

The Freight Rate Headache

MID-SUMMER can be a difficult time of year to a soybean processor or a feed mixer. The former has to contend with dwindling free-bean supplies, and both have to contend with the annual freight juggle. This summer will be no exception. Meal rate-reductions effective in May have not been applied to all locations or all gateways. Not long ago the Board of Trade had to change its meal delivery-differentials because some August deliveries were ordered to the wrong place from the standpoint of the delivering mill. Beans in the summer are often traded on billing rather than price. Liberalized oil transits granted recently have changed some users' construction plans. What on earth is the background of all this confusion?

Basic to all freight-rate structures is the competitive situation of the railroads with respect both to other roads and to other forms of transit. This has resulted in an enormously complicated and often unwieldy structure.

Largely to encourage plant location along their lines, thus obtaining both inbound raw material and outbound product moves, railroads have granted milling (processing) in-transit rates. Although long haul and very direct moves are encouraged, some out-of-line movement is permitted. This is handled by sometimes allowing full inbound freight against a bean-origin-to-meal destination rate as if no out-of-line juggle had taken place. The result of these factors is to equalize, in distant markets, plants located at different distances along the production-to-consumption line and to equalize out-of-line plants with better located plants. In order to keep beans moving in a fairly straight line away from production areas and toward consumption areas, rates have been constructed so as to keep western beans moving west and eastern beans moving east, using Decatur, Ill., as the center. (In the summertime however beans for the

East may have to be pulled from the West.) All of this is partly encouraged by usually backing meal moves off to Decatur rather than basing them FOB plant and partly by allowing them extra-special rates for certain very specific moves. The mechanics of these various aims and solutions have resulted in beans from any given origin serving some meal destinations well, serving others albeit not so well, and serving still other destinations poorly.

During the year the processor accumulates a considerable amount of billing of all descriptions and from all sorts of origins. Early in the year he can serve almost anywhere within his economic territory. This is especially true of processors in the central area whose production is known as "unrestricted" meal (actually a misnomer). Bear in mind that each outbound move must in eventual net effect be matched against some piece of billing. At this time of year the assortment of origins can begin to thin out rather badly. This automatically means that the range of favorable destinations is concomitantly reduced. Extremely active bids may have to be turned down. This means that the soybean buyer and the freight department must balance bean origins against probable meal destinations well in advance of knowing what those destinations will be. Also truck bean-purchases must be balanced against the portion of the meal that will move out by truck. For truck beans and the resulting meal do not carry any transit. For mills in the central area this truck service radius can be quite small. For mills on the outer fringes of the belt it can be considerably larger.

PROCESSORS keep track of all this with a system of double-entry bookkeeping. Entries are made for all receipts by all methods of transport. Arrivals are compared to crush, reduced by oil yield (representative shrink). This oil yield is periodically adjusted with the carriers. Only that portion of the meal covered by inbound rail-transit-billing beans is allowed to move out by rail under the coveted transit rate. Crush and shipments and stocks on hand are compared in a periodic adjustment audit with the carriers. Transit on that portion of the beans representing oil is lost.

A similar situation prevails with a feed mixer. He must keep track of all arrivals of ingredients by each method of transport. When the mixed feed is shipped out by rail, a proportionate part of the backlog of inbound transit balances is applied. The same billing is still carrying through. The amount of each type of transit to be applied is governed by an agreement between the carrier and the compounder as to the average mix of ingredients in outbound shipments. This too is subject to periodic audit and adjustment.

Oil transit bears certain similarities to bean transit except that it is the plant origin of the oil rather than the country origin of the beans that counts. Oil moves are somewhat less restricted than meal moves and bean moves, and the economics of shifting lowest-cost-supply-points have freer play. All of the products of the inbound oil move out under some type of transit; there is no lost transit as in beans.

Lard and cottonseed oil and cottonseed meal moves are similar to soybean oil. Virtually all hogs and cottonseed move to the point of first processing by truck rather than by rail. As a result, shipments of outbound products are prices FOB plant. Prices are often equalized to certain points (e.g., Houston on cottonseed oil and Chicago on lard), but this is really a reduction from net by sellers more distant from the equalization point.

This discussion is, of course, a simplification of the freight problems that a processor can face. It is simply an attempt to indicate the enormous impact that freight rates can have on the marketing of oilseeds and products. This makes a good freight staff an absolute necessity for it can mean the difference between profit and no profit.

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