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Lean value marketing programs

Abstract

Recent promotion of the National Pork Producers Lean Guide to Pork Value has focused attention on providing pork producers with an economic incentive to raise lean, meaty hogs. The packing industry version of this value-based idea is generally termed a grade and yield program. While each individual packing plant may have its own grade and yield program, several factors need to be considered when marketing hogs grade and yield, regardless of the packing plant. The preferred weight range for a packing plants grade and yield program must be known. Packing plants available to Kansas usually range from 210-240 lb or from 220-250 lb. If your hogs fall below or above the preferred weight range, price discounts will begin. Generally, the farther a pig is outside the preferred weight range, the greater the discount.; Swine Day, Manhattan, KS, November 20, 1986

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LEAN VALUE MARKETING PROGRAMS

P.F. Maxson

Recent promotion of the National Pork Producers Lean Guide to Pork Value has focused attention on providing pork producers with an economic incentive to raise lean, meaty hogs. The packing industry version of this value-based idea is generally termed a grade and yield program. While each individual packing plant may have its own grade and yield program, several factors need to be considered when marketing hogs grade and yield, regardless of the packing plant.

The preferred weight range for a packing plants grade and yield program must be known. Packing plants available to Kansas usually range from 210-240 lb or from 220-250 lb. If your hogs fall below or above the preferred weight range, price discounts will begin. Generally, the farther a pig is outside the preferred weight range, the greater the discount.

Another factor related to weight is the standard yield established by the plant for the preferred weight range. On grade and yield programs, only the weight of the hog carcass is known. Projected live weight, which determines base price, is calculated by dividing the carcass weight by the plant established yield. If hogs yield higher than the plant's established yields for the preferred weight ranges, marketing hogs towards the upper end may push the pigs out of the preferred weight range on a calculated basis. Again, this computes to price discounts and suggests that high yielding hogs be marketed lighter than the top, preferred, weight range, depending on actual yields.

Quality grades and quality standards are areas that are less well defined, but also important in the final settlement of a hogs value. Each plant has its own grading system (muscling, backfat thickness, etc.) and a plant-trained grader who makes these judgments. Regardless of the packing plant and its grade standards, the less backfat and more muscling a hog has, the more money a producer will make from that pig, if it falls within the preferred weight range.

Kansas producers have several options regarding which plant to choose for grade and yield marketing of their hogs. Potentially, four to five packing plants are within reasonable trucking distance of Kansas producers. A recent evaluation of two such packing firms was conducted for a comparison of their lean value marketing systems. Hogs raised either in dirt lots or modified open front buildings were marketed at two different packing plants. All hogs were from one farm in Northeast Kansas.

¹We gratefully acknowledge Keesecker Enterprises, Washington, KS for allowing this study to be conducted on their farm.

An evaluation of hog distribution across quality grades, comparing the two packing firms and housing types is shown in Table 1. A high proportion of all hogs marketed fell into the premium categories (1 and 2), regardless of plant location or housing conditions. In all situations, 75-80% of the hogs were receiving a bonus, whereas only 10-25% fell into the base grade or no premium or discount category. A very low level (1-4%) of the hogs received a discount resulting from inferior carcass quality as judged by either packing plant. These observations suggest that the careful sorting of hogs to fit within the requirements of a packing plant for grade and yield slaughter can result in premiums for the majority of hogs marketed in this manner. The high proportion of dirt-lot raised pigs falling into premium categories also indicates that pigs grown outside perform quite well in a lean value marketing program.

An economic look at the pigs marketed, combining all pigs in this study, is presented in Table 2. In each month observed, a higher price was received per hundredweight for pork marketed through a lean value system. Averaged over the 9-month period, net price per cwt was \$1.10 higher for grade and yield hogs when compared to Omaha price of a U.S. Number 1-3 barrow and gilt. This suggests that under certain production schemes, lean value marketing is an economically beneficial alternative. Again, the previously mentioned factors of sorting into preferred weight ranges as well as quality and yield on hogs must be considered.

Table 3 presents a closer look at performance of grade and yield programs at two packing plants. Again, on the same day, Plant A or B showed little difference in grade and yield distribution by housing type. Plant B on the same day allotted a higher proportion of the hogs to the highest premium category but also had a small proportion of pigs receiving a discount. Since the genetic makeup of the two different loads was similar, obviously, packing plants differ as to how they assess hog quality. This indicates potential differences in how grade and yield affects pigs at various packing plants and, thus, in the economic return to the producer.

An economic assessment of a load of hogs sent to Plant A and Plant B on the same day at the same base live price per hundredweight is shown in Table 4. Net dollars return per hundredweight was \$.75 higher at Plant A than Plant B under identical conditions. While this is only one "head to head" comparison, it does indicate quite clearly that if a potential of two packing plants or more exist in marketing hogs, packing plant selection is crucial to the return per market hog sold.

Summary

Lean value marketing as evaluated by one Kansas producer's hogs have demonstrated economic benefits over traditional live weight marketing. Packing plants do differ in their grade and yield programs and, as expected, so do the potential dollar returns to producers. In comparing packing plants, three points to keep in mind are: 1) the preferred weight range, 2) the standard yields within a preferred weight range, and 3) hog quality as assessed by fat thickness and muscling.

Table 1. Distribution of Hogs across Lean Value Grading Systems at Two Different Packing Plants by Plant and Housing.^a

Item	Plant		Housing	
	A ^b	B ^b	MOF ^c	Dirt Lot ^c
Live Weight, lb	228.4	222.4	218.5	231.6
% Yield	75.5	76.3	76.5	75.2
No. 1, %	46.6	45.9	47.7	45.7
No. 2, %	30.9	48.8	39.9	33.3
No. 3, %	23.1	7.4	14.3	22.8
No. 4, %	1.1	3.4	1.7	1.6

^aTotal of 5,143 hogs marketed.

^b3770 hogs Plant A; 1373 hogs Plant B.

^c1875 hogs MOF; 3,268 hogs dirt.

Table 2. Net Dollars Received per Hundredweight by Month on Pigs Marketed Grade and Yield^a Compared with Omaha Live Price January through September 1986.^a

Month	Price \$/cwt		
	Grade/Yield ^b	Omaha ^c	Difference
January	47.13	46.76	.37
February	44.78	44.36	.42
March	41.98	41.69	.29
April	41.34	41.12	.22
May	49.88	48.61	1.27
June	57.24	55.35	1.89
July	63.12	61.80	1.32
August	65.02	63.69	1.33
September	<u>63.16</u>	<u>60.37</u>	<u>2.79</u>
Average	52.63	51.52	1.10

^aTotal 5,143 hogs marketed.

^bNet dollars received, trucking, yardage, insurance removed.

^cMonthly average for U.S. 1-3, <1.00 to 1.49 inch last rib fat thickness.

Table 3. Plant A and Plant B Grade and Yield Comparison: Percent in Premium Grades by Housing.^a

Plant x Housing	% in Premium Grades			
	1	2	3	4
Plant A				
Inside	48.1	27.8	24.1	—
Outside	44.1	25.2	30.7	—
Plant B				
Inside	74.3	22.9	2.7	—
Outside	61.9	23.8	11.1	3.2

^a206 hogs sold at Plant A; 200 hogs sold at Plant B; both sold 10/2/86.

Table 4. Grade and Yield Comparison at Two Different Packing Plants, Net Dollars Received per Hog.^{ab}

Item	Packing Plant	
	Plant A	Plant B
Avg wt, lb	248.5	249.9
Price/cwt (\$)	55.94	55.19

^a206 hogs sold at Plant A; 200 hogs sold at Plant B, both sold 10/2/86.

^bBase price live per cwt 54.50 at both Plant A and B.