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Chester M. Wells

William A. Faught

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# Marketing Mississippi Delta Cotton

MISSISSIPPI STATE COLLEGE  
AGRICULTURAL EXPERIMENT STATION

CLAY LYLE, Director

STATE COLLEGE

MISSISSIPPI

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# MARKETING MISSISSIPPI DELTA COTTON

## An Analysis of the Channels of Distribution, and of Marketing Services and Charges, 1949-50

By

Chester M. Wells, Jr., and William A. Faught<sup>1</sup>

Individual producers usually market cotton in small lots of mixed grades and staples while buyers for textile mills purchase relatively large lots of even-running grade and staple. This marked difference in producer sales and textile mill purchases gives rise to the complex merchandising system which exists today. In moving through this system the marketings of individual producers are combined into larger and larger lots until finally assembled into even-running lots, usually of 100 bales, of the same grade and staple. This assembling is necessary for economical transportation and also because textile mill spindles are set to handle raw cotton in only a limited quality range. In order to operate efficiently, mills must spin cotton of relatively uniform quality.

The process of moving a bale of cotton from the gin platform to the textile mill involves: (1) the physical movement from the gin to the mill and (2) the changes in ownership, through the transfer of bonded warehouse receipts, between the time it is sold by the producer and is bought by the spinner. This report will deal primarily with the latter of these operations, referring to the physical movement only to the extent that charges or costs of physical handling appear in the operation of merchandising firms. Its purpose is to analyze the changes of ownership involved in moving a bale of cotton to the textile mill, to determine the services performed by the different types of handlers in Delta markets, and to determine the costs or charges which occur in the marketing process.

### Scope and Method

Early in 1950 a list was compiled of resident cotton buyers or handlers in the eleven Delta counties (Tunica, Coahoma, Quitman, Bolivar, Sunflower, Leflore, Washington, Humphreys, Sharkey, Issaquena and Tallahatchie). Handlers on this list were stratified by major type of operation and by volume handled. All larger handlers were included in the sample and smaller handlers were sampled in proportion to the volume handled. Table 1 shows, by size group, the number of handlers in the Delta and in the sample. In the summer of 1950 the 36 handlers in the sample were interviewed and schedules completed. All data are for the 1949-50 season. The sample data were expanded by the application of the reciprocal of the sampling rate.

The enumeration revealed that the following types of handlers operated in Delta Markets:

- (1) **Factors**, who do not take ownership to cotton but sell for producers and other types of handlers and receive a brokerage fee for selling.
- (2) **Country buyers**, who purchase cotton from producers and other types of handlers and sell to other local market handlers or to handlers in other markets.
- (3) **Country shippers**, who purchase cotton from producers and other types of handlers, assemble into even-running lots and ship to domestic or export mills.
- (4) **Salary buyers**, for central merchants who purchase cotton for central market merchants and receive a salary for their work.

<sup>1</sup> Mr. Wells is assistant professor of agricultural economics at Mississippi State College. Mr. Faught is project leader, Southern Regional Cotton Marketing Project.

Table 1.—Number of handlers in the Delta and in the sample, by size groups, Mississippi Delta, 1949-50.

Number of bales handled	Total number of handlers	Number of handlers in sample
500 - 4,999	49	2
5,000 - 9,999	39	4
10,000 - 19,999	41	10
20,000 - 34,999	19	9
35,000 - 49,999	7	7
50,000 - 99,999	3	3
100,000 and over	1	1
Total	159	36

(5) **Commission buyers**, in Delta markets represented central merchants, mill market shippers, country shippers, and mill buyers. They purchased cotton from producers and other types of handlers and received a commission for each bale purchased.

Most handlers found it necessary, or to their advantage, to operate in several ways. Factors sometimes found it advantageous to operate as country buyers or shippers, buying cotton for their own account if sellers insisted that they do so, if other buyers were not available, or if they believed that cotton could be handled profitably at a price equivalent to the highest bid of other buyers. Similarly, country buyers sometimes were able to sell some cotton profitably to buyers located in mill markets. Country shippers frequently have odd-lots of cotton that cannot be assembled for shipment to mills. This cotton is usually sold to local or central market buyers. Although handlers were classified, for sampling purposes, by the major type of operation in which they engaged, data for each handler were tabulated according to each type of operation in which he engaged in order to show more clearly the differences between types of buyers in services performed and costs incurred.

### Source of Receipts and Distribution of Sales

The data reveal that local market handlers merchandised a total of

2,183,000 bales of cotton in the 1949-50 season. Table 2 shows the sources from which each type of handler received cotton.

That factors are highly significant types of handlers in the merchandising system is readily apparent from the table. Producers and other types of handlers patronize factors more than they do all other types of handlers combined. Slightly less than three-fifths of the cotton marketed by producers was sold across factor's tables, and almost three-fifths of the cotton purchased by other types of buyers was bought there.

Even though first handlers reported handling 2,183,000 bales of cotton, only 1,231,000 bales actually entered the Delta markets. This latter figure was obtained by adding the 1,105,000 bales of producer cotton to the 126,000 bales entering the market from the factors and country buyers located outside the Delta.<sup>2</sup> The difference between 2,183,000 bales and 1,231,000 represents cotton that passed through the hands of more than one local handler.

The average turnover per bale can be determined by dividing the number of bales entering the market into the total number of bales handled by all types of handlers in the market. This average turnover revealed that on the average, bales were handled 1.8 times while passing through local markets. Emphasis should be placed on the fact that this figure applies only to transactions in the local market, and that cotton going to central markets or to mills usually passed through one or more additional handlers after leaving Delta markets.

The information contained in Table 3 reveals that, of the 1,231,000 bales that entered the markets, 49 per cent went directly to mill markets (6 per cent to mill market shippers and 43 per cent to mill buyers, direct or through brokers in mill markets) and 51 per cent went to central market

<sup>2</sup>Cotton production in the eleven Delta counties as reported by Bureau of the Census, totaled 834,093 bales in 1949. Significant proportions of the cotton produced in the North Delta by-passed local markets and were sold in Memphis. It is estimated that approximately 300,000 bales of producer cotton entered Delta markets from surrounding counties in Mississippi and from across the river in Arkansas and Louisiana.

Table 2.—Source of receipts of cotton by indicated types of handlers, Mississippi, Delta, 1949-50.

Type of handler	Source of receipts				Total
	Producers	Factors	Country buyers	Commission buyers	
	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales
Factors .....	629	—	122	—	751
Country buyers .....	205	153	43	—	401
Country shippers .....	110	339	7	38	494
Salary for central merchants .....	11	212	10	—	233
Commission buyers for:					
Central merchants .....	71	99	4	—	174
Mill market shippers .....	17	23	17	—	57
Country shippers .....	30	3	5	—	38
Mill buyers .....	32	—	3	—	35
<b>Total</b> .....	<b>1105</b>	<b>1 829</b>	<b>1 211</b>	<b>38</b>	<b>2183</b>

<sup>1</sup> Includes approximately 126,000 bales entering Delta markets from factors and country buyers located outside the Delta.

merchants. Data are not available to determine the disposition of the cotton sent to the central markets but general information relative to the activities of central market merchants indicates that the cotton received by these handlers usually moved directly to domestic or export mill markets.

Figure 1 shows, in diagrammatic form, the marketing channels for 1,231,000 bales of cotton that entered Mississippi Delta markets during the 1949-50 season. A high degree of specialization is evidenced by the fact that almost two-thirds of the volume going to central merchants went from salary and commission representatives of these merchants and over 90 per cent of the volume going direct to mill buyers went from country shippers.

### Services and Charges

Services rendered in cotton marketing and charges made for these services may be separated into two segments: (1) services and charges prior to the time that producers relinquish title to the cotton and (2) services and charges that occur in the distribution of cotton from first buyers to ultimate consumers.<sup>3</sup> These two broad segments may be further divided into merchandising services and charges and physical services and charges.

Charges assessed for services performed before producers sell cotton are paid by producers. Table 4 reveals,

that on the average, Delta producers pay \$12.24 per bale for marketing services rendered before they give up title to their cotton. Of this total 94 per cent was for processing and physical handling. The table shows that the producer bears the expense of receiving at the compress and of storage and insurance for one month. Therefore all cotton was located in Delta or nearby warehouses at the time first buyers took ownership. First buyers purchased the cotton with a warehouse sample being accepted as representative of the quality of lint in the bale, and the warehouse receipt being accepted as evidence of physical existence of the bale.

Services and charges that occur in the distribution of cotton from first buyers to ultimate consumers vary widely between types of buyers. Lack of data makes it impossible at this time, to describe the services rendered and charges paid by handlers in central markets, consequently the discussion of services and charges will be confined entirely to merchandising activity in the local market.

Marketing services and charges occurring between the time cotton is purchased by first buyers and is sold to consuming establishments or to buyers in other markets are given in Table 5. These charges are based primarily upon estimates provided by members of the trade, because in most instances it was not possible to obtain accurate cost

<sup>3</sup> First buyers include all buyers who take title to cotton either in their own name or in the name of firms which they represent.

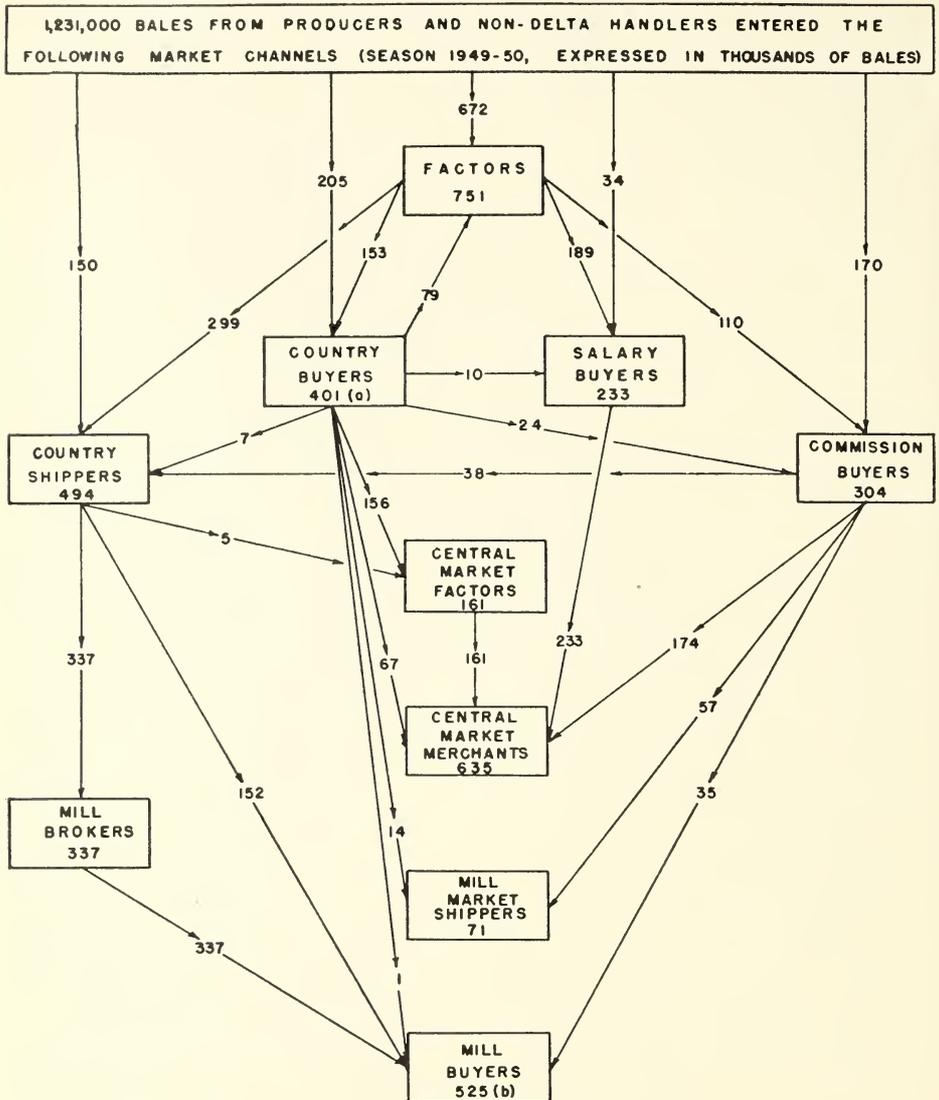


Figure 1. Marketing channels for cotton lint entering Mississippi Delta markets, 1949-50

Table 3.—Market outlets of indicated types of handlers Mississippi Delta, 1949-50.

Types of handlers	Market outlets										Total
	Central merchants direct	Mill buyers direct or through brokers	Mill market shippers direct or through brokers	Local representative central merchants	Local merchants through local factors	Commission buyers for mill market shippers	Commission buyers for mill market shippers	Country buyers	Country shippers	Total	
	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales	1000 bales
Factors	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Country buyers	223	1	14	278	79	21	21	153	299	751	751
Country shippers	5	489	—	14	—	17	17	43	7	401	401
Salary for central merchants	233	—	—	—	—	—	—	—	—	494	494
Commission for:											
Central merchants	174	—	—	—	—	—	—	—	—	—	174
Mill market shippers	—	—	57	—	—	—	—	—	—	—	57
Country shippers	—	35	—	—	—	—	—	—	38	—	38
Mill buyers	—	—	—	—	—	—	—	—	—	35	35
Totals	635	1525	71	292	79	38	38	196	344	2,183	2,183

<sup>1</sup>Includes a small number of bales going to foreign mill buyers.

Table 4.—Marketing services rendered and average charges assessed prior to sale of cotton by producers, Mississippi Delta, 1949-50.

Service rendered	Average charge per bale	
Physical services:		\$11.45
Ginning and wrapping	\$10.57	
Receiving at compress and/or warehouse	.55	
Storage and insurance for one month	.33	
Merchandising services <sup>2</sup>		.79
Total		\$12.24

<sup>1</sup> Estimated average charge per 500-pound gross weight bale. Source: Special tabulation of the Cotton Branch, Production and Marketing Administration.

<sup>2</sup> Charge computed by taking total payments by producers to factors and dividing by 1,105,000 bales.

data from the books of the firm. In general, failure to obtain accurate cost data was due to the lack of records rather than to an unwillingness to cooperate on the part of the buyers.

Commission and salaried representatives of country shippers, central merchants, mill market shippers, or mill buyers handled slightly more than 40 per cent of the cotton received in Delta markets in 1949-50. These buyers, who take title to the cotton in the name of the firms which they represent, reported no cost other than overhead which amounted to an average of 94 cents per bale (Table 5). Money paid to these buyers as salaries and commissions constitutes a significant part of the merchandising costs of the firms which they represent but this cost appears only on the books of the firms whom these buyers represent.

Country buyers reported wide variations in costs, ranging from 96 cents to \$4.76 per bale. The average per bale cost reported by country buyers was \$1.80 (Table 5). Of this total cost, \$1.47 was for merchandising services and the remainder was for physical services. Country buyers who also acted as country shippers reported the highest cost per bale. In the case of these buyers no equitable distribution of such costs as overhead, banking, storage, and insurance could be made between the two types of operations. Since these costs are higher for buyers operating as shippers than for those operating

as country buyers, it follows that a combination shipper-country buyer would incur higher costs than a buyer operating only as a country buyer.

Country shippers, disposing of practically all their purchases to buyers in mill markets, incurred heavier expenses for both merchandising and physical handling than did other types of buyers. Shippers secured a small amount of cotton through commission representatives, incurring a cash cost for this service, which other buyers did not report. They also held cotton for longer periods of time than other buyers, thus increasing the amount of storage, insurance, and interest costs which they paid. Exchange charges were higher due to the fact that drafts drawn on firms outside the area to whom shippers sold cotton bore a higher rate. Shippers also had to bear the expense

Table 5.—Marketing services rendered or paid for by first buyers and average cost per bale between the time cotton is purchased by first buyer and is sold to consuming establishments or to buyers in other markets, Mississippi Delta, 1949-50.

Types of services	Average cost per bale reported by:		
	Salary and commission buyers	Country buyers	Country shippers
Merchandising services:			
Buying <sup>1</sup>	—	—	\$0.08
Bank Expense <sup>2</sup>	—	\$0.27	.42
Brokerage <sup>3</sup>	—	.46	.80
Overhead <sup>4</sup>	\$0.94	.74	1.03
Total	\$0.94	\$1.47	\$2.33
Physical handling:			
Compression	—	—	\$1.01
Storage and insurance	—	.32	.51
Other charges paid compress <sup>5</sup>	—	.01	.09
Transportation	—	—	4.32
Total	—	<sup>a</sup> \$0.33	<sup>a</sup> \$5.93
Total average cost, all services	\$0.94	\$1.80	\$8.26

<sup>1</sup> For cotton bought on commission by commission buyers.

<sup>2</sup> Comprised of exchange and interest on borrowed capital.

<sup>3</sup> For cotton sold through factors in local, central or mill markets.

<sup>4</sup> Includes all charges not specifically enumerated. Salaries, transportation, communications, classing, office expense, etc.

<sup>5</sup> Includes reconcentration costs, reweighting, resampling, etc.

<sup>a</sup> Weighted average cost for physical services performed on cotton moving to all destinations.

of preparing the cotton for shipment and of moving it to mill markets. Transportation costs alone accounted for over half of the total cash cost reported by shippers. This cost varied, of course, with the destination of the shipment. Thirty-four per cent of the total shipments reportedly went to New England at an average cost for transportation of \$5.60 per bale; 37 per cent moved to Carolina-Virginia points at an average cost of \$4.17; 17 per cent was sent to Georgia-Alabama points at an average cost of \$3.62; and 12 per cent was moved to ports at an average cost of \$2.80.

Since country buyers and commission or salary buyers transfer ownership of the cotton which they purchase to other buyers in central or local markets their reported costs indicate only a small part of the total marketing cost. Even the cash costs reported by shippers do not indicate the total marketing cost for they do not include such non-cash items as cost of risks arising from shifts in prices, cost of arbitration, losses in weight, cost of hedging, returns on owned capital, or returns to shippers for their services.

The total marketing cost can be determined, however, from the spread or difference between the prices paid producers and the prices paid by mills for the same qualities of cotton on the same dates. This study was not designed to collect detailed price data, but an approximation of this spread can be obtained from the officially quoted prices. The reports of the Production and Marketing Administration quote prices received by farmers in Greenwood, Mississippi and prices paid by mills in Group B Mill Points in the Carolinas. The margin or spread between these points indicates the total marketing charge for the most important volume of Delta marketings. During the 1949-50 season the average spread between the quoted prices at Greenwood and at Group B Mill Points averaged about one and three-fourths cents per pound for the four major classes of cotton sold in the Delta that season. This margin ranged from a high

of two cents per pound for Middling 1-1/32 to about one and one-half cents a pound for Strict Low Middling 1-1/16 inches. Reports from buyers in local markets, other than Greenwood, indicated that the margin between these markets and mill points averaged about one- to two-tenths of a cent larger than the Greenwood-Mill Point average. However, there was no means of checking the accuracy of the buying basis reported or the quality to which the basis referred. The average total margin, estimated in the manner described above, ranged between \$8.00 and \$10.50, averaging about \$9.50 per bale for the four major qualities of cotton sold. As can be seen from the foregoing discussion a large part of this \$9.50 margin was paid to the compresses and railroads for the physical handling and movement of cotton to the mills.

The average cost reported by Delta shippers for physical services involved in moving cotton to Group B Mill Points totaled \$5.77. This total is somewhat less than the weighted average total cash cost for cotton moving to all destinations reported in Table 5 due to the fact that cotton going to domestic mills is compressed only to standard density for which the standard cost is \$1.00 per bale and the fact that transportation costs to Group B Points averaged only \$4.17 or 15 cents below the weighted average cost of transporting cotton to all destinations. Merchandising costs would be about the same for cotton moving to all points so that the total average cost of moving cotton to Group B Mill Points amounted to \$8.10 per bale. The difference of \$1.40 between this figure and the average total spread of \$9.50 indicated by the quoted prices is the return to the shipper out of which he must recover the interest on his own capital, the cost of disposing of bales rejected by mills, losses in weight, cost of arbitration and hedging, as well as the returns for his own services.

The estimated total cost including both cash and non-cash items for marketing cotton moving in the manner described above and including all

charges occurring between the time the cotton arrives at the gin and the time it arrives at a Group B Mill Point siding, totals \$21.74. Of this amount, charges for processing and physical movement amounted to \$17.22 or about 80 per cent. The cash cost of merchandising amounted to only \$3.12 or 14 per cent and non-cash items included in the returns to shippers amounted to \$1.40 or 6 per cent.

### Summary

The 1,231,000 bales of cotton entering markets in 1949-50 were handled an average of 1.8 times by local handlers. From the standpoint of volume, local factors were the most important, handling over one-half of the cotton that entered the market and supplying other types of handlers with three-fifths of their total receipts.

Of the 1,231,000 bales entering local markets, 49 per cent went directly to mill markets and 51 per cent went to central merchants.

Country shippers were the most direct link between local markets and mill markets and handled over 80 per cent of the cotton that went to mill markets directly from local markets. During the 1949-50 season the average spread between local market prices and Group B Mill Point prices was \$9.50 per bale. According to reports from country shippers, cash cost averaged \$8.10 per bale to deliver cotton to a Group B Mill Point siding, leaving \$1.40 to cover interest on owned capital, risk from price changes, losses arising from rejection, losses of weight, arbitration costs, and returns to management.

The estimated marketing cost for this cotton including all charges or costs occurring between the time cotton arrives at the gin and the time it arrives at mill siding totals \$21.74, of which charges for processing and physical handling accounted for 80 per cent.