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Pork Producers Face Challenges

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Market Report	Yr Ago	4 Wks Ago	1/7/00
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	$60.01	70.00	67.75
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	75.28	89.37	91.52
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	79.58	94.19	97.13
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	91.91	107.96	105.34
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	27.00	35.25	36.75
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	20.50	*	46.41
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	95.38	95.80	99.20
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	*	*	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	150.00	163.00	156.00
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	3.35	2.65	2.84
Corn, No. 2, Yellow Omaha, bu.	1.85	1.71	1.81
Soybeans, No. 1, Yellow Omaha, bu.	5.05	4.23	4.41
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.44	2.75	3.04
Oats, No. 2, Heavy Sioux City, IA , bu.	1.23	*	1.19
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	*	100.00	100.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	*	32.50	33.75
Prairie, Sm. Square, Good Northeast Nebraska, ton.	70.00	*	60.00

* No market.

There is a lot of discussion about producers retaining ownership of their product as it moves to the end consumer. It is generally assumed that retaining ownership will allow the producer to generate additional income by participating in a bigger share of the final value. However, the price that the consumer pays does not come without cost. As producers examine the complexities of retaining ownership, the added risk and cost of these activities become more apparent.

In the pork industry these problems are magnified as producers, suffering from record losses look for ways to share in the value the consumer is paying for pork. Producers are being advised to: "Think supply chain, not production."[1]

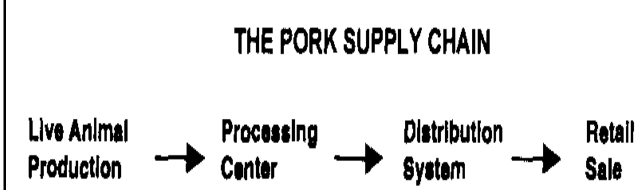

Figure 1 - Plain and Leibbrandt

When we consider the supply chain, it is interesting that the producer who raises, processes (or has a custom plant process for him/her) and then sells product directly to a consumer, is a more controlled and integrated form of supply chain than the company that owns hogs and processing plants but then moves the product through a retail outlet. The supermarket chain or a fast food chain generally have not participated in any ownership connection in this pork supply chain.

Neither have producers. A number of obvious connections have been made in the processing and distribution section. Recently, Farmland Industries announced the opening of their value added plants. These plants receive product from Farmland's packing plants and cut, size, wrap and label the portions to the retail market's specification. This example of a value-added contracted service is typical of the connections observed in the fast changing pork supply chain.

The live animal producer will need some type of connections within the chain. The producer may elect to:

✓ Own the product all the way to the final consumer.

✓ Own the product further along the chain, but not all the way to consumer.

✓ Own the animal only to the next processor, but deliver an animal that fits specific guidelines on genetics, weight, condition and perhaps the way in which it was fed and raised.

✓ Own the animal, but deliver specific numbers of animals at specific times.

✓ Own the animal, the processing and the retailing completely. (A truly vertical chain).

✓ Contract with another animal owner to provide specific services.

In these examples the producer may own or contract for a number of activities that are part of the chain. Also, the producer may elect to **"go it alone"** or to be part of a cooperative or other entity.

To understand the pork supply chain, producers need to understand its' objectives and how it operates. To participate, the producer needs to know the goals and objectives of the individual chain in which they will be involved. Even if you intend to own it all, the goals and objectives and the why you want to "own it all" is critical.

Producer's have many issues to address when deciding how to participate in the future of the pork industry. Market access, price risk, input risk, regulatory risk, operating decisions, business partners and management decisions are all different depending on the choice of how they participate in this industry. Individual producers' personal preferences about the type of work they prefer, how they manage their business, how long they intend to be in the business and the skills they bring to the industry will be increasingly important to their success at any level of participation.

Three out of the six connections given above include producers owning or sharing in the processing and or retail portion of the pork supply chain. When the value returned to various segments of the supply chain are examined it is clear that an increased share of the consumer dollar is being retained in the processing, distribution and retail segment.

Some producers are considering ownership of packing/processing facilities, cooperation with existing packer/processors and direct niche and non-niche retail marketing to enable them to share in the value being retained in the processing, distribution and retail segment. To do so, producers will likely need a number of skills not usually associated with the production aspect of the pork supply chain.[2]

It will take a great deal more capital, people and relationships to participate. Producers will need to be able to explain to lenders the cost, returns and outcomes of activities with which they will have limited experience. If others perform all the needed service and expertise for these efforts, producers will have less opportunity to extract value.

One suggestion is that producers must evaluate:

What attributes consumers will pay for?

- Type and Form of Product
- Food Safety
- Delivery Systems
- Type of Production System

The producer needs to analyze whether or not they and their business operation are going to provide any of these items. If not, are you going to be involved with an entity that hires others to provide these services or products? If you are involved in such a business, why will it be successful and reach consumers, and why will they buy from your firm? In other words, who are you competing against? What are they good at? What are you, or your new entity, good at? Can you compete from your strength against their weakness?

One such example is a small packing firm that cuts the hog to the consumer's preference. Because this consumer's preference involves a process that a large firm's automated equipment cannot duplicate, and because that large firm does not deem the consumer (or that market segment) large enough to change the equipment, the small packer has a niche that is economically viable for the firm and serves a consumer's need. This is marketing from your strength, small and flexible, against a competitor's weakness, large and inflexible.

Producers who want to participate through ownership of the meat, the facilities, the label, the brand or any other segment that makes up the remainder of the pork supply chain must be aware of the rewards and the risk in doing so.

[1] Plain, R. and V. Leibbrand. Pork Supply Chain vs Pork Production, paper presented at North Central Region Extension Conference "Business Alternatives for Pork Operations, Adapting to Change in the Pork Industry," 1999.

[2] Swain, Larry. Tools and Techniques for Seeking Opportunities, paper presented at North Central Region Extension Conference "Business Alternatives for Pork Operations, Adapting to Change in the Pork Industry," 1999.

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