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Producer Ownership in the Marketing Chain

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Producer Ownership in the Marketing Chain

Market Report	Yr Ago	4 Wks Ago	4/14/00
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	\$ *	\$71.94	\$73.59
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	78.59	93.44	97.10
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	84.30	98.07	102.17
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	97.84	112.16	113.05
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	30.50	44.50	51.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	*	57.50	61.00
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	98.90	112.00	135.20
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	67.00	75.92	81.08
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	145.00	170.00	170.00
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu.	2.72	2.89	2.82
Corn, No. 2, Yellow Omaha, bu.	1.99	2.10	2.03
Soybeans, No. 1, Yellow Omaha, bu.	4.61	4.94	5.06
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.42	3.62	3.50
Oats, No. 2, Heavy Sioux City, IA, bu.	1.30	1.37	1.37
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	*	87.50	85.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	42.50	82.50	47.50
Prairie, Sm. Square, Good Northeast Nebraska, ton.	62.50	*	*
* No market.			

Pork producers continue to seek avenues to retain ownership of their product as it moves along the "Pork Supply Chain." The activities being considered have the potential to improve the return that producers receive for their products. Many of the activities have broader implications to all production agriculture.

Producers are now at the stage where they realize improved returns do not come without considerable cost and effort. The potential is there, but the ability to take advantage of that potential is hampered by several factors. While others have discussed the challenges of entering the meat packing and processing industry, producers face barriers that are fundamental to the goal of realizing added value from their production.

Producers are most familiar with sole proprietorship business operations. Even in a family corporation there is a fairly limited number of people with decision making roles. Participation in the meat packing/processing industry will likely require other business models including incorporation, limited liability companies, joint ventures and partnerships. Producers need to think differently when participating in these activities. This is not an easy undertaking. The added time involved in the decision making process can be discouraging to producers who are used to making decisions and acting upon them immediately.

The Cooperative Model

Producers are familiar with the cooperative method of working together and some are considering that model for meat processing or marketing activities. However, a cooperative may not be the best choice. Producers have not always received the gain derived from ownership in cooperative structures. Cooperative ownership of facilities may dictate the choices that managers follow to extract value from the facilities. Those choices



may continue to create a conflict between returning value to the producer for the raw material (hogs) and returns to the plant as profit. Facilities engaged in additional processing may suffer the same conflict. While it is easy to discuss the concept of running the facility as a not for profit center, in reality, long-term success depends on generating and retaining some profit.

An alternative is a business structure that does not own facilities, but rather contracts for the meat packing and processing activities and concentrates on the marketing of meat to extract added value for the producer. This again requires re-thinking the way producers are paid for product. When the ownership of the product, in this case hogs, changes, producers are accustomed to being paid. If producers want to participate in ownership of the processed product (meat), will they wait until their products have changed ownership to be paid? In the cooperative model one of the unresolved issues is how and when to compensate the producer for the hog. With an alternate business entity of any type, will ownership of the animals transfer to the entity (cooperative, LLC, joint venture) or will it really remain with the producer? An entity that does not own facilities, the product, or any other tangible assets creates yet another change in thinking for producers who typically view asset acquisition as a measure of business success.

Service Agency Model

Another approach producers are considering is the service agency model. In this model, the business entity that the producer participates in acts only as a service provider to coordinate or arrange the marketing, packing and processing of the producers product. The service agency has as its clients, and perhaps not even its sole clients, the producers who own it. Created as a service agency this business model would have as its only mission the extracting of value from the products owned by its owners/clients.

The service agency model requires the producer owners to hire and work with a diverse staff if they are to accomplish the required activity and generate profit for the producers. However, being an employer has not been a part of traditional thinking for many producers. Often employing at this level requires paying top wages as well. This may be a change from typical "least cost" thinking that producers find more comfortable.

Ownership issues may go beyond merely controlling tangible assets. The ownership and sharing of ideas and information is another area requiring certain re-thinking. At one level the holding of proprietary information was seen as key to owning or controlling certain ideas or processes that created a competitive advantage. Smaller firms may need to cultivate a relationship with other like

firms and share openly information that in the traditional business model was tightly held. Creating and maintaining the relationship then becomes a critical skill in the successful small business model. Relationship building as an occupational necessity requires different thinking for producers.

Many small or alternative market concepts being put forth rely on finding an under-served or "niche" market. Numerous attributes that may fill "niches" have been suggested. Producers need to understand what is creating the suggested attribute. Certain animal husbandry practices have been sold as filling a "niche." These "attributes" may or may not be identifiable in the product itself. Can you taste "hormone free" or "organically raised" pork? The producer must be aware that while husbandry practices performed on the farm create this type of attribute, it is a marketing effort that creates *value* for the attribute.

The time and effort to perform all the tasks described likely exceed the available resources of individual producers. Coming together as a group and agreeing as a group, as to who, how and when these tasks are performed will be a greater challenge to producers than the challenges of competition and economy of scale that have been suggested. Like any entrepreneurial startup, the biggest challenge is the inside details of the business and its purpose, not outside influence.¹

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¹ Smith, Rod. "Failure Risk High for Small Packing Plants," *Feedstuffs*, Vol. 72, No. 4, Jan. 24, 2000.