amount Memphis value exceeded price rec. by MFC
			(Cents per lb.)
November, 1951	10	3,243	.16
December, 1951	16	4,522	.13
January, 1952	23	3,243	—.24**
February, 1952	18	1,255	—.36
March, 1952	19	1,873	—.49
April, 1952	23	5,357	.03
May, 1952	9	290	.59
June, 1952	20	963	.62
July, 1952	16	515	1.20
Season total	154	21,261	.02

*Spread for individual lots determined by subtracting price received by Mississippi Federated Cooperatives from Memphis equivalent value of each lot. Average spread then determined by weighting the spread for each lot by the number of bales in the lot.

**Negative spreads resulted when the price received by Mississippi Federated Cooperatives was above Memphis value.

Table 3. Average patronage rebate per bale handled by Mississippi Federated Cooperatives, 1940-41 through 1951-52.*

	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	Ave.
Refund per bale (dol.)	.45	.94	.68	.38	.29	.70	1.44	2.01	.56	.44	**	1.67	66

*Average rebate computed by dividing total rebate by the number of bales handled. In most years, the rebate on individual bales of cotton differed from the average rebate because of different amounts of services and different costs of handling cotton in different ways.

**In 1950 the cooperative paid to producers a 20 cent per-bale rebate on 89,335 bales of cotton. This was not related to activity of the 1950-51 season but was a distribution of money allocated to farmers by Commodity Credit Corporation after sales of 1948-49 loan cotton.

APPENDIX

Price Determination

In order to determine the value of a bale of cotton, the farmer needs to know two things: the quality of the cotton and the price which that quality commands. Recognizing the desirability of a well-informed farm population Congress took steps to make quality and price information available to farmers. The Smith-Doxey program of the U.S.D.A. will provide to farmers, without charge, grade and staple information for each bale. The Market News Service of the U.S.D.A. submits price quotations to local radio stations and to daily and weekly newspapers. In addition to reporting prices by radio and newspaper, the U.S.D.A. releases a weekly cotton market review and reports daily price quotations. The producer can receive these published reports by requesting the **Weekly Cotton Market Review** and **Cotton Quotations —Ten Designated Markets.** He should address his request to United States Department of Agriculture, Agricultural Marketing Service, P. O. Box 8074, Crosstown Station, Memphis 4, Tennessee.

By using the Smith-Doxey classing service and price quotations from any of the above mentioned sources, the producer can arrive at an estimate of the value of cotton in his local market. The purpose of this appendix is to illustrate the procedure for estimating the value of cotton by use of the weekly and daily published reports of the U.S.D.A.

It should be emphasized that price determination by the methods illustrated is at best an approximation. This is true for two reasons: first, due to the time lag in receipt of price quotations, the producer does not have up-to-the-minute price data; and second, the prices reported apply to designated "spot" markets, in this area to Memphis. For the reasons given in the text of this bulletin, cotton is worth more in merchants' markets than in farmers' markets. For these reasons, the examples given below are not recommend for general use by producers. They are intended to serve as a guide for producers who continue to sell cotton directly to buyers in farmers' markets, and to indicate the difficulty associated with price determination in farmers' markets.

Farmers who sell their cotton to buyers in farmers' markets should make every effort to determine the value of each bale before it is sold. In using the methods described below the producer should always use the very latest available price quotations for both futures and premiums and discounts.

It will be observed in the two examples that follow that the Memphis values determined by the use of weekly and daily quotations are slightly different for the same day. This should not be a matter of concern to the producer. The difference is negligible and is explained by differences in the methods of averaging prices for purposes of daily quotations and weekly summarization.

Example 1: Determination of value of cotton by use of prices reported in the **Weekly Cotton Market Review.** This price report is released on Friday of each week. Usually it takes at least two days for the release to reach rural box holders, consequently it would not be available for use by farmers before Monday of the next week.

The prices used in this example were taken from the **Weekly Cotton Market Review** of February 26, 1954. The Memphis quotations from this release are reproduced in Table 1.

Table 1. Cotton price quotations, Memphis, Tennessee, Thursday, February 25, 1954. (Quotations are based on New York May futures which closed on Thursday, February 25 at 34.26c).

Staple lengths	Grade SM	M	SLM	LM
Inches	Points	Points	Points	Points
1/8	—170	—195	—370	—700
29/32	— 95	—120	—290	—620
15/16	— 20	— 45	—220	—575
31/32	+ 10	— 15	—165	—525
1	+ 55	+ 20	—130	—475
1-1/32	+125	+ 75	— 75	—425
1-1/16	+175	+125	— 50	—390

Source. **Weekly Cotton Market Review,** February 26, 1954.

With no source of information other than the **Weekly Cotton Market Review,** a producer may estimate the Memphis value of a particular quality of cotton. Suppose that the producer had a bale of cotton which, according to his Government class card, was middling 15/16 inch. Suppose further that on Monday morning, March 1, he found the **Weekly Cotton Market Review** in his mail box. The Memphis value of the middling 15/16 inch bale can easily be determined as follows:

May New York futures closed February 25	34.26c
Discount for middling 15/16 inch	—.45
Memphis price	33.81c

This price of 33.81 cents was the value of middling 15/16 inch cotton in Memphis on the afternoon of February 25, 1954. The Memphis price may have been different and probably was different on Monday, March 1. This is true for two reasons: first, the discount for middling 15/16 inch cotton may have changed and second, the futures price may have changed. Actually the **Memphis price** of middling 15/16 inch on **March 1** ranged from **33.70** cents to **33.83** cents. This was true because the discount for middling 15/16 inch had increased to 56 points and the futures ranged from 34.26 cents to 34.39 cents.

An estimate of the Memphis value of any other quality of cotton can easily be made. For a bale of strict middling 1-1/32 inch cotton the value would be determined as follows:

May New York futures closed February 25	34.26c
Premium for strict middling 1-1/32 inch	1.25
Memphis price	35.51c

This price of 35.51 cents was the value of strict middling 1-1/32 inch cotton in Memphis on the afternoon of February 25, 1954. On Monday, March 1, the price of this quality of cotton actually ranged from 35.40 cents to 35.53 cents.

Example 2. Determination of value of cotton by use of prices reported in **Cotton Quotations — Ten Designated Markets.** This price report is released daily, Monday through Friday. As is true for the **Weekly Cotton Market Re-**

Table 2. Cotton Quotations—Ten Designated Markets, February 25, 1954.*

	Chlstn.	Aug.	Atl.	Montg.	N.O.	Mem.	L.R.	Dallas	Hous.	Gal.
M 15/16″ cents lb.	34.25	34.75	34.45	34.25	33.80	33.80	33.75	33.90	33.75	33.75
Sales reported	0	430	61	86	1,008	8,196	656	8,149	4,208	100

PREMIUMS AND DISCOUNTS—in hundredths cents per pound

Staple	Grade GM	SM	M	SLM	LM	SGO	GO
7/8	—115	124	150	325	655	870	960
29/32	— 40	50	75	245	575	780	930
15/16	+ 35	25	B	—175	530	730	830
31/32	+ 65	55	30	—120	480	700	785
1	+110	100	65	— 85	430	655	755
1-1/32	+180	170	120	— 30	380	630	755
1-1/16	+230	220	170	— 5	345	605	755
1-3/32	+300	280	230	55	—320	595	745
1-1/8	+435	425	350	125	—295	595	745
1-5/32	+685	675	550	215	—270	595	745
1-3/16	+910	900	750	340	—260	595	745
1-7/32	+1,155	1,140	990	450	—250	595	745
1-1/4	+1,415	1,400	1,200	600	—240	595	745

Source: **Cotton Quotations—Ten Designated Markets,** February 25, 1954.

*Premiums and discounts shown only for white cotton in Memphis.

view, this report ordinarily does not reach rural box holders until the second day after its release.

The prices used in this example were taken from **Cotton Quotations—Ten Designated Markets** released on February 25, 1954. Memphis quotations for a limited number of grades and staples are reproduced in Table 2.

Suppose that on Monday, March 1, 1954, a producer wished to sell a bale of middling 15/16 inch cotton and that he had no source of price information other than the February 25 daily price quotations. He could determine the Memphis price simply by reading it from the list of quotations of middling 15/16 inch at the top of the quotation sheet. **This price of 33.80 cents was the value of middling 15/16 inch cotton in Memphis on the afternoon of February 25, 1954.** This, of course, only approximates the Memphis value on March 1, 1954. As was indicated in the previous example, the **Memphis price** of middling 15/16 inch on **March 1** actually ranged from **33.70** cents to **33.83** cents.

Estimates of Memphis values of other qualities are made somewhat differently than in the previous example. The value of strict middling 1-1/32 inch could be determined as follows:

Memphis price of middling 15/16 inch February 25	33.80c
Premium for strict middling 1-1/32 inch	+1.70
Memphis price	35.50c

Once again this price only approximates the price of this quality on March 1. As was shown in the previous example, the price of strict middling 1-1/32 inch ranged from **35.40** cents to **35.53** cents in **Memphis** on **March 1.**