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Advantages and disadvantages of hog marketing groups

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ADVANTAGES AND DISADVANTAGES OF HOG MARKETING GROUPS¹

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Summary

Ten hog marketing groups located in Kansas and Iowa were surveyed during 1993 to determine the success, operation, and management of hog marketing groups. Marketing group leaders were asked to identify principal advantages and disadvantages of marketing hogs in groups. Survey responses indicated that marketing hogs in groups led to producers receiving higher sale prices for their hogs and helped reduce their marketing costs. Commonly cited disadvantages of group marketing, included a loss in marketing flexibility, difficulties in coordinating loads among group members, and concerns about increased susceptibility to diseases from other herds.

(Key Words: Hog Marketing Groups.)

Introduction

Both the number of swine operations and the volume of hogs marketed in Kansas have declined dramatically in recent years. There were 13,000 swine operations with annual marketings of 3.069 million head in 1981. In 1993, there were 5,300 swine operations with annual marketings of 2.472 million head. This is a 60 percent reduction in the number of hog operations and a 20 percent reduction in hog marketings over a 12-year period in Kansas. The decline in the number of Kansas operations came solely from opera-

tions with inventories of less than 1000 head. The number of Kansas hog operations with 1000-2000 head inventories held steady, and operations with inventories greater than 2000 head increased by 10 operations from 80 to 90. Changes in the structure of Kansas' hog industry follow the national trend of fewer hog producers with a larger average size of operation.

The changing structure of the hog industry has encouraged many midwestern hog producers to form marketing groups. Group marketing entails individual pork producers marketing hogs collectively to increase the price received and/or reduce their marketing costs. One of the objectives of this study was to identify the advantages and disadvantages of group hog marketing.

Procedures

Hog marketing groups operating in Kansas and Iowa were identified through industry contacts. An in-depth survey was conducted through personal interviews with the leaders of the marketing groups.

Results and Discussion

Seven of the 10 hog marketing groups were located in Kansas. Six of these were still actively marketing hogs as groups in 1993. The groups surveyed were located primarily in the eastern half of Kansas.

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Group membership ranged from seven to 15 members. During 1993, 64 Kansas hog producers marketed hogs through the groups included in the survey. These six operational groups marketed approximately 100,000 hogs in 1993 based on average weekly marketings reported by group leaders. Annual hog marketings per group in Kansas ranged from 5,000 to 37,000 head. On an annual basis, hogs marketed by groups in the survey represented less than 5 percent of the hogs marketed by Kansas hog producers during 1993. The length of time the surveyed groups were in existence ranged from less than 1 year to 12 years. On average, marketing groups in the survey had been in existence approximately 5 years.

Hog marketing groups can be classified as a product differentiation group, a transaction cost group, or a transaction/marketing cost group, depending on the objective of the group. Groups oriented toward marketing a large volume of hogs with high quality carcasses and little variability among carcasses can be characterized as product differentiation groups. Transaction cost groups consist of independent pork producers banding together primarily to market hogs directly to packers in semitrailer loads. The third category, transaction/marketing cost groups, organize primarily to reduce group members' marketing costs, but also implement strategies designed to raise their members' sale prices.

Table 1 provides group leaders' responses to survey questions regarding marketing hogs in a group compared with marketing hogs as individual producers. Group leaders from all types of marketing groups felt that group marketing increased the prices received per cwt. for their members. However, product differentiation-group leaders were in stronger agreement that group marketing increased price received for their hogs than were leaders of transaction cost or transaction/marketing groups.

Ninety percent of all group leaders felt that the group marketing strategy reduced time spent marketing hogs by group members. Transaction cost- and transaction/

marketing-group members were most likely to benefit from spending less time marketing their hogs. In several instances, producers in these groups were making round trips of considerable distance to market their hogs. Group marketing reduced the number of trips and the time for each trip.

Product differentiation-group leaders were more likely to report benefits associated with members reducing the worry over marketing their hogs as a result of group marketing. These groups used long-term marketing agreements. The negotiated base-bid formula found in these agreements provided many producers with the "peace of mind" that they were going to receive satisfactory base bids over an extended time period.

Group leaders were split on whether group marketing allowed members to significantly reduce sort loss discounts when selling hogs on a carcass merit basis. Some transaction cost-group leaders did not feel they marketed hogs often enough to significantly reduce sort loss discounts. Producers using the "all in-all out" management strategy to minimize health problems and gain production efficiency have trouble reducing sort loss discounts. Leaders that felt sort loss discounts declined when marketing with a group cited increased producer awareness of sort loss discounts and development of a more disciplined marketing schedule as reasons for the reductions.

Leaders of 80 percent of the groups felt that group marketing reduced marketing costs. Leaders of transaction cost groups unanimously agreed that transportation costs per cwt. declined when hogs were marketed in semitrailer loads rather than in small trucks. Marketing costs also fell because fewer marketing trips were made and/or producers travelled shorter distances to load hogs on the group's semitrailer versus marketing individually. Additionally, marketing costs declined because only one person solicited and accepted bids for the group versus each individual producer spending time and money soliciting and accepting packer bids.

Despite these apparent cost advantages for group marketing, two group leaders did not feel marketing costs declined when producers were marketing hogs in a group. Transportation costs for some groups did not fall, because producer members were already marketing hogs directly to a packer in semi-trailer loads. In other groups, transportation costs did not decline because no significant difference occurred in the distance to the packing plant versus the group's central loading site. Groups that did not experience a reduction in transportation costs per cwt. felt that group marketing costs were higher for members, if marketing fees were charged.

The vast majority of group leaders (80 percent) felt producers gained valuable information on how to improve the genetic quality of their herds by marketing hogs in a group. These groups either formally or informally shared kill sheet data among group members and learned which genetic lines were performing well under packers' carcass merit programs. This sharing of information gives producer members more reliable data to make informed decisions and increase the profitability of their operations. Marketing groups that did not feel group marketing provided valuable information on how to improve genetic quality also did not put much emphasis on sharing and comparing data.

Table 2 provides a summary of survey results with regard to specific advantages, disadvantages, and desired changes in

marketing group operations voiced by group leaders in the survey. This table was developed using the most often stated responses from the 10 marketing group leaders. The three main advantages of marketing hogs collectively in a group for independent swine producers are 1) increase price received per cwt., 2) reduced marketing costs, and 3) the ability to make more informed management decisions as a result of comparing and sharing information with other hog producers. If a member of a hog marketing group is realizing any one of these advantages, the group marketing strategy was at least partially successful.

The main disadvantages of group marketing were voiced by transaction cost- and transaction/marketing-group leaders. Product differentiation-group leaders were more satisfied with the group marketing strategy. The disadvantages of group marketing listed in Table 2 are problems that are inherent when many producers are needed to complete a group shipment. Ways to remedy these problems are to hire a market coordinator and to acquire a central loading site. Flexibility in marketing hogs will increase as the volume of hogs marketed by the group increases. Volume of hogs marketed and membership in the marketing group will grow as other area producers see current members benefitting from group marketing. Marketing groups that are well organized and increase prices received or reduce marketing costs will have no trouble gaining volume and increasing membership.

Table 1. Attitudes and Feelings Concerning Hogs Marketing Group

Factor	Strongly agree	Agree	Indifferent	Strongly disagree	Disagree
(Percent of respondents)					
Group marketing members receive higher prices per cwt. versus marketing hogs as individual producers	40	40	10	10	0
Group marketing members spend less time and worry marketing hogs	70	20	0	10	0
Group marketing members market hogs more often and at more uniform weights, significantly reducing sort loss discounts	40	20	40	0	0
Group marketing lowers marketing costs (transportation, bid soliciting, etc.)	40	40	10	10	0
Group marketing provides members valuable information on how to improve herd genetic quality	40	40	20	0	0

Table 2. Survey Summaries: The Top Three Advantages/Disadvantages of Group Marketing and Desired Changes in Group Operations

ADVANTAGES	1. Increased price received per cwt. as a result of one or a combination of the following reasons: a. Increase in the base bid or live-weight bid from delivering hogs directly to the plant versus delivery to a buying station, b. Receiving premiums for quality by selling the hogs on carcass merit versus selling the hogs on a live-weight basis, c. Increase in base bid as a result of marketing a volume of consistent, high quality hogs, d. Increase in base bid from entering into long-term delivery contract with a packer, guaranteeing some minimum level of carcass quality. 2. Lower cost of marketing hogs as a result of one or a combination of the following reasons: a. Reducing the transportation costs per hundred-weight by shipping hogs in semitrailer loads versus small truck loads, b. Reducing the time spent marketing hogs by reducing the distance traveled and number of marketing trips. 3. Making more informed management decisions as a result of sharing and comparing data and information with other hog producers.
DISADVANTAGES	1. Lack of flexibility in marketing hogs as a result of marketing group shipments occurring only once a week or less. 2. Increased susceptibility to diseases from increased contact with other producers' hogs and equipment. 3. Difficulties in coordinating a group shipment when several producer-members' hogs are needed to fill a semitrailer shipment.
DESIRED CHANGES	1. Hire a market-coordinator. 2. Increase volume of hogs marketed by group. 3. Acquire central loading site. 4. Establish more procedures regarding coordination of a group load. 5. Require common genetics for group membership.