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J. H. Armstrong

R. E. Schneidau

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Coordinated Hog Production and Marketing

J. H. Armstrong and R. E. Schneidau
Agricultural Economics Department

Pressures to increase volume in the hog enterprise and improve both production and marketing have resulted in new organizational and institutional arrangements among producers, processors and suppliers. These arrangements vary from informal agreements to cooperate in production and marketing to formal contracts guaranteeing final product prices.

The use of contracts in animal agriculture is not new. However, the recent trend toward increased volume through specialization and application of modern technology has necessitated the coordination of the various aspects of production and marketing activities. These activities may be classified as follows:

Primary Activities

1. Producing breeding stock
2. Feeder pig production
3. Slaughter hog production

Facilitating Services

1. Assembly and distribution (transportation)
2. Pricing arrangements
3. Hedging (risk bearing)
4. Sorting and grading
5. Marketing information

Service and Supply Inputs

1. Financing-capital
2. Feed
3. Facilities & equipment
4. Health services

Contracts may be used to coordinate any or all of these activities, services or inputs in the production and marketing of hogs. The list of potential coordinators at this time includes producers and producer groups, and agencies most closely associated with the farm and its raw products, such as processors, buying agencies and supplies. Currently few examples of complete production to retail coordination exist.

Possible Reasons for Coordination

The major motive for coordination (contractual or informal) is increased profit. This may be obtained through either increased production and marketing efficiency or increased bargaining power. Lower costs in production and marketing may be obtained by improved production practices, such as better breeding stock, improved feeding and health programs, simplification of the marketing process and reduction in risks from highly variable and uncertain suppliers. Improved bargaining may come about as a result of one or more of the following: improved product quality and uniformity, increased volume, time of marketing, or providing additional services.

Illustrations of Coordination

Perhaps the most comprehensive coordinated hog production and marketing arrangement presently existing begins with assistance in the acquisition of breeding stock and production of feeder pigs. The pigs are then marketed by the coordinator and placed with cooperating slaughter hog producers (finishers).

All supplemental feed not produced by the finisher must be purchased from the coordinator and specified quality and health standards must be maintained. The cooperator also agrees to market through the coordinator at specified weights and to pay standard marketing charges. The major aspects of this system are bound by written contracts. Some services, however, are provided by informal agreement.

A less comprehensive contract involves the approval of credit for feed to feed out a given lot of hogs. A maturity date is specified along with the kind, amount, and price of feed. Essentially this extends credit to the hog producer and lets him know what feed costs will be and assures the contractor the proceeds from the sale of hogs will be used to settle the feed amount.

Another type of contract arrangement is where a processor guarantees a price related to the futures market. The producer agrees to deliver an approximate number and quality of hogs during a specified week. The producer is assured of a guaranteed price under this arrangement. Several coordinated systems are based on this principal.

Other coordinated systems involve the producer furnishing facilities, equipment, and labor with the contractor furnishing feeder pigs and feed.

Another feeder pig finishing contract provides a feeder pig owner the opportunity of having them finished at a fixed cost per pig for housing and care, plus the cost of feed and other variable costs. He receives any proceeds above these costs when the slaughter weight hogs are marketed or stands any losses that may occur.

Some coordinated arrangements call for providing breeding stock. This may involve furnishing only boars or providing both boars and gilts in the breeding program.

In all these various arrangements some management or decision making function, normally done by the farmer, is transferred to the coordinator. This is the real essence of coordination, it is the extension of all or part of the management decision making process by the coordinator and is usually in trade for a reduction in price and risk. This simply means certain management functions, such as selection and buying of breeding stock, what feeding practices to follow, or where and when to market, may be transferred to the coordinator. Such a situation may be desirable to some producers as it may free him to specialize in the tasks remaining.

In summary, it should be recognized that coordination in the hog industry is still in its infancy. It should also be recognized that coordination does not always lead to increased pricing efficiency in the marketing process. Examples of this may be found in various formulas or methods for deriving feeder pigs prices. Prices received may or may not reflect the current market prices as they might be determined through other methods of marketing.

There are at present many different approaches to coordination being tried, and it is still uncertain as to the direction and pattern which coordination will take in the future. Coordination is now being done in all of the following ways: informal, formal contractual and partial and complete ownership arrangements. Furthermore, it is also uncertain as to who will be the primary coordinators. These may include producers, processors, marketing agencies, cooperatives or other related industries.

Though the extent of coordination is presently limited, the apparent advantages would seem to leave little doubt that more farmers will continue to find it desirable to coordinate at least some of the activities from the breeding and production of feeder pigs to the marketing of slaughter hogs.