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Successful hog marketing groups (1994)

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SUCCESSFUL 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. Results offer insights into the structure and organization of cooperative hog marketing efforts. Several guidelines for organizing successful hog marketing groups are proposed. Producers interested in forming a marketing group should consider having a written agreement, hiring a marketing group coordinator, and marketing hogs on a carcass merit basis.

(Key Words: Hog Marketing Groups.)

Introduction

Independent pork producers are facing increased competition in the pork industry. Producers are trying new marketing strategies to increase the price received per hundred-weight and to lower their marketing costs. Group marketing is a strategy that pork producers are using to help attain these goals. Group marketing entails individual pork producers marketing hogs collectively to increase price received and/or reduce marketing costs. One of the objectives of this survey was to identify the operation and management structure of successful marketing groups.

Procedures

Hog marketing groups operating in Kansas and Iowa were identified through industry contacts. The survey centered on personal interviews with marketing group leaders. 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. 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.

Results and Discussion

Hog marketing groups can be classified as a product differentiation group, a transaction cost group or as a transaction/marketing cost group, depending on the objective of

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the group. All three types of groups were generally successful in meeting their goals, but groups that emphasize product differentiation appear to have the most potential to improve the net income of members.

Groups oriented toward marketing a large volume of hogs with high quality, homogeneous carcasses can be characterized as product differentiation groups. These groups seek to obtain higher prices for members' hogs by emphasizing carcass quality. By necessity, these groups have specific membership requirements designed to control or improve the quality of hogs marketed by the group. Marketing groups in this category tend to compensate the group leader and charge members fees to market hogs with the group. Group leaders often summarize carcass data for the group and make it easy for individual members to compare the performance of their hogs with those of other members of the group. Some groups in this category have entered into marketing arrangements with a particular packer lasting for several months.

Transaction cost groups consist of independent pork producers banding together primarily to market hogs directly to packers in semitrailer loads. Their primary objectives are to reduce transportation costs by capturing transportation economies of size and to increase their sale prices by gaining access to more markets. Marketing groups in this classification do not have specific membership requirements, pay their group leaders, or charge members to market with the group. Finally, these groups typically do not enter into long-term marketing agreements with a single packer.

The third category, transaction/marketing cost groups, organize primarily to reduce group members' marketing costs, but also implement strategies designed to help raise their members' sale prices. Unlike groups whose primary focus is to reduce transaction costs, these groups compensate their group leaders, charge members to market hogs with the group and enter into long-term marketing agreements with a single packer. These groups differ from groups that are attempting

to market a differentiated product in that they do not have membership requirements to help control carcass quality. In turn, this sometimes leads these groups to negotiate marketing agreements with more than one base bid to help account for the carcass quality variation among members' hogs.

Table 1 provides insights into the organizational structure used by the various marketing groups. Hog marketing groups classified as transaction cost groups had relatively few formal rules regarding the structure of the marketing group. For example, they had no rules governing hiring or firing personnel or membership eligibility and charged no marketing fees. However, transaction cost groups did establish rules covering the various details needed to coordinate and complete a group shipment of hogs to a packer. These groups had no organizational structure to control the quality of the hogs marketed by the group. In general, groups oriented toward reducing marketing costs were loosely structured, had no membership requirements, and did not charge members a marketing fee to market hogs with the group.

Marketing groups organized to market consistent, high quality hogs had an organization structure in place to control the quality of the hogs marketed by the group. All three groups classified as product differentiation groups establish specific membership requirements to control the quality of hogs marketed by the group and charge members a fee to market hogs with the group. Three marketing groups indicated that they had the authority to establish rules requiring their producer-members to meet genetic and nutritional requirements, either through the market coordinator or the board of directors. However, only one of the product differentiation groups had established rules requiring members to have a certain line of genetics and to follow specific nutritional guidelines. Overall, a direct relationship existed between the organizational structure and the goals of a marketing group. Product differentiation groups require more rules designed to control the quality of the carcasses marketed by the group and, thus, require more organizational

structure than transaction cost-oriented groups.

The following guidelines for the operation of a hog marketing group are designed to help producers interested in starting a hog marketing group and to enhance current groups' operations. Seemingly small changes in group policy or operating procedures can spell the difference between success or failure of group marketing programs. Suggested guidelines for operating a successful marketing group are:

- Have a written agreement;
- Hire a marketing group coordinator;
- Market hogs on carcass merit rather than on a liveweight basis;
- Summarize and analyze kill sheet data;
- Distribute information to group members and make comparisons concerning carcass, growth, and reproductive traits; and
- Consider using new marketing strategies, such as long-term marketing agreements.

Table 1. Operational Details of Hog Marketing Groups

Decision	Market coordinator	Board of directors	No rules
	(percentage of groups)		
Hire and fire market coordinator and other personnel	10	30	60
Establish rules concerning member eligibility	10	20	70
Establish rules concerning shipping of hogs, allocating space on truck, and scheduling time intervals to load hogs	90	0	10
Establish rules concerning bid solicitation and acceptance	40	20	40
Establish marketing fees	40	20	40
Establish rules concerning optimal live-weights to market hogs	10	30	60
Establish rules concerning members meeting genetic, breeding, and nutritional guidelines to attain group objectives	10	20	70