

Group Marketing of Hogs

Organization, Successes and Guidelines¹

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LIndependent pork producers are facing increased competition in the pork industry. Pork 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 some pork producers are using to help attain these goals. Group marketing entails individual pork producers marketing hogs collectively to increase the price received and/or reduce their marketing costs.

To determine the success, operation, and management of hog marketing groups, the departments of Agricultural Economics and Animal Sciences and Industry at Kansas State University intensively surveyed ten hog marketing groups located in Kansas and Iowa. The results offer insights into the structure, organization, and success of cooperative hog marketing efforts. Guidelines for organizing a successful hog marketing group are proposed, based on the survey results.

Hog marketing groups fit into two broad categories; transportation-oriented groups and quality-oriented groups. Transportation-oriented groups consist of independent pork producers banding together primarily to market hogs directly to packers in semi-trailer loads instead of smaller loads. Their primary objectives are to reduce transportation costs and to increase price, mainly by gaining access to more markets. Groups whose goal is to market semi-trailer loads to packers need members who are willing to work with several other small producers and have a greater need to delegate load-coordinating

authority to the group leader.

The other category of hog marketing groups consists of independent pork producers organized primarily to market a sufficient volume of similar, high quality hogs. These groups strive to increase prices by improving the overall quality of hogs marketed, increasing their bargaining power, and reducing packers' transaction costs. Clearly defining the group's authority over individual members, establishing membership requirements, hiring professional marketing expertise, and providing a number of member services are more important for groups marketing similar quality hogs.

Group marketing is a viable marketing strategy for Kansas pork producers. Through group marketing it is possible to increase net revenue received for hogs by reducing transportation and marketing costs, gaining access to more markets, and improving producers bargaining position with packers. Well run hog marketing groups can increase the net return per hundredweight received by producer members.

About the study

The survey collected information on why the marketing groups were organized, their goals, organizational structure, membership requirements, marketing group leader responsibilities, services provided by the group to members, record keeping, fees charged, impact of group marketing on prices received, and advantages and disadvantages of group marketing.

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 ten hog marketing groups studied were located in Kansas. Six of these are still actively marketing hogs as groups. The groups surveyed were located primarily in the eastern half of Kansas. Group membership ranged from seven to fifteen members in the six Kansas groups still operating in 1993. During 1993, sixty-four 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 marketing reported by group leaders. Annual hog marketing 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

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by Kansas hog producers during 1993. The length of time the surveyed groups were in existence ranged from less than a year to twelve years. On average, marketing groups in the survey had been in existence approximately five years.

Marketing group organization

Reasons for organizing into a marketing group varied considerably. The majority of the surveyed groups organized to increase prices received for hogs by delivering directly to the plant and to lower marketing costs by shipping hogs in semi-trailer loads instead of small truckloads. However, several of the groups that formed more recently were organized primarily to increase prices received for hogs by marketing a large volume of consistent quality hogs. Their objective was to improve their bargaining position with packers and to take advantage of carcass merit purchase programs offered by most packers.

Only 20 percent of the groups had a formal written agreement detailing the organization and operation of the group. Most of the groups operated using informal oral agreements. Many of the oral agreements evolved over time as the marketing groups needed more organization to market hogs efficiently as a group. Factors commonly covered in a marketing group agreement included:

- Authority delegated to the group leader; Bid solicitation and acceptance;
- Details for efficient coordination of group shipments;
- Membership requirements;
- Services provided by the marketing group;
- Fees charged for marketing with the group;
- Payment of trucking expenses; and
- Payment for hogs marketed

Membership requirements

Requirements to join a hog marketing group varied according to the group's objectives. Marketing groups organized primarily to reduce marketing costs generally did not have specific membership requirements. Nor were members required to market all of their hogs through the group. Marketing groups organized primarily to ship a sufficient volume of consistent quality hogs did have membership requirements to market with the group. Their membership requirements were chiefly concerned with hog carcass quality. For example, some groups required prospective

members to market hogs with a minimum lean percentage.

Keys to marketing group success

The survey was designed to determine what factors the marketing group leaders felt were important for group marketing to succeed. The responses of the group leaders are reported in Table 1.

The group leader's resourcefulness was important to the success of a marketing group. Clearly defining the marketing group's authority over individual members was also an important factor in determining successful group marketing. Understanding a packer's

Table 1. Marketing Group Leader Responses Regarding Factors That Determine Successful Group Marketing

Factors	Strongly	Agreed	Indifferent	Disagreed	Strongly
	Agreed				Disagreed
.....percent of respondents.....					
Clearly define authority group has over individual member	20	50	10	20	0
Membership eligibility restricted to farrow-to-finish operations	40	0	10	30	20
Compare and exchange kill sheet information	50	40	0	10	0
Understand packer's carcass merit program	50	40	10	0	0
Market uniform quality hogs	60	20	20	0	0
Increase volume of hogs marketed	10	20	50	20	0
Increase membership of group	20	30	20	30	0
Need for a resourceful group leader	70				
Need for group members to cooperate	50	20	10	10	0

carcass merit purchase program, marketing uniform quality hogs, and the need for marketing group members to cooperate were other factors identified as being important to successful group marketing. Group leader responses regarding membership requirements, increasing membership, and the importance of increasing the volume marketed by the group varied concerning how important these factors were to marketing successfully as a group.

Goals of the marketing group influenced attitudes about factors affecting a marketing group's likely success. For example, 40 percent of the groups strongly agreed that only farrow-to-finish operations should be eligible for group membership. This reflects a concern for marketing quality hogs since it would be difficult for feeder pig finishers to control or improve hog carcass quality. Groups organized to market similar quality hogs felt membership requirements were important in order for these groups to meet their

objectives. In contrast, two group leaders strongly disagreed that eligibility should be restricted to farrow-to-finish operations indicating that membership requirements were not as important for groups organized primarily to reduce transportation costs.

Group leaders in 50 percent of the groups surveyed strongly agreed that successful group marketing required cooperative members. Groups organized to reduce transportation costs often needed several producers to market hogs for a group shipment. Membership cooperation was more important to groups needing several members to complete a shipment. Groups organized to ship consistent quality hogs in most instances needed only one member's hogs to complete a shipment. Groups whose members could ship a semi-trailer load individually felt that membership cooperation was less important.

Marketing groups organized primarily to market a sufficient volume of consistent quality hogs felt

clearly that defining the marketing group's authority over individual members was more important to successful group marketing than did groups organized to reduce transportation costs. These groups needed specific rules to accomplish the marketing group's objective of marketing uniform quality hogs. Marketing groups organized to reduce transportation costs could delegate authority to the group as the need arose and still meet the marketing group's objectives. Finally, marketing groups organized to market consistent quality hogs also felt that comparing and exchanging kill sheet information and marketing uniform quality hogs were more important than groups organized to reduce transportation costs.

Quality and transportation-oriented marketing groups felt strongly that a resourceful group leader was important to the group's success. Group leaders make many key decisions that can determine a marketing group's success, regardless of the group's objectives. Both types of groups felt that increasing the volume of hogs marketed was important, but groups organized to market consistent quality hogs were only willing to add new members if they met the group's quality standards.

Table 2. Attitudes Concerning Group Leader Authority.

Group leader responsibility	Strongly Agreed	Agreed	Indifferent	Disagreed	Strongly Disagreed
..... percent of respondents.					
Solicit and accept packer bids	40	20	10	10	20
Arrange transportation for shipments	50	10	20	10	10
Allocate space on truck	60	20	10	0	10
Authority to reject hog for shipment	10	10	40	30	10
Determine location(s) for loading hogs	40	20	30	0	10
Determine time frame for loading hogs	60	20	10	0	10
Arrange loads to minimize quality and weight variability	30	20	30	20	0
Use past kill sheet data to arrange loads	20	30	30	20	0

Impact on prices, returns

The influence of group marketing on price received and the net return per hundredweight was positive for all groups surveyed. Nearly all groups felt that shipping hogs in semi-trailer load lots directly to packers had a positive influence on their base bids. Sixty-seven percent of the group leaders surveyed felt quality and consistency of hogs marketed was the major determinant of base price received, whereas 33 percent felt the major determinant was the volume of hogs marketed.

The average price increase associated with marketing hogs jointly was approximately \$0.60 cwt., but the estimated impact ranged from \$0.00 to \$1.50 cwt. across the groups surveyed. The influence on net return

averaged \$1.36 cwt. and ranged from \$1.00 to \$1.75 cwt. Increases in net returns include the impact of higher base bids, lower transportation costs, and premiums received from selling hogs using packers' carcass merit programs.

Group leader responsibilities

The average group leader was 45 years old and had completed two years of college. They averaged 22 years of experience in the hog business and 3.5 years of experience as a marketing group leader. Approximately 75 percent of the group leaders also marketed hogs with the groups they represented. Group leaders worked an average of 4.5 hours per week on group activities and 55 percent were compensated.

Table 2 summarizes group leaders' survey responses regarding the importance of their authority to accomplish certain tasks. Sixty percent of the groups strongly agreed or agreed that the group leader needed authority to solicit and accept packer bids. Fifty to 60 percent of the groups strongly agreed that the group leader should be authorized to arrange transportation, allocate space on the truck, and determine time intervals for loading hogs. Fifty percent of the groups strongly agreed or agreed that the group leader should insure uniform hog quality through the use of kill sheet data to arrange loads. Survey results indicated there are limits as to how much authority a group leader should have. Forty percent of the groups indicated that the

group leader should not have the power to reject hogs for shipment, whereas only 20 percent felt the leader needed this authority.

Once again, survey responses regarding the group leaders authority varied depending on the group's primary purpose. Marketing groups organized to reduce transportation costs and in which several different producer's hogs were required to complete a group shipment agreed

Table 3. Need For Marketing Group Services

Advantage	Strongly Agreed	Agreed	Indifferent	Disagreed	Strongly Disagreed
..... percent of respondents.					
Maintain records of all kill sheet data	60	20	10	10	0
Use kill sheet data to make genetic and carcass quality improvement recommendations	50	30	10	10	0
Provide information on genetics	20	40	40	0	0
Provide information on nutrition and feeding practices	10	10	50	30	0

that delegating authority to the group leader to carry outgroup shipment details and solicit and accept packer bids was important.

Conversely, groups organized to market consistent quality hogs felt the board of directors should be involved in negotiating sales. Leaders of these groups also need less authority regarding shipping details because fewer producers are needed to complete a shipment.

Groups oriented toward marketing high quality hogs felt it important that the group leader use kill sheet data to arrange loads, unlike the transportation oriented groups. Packer kill sheets contain a great deal of information concerning hog carcass quality. Effective use of this information can help a group leader improve the consistency and quality of the group's hogs.

Marketing group services

Table 3 summarizes group leader responses to questions concerning services provided by the marketing group to members. Eighty percent of the marketing groups strongly agreed or agreed that records should be maintained based on kill sheet data provided by packers, although only 60 percent of the groups indicated they currently maintained kill sheet

records. Kill sheets provide quality and value information about hogs purchased by a packer. Packer kill sheets report seller of the hogs, number of hogs sold, average live weight, base live weight price, and base price to be received per carcass per hundredweight for each shipment. The kill sheet separates the hogs marketed into categories based on quality variables including carcass weight, backfat measurement, and lean percentage. premiums or discounts for each hog carcass are determined by its quality classification. The kill sheet also indicates the quality premiums received per hundredweight, sort loss discount per hundredweight, and actual live weight price received per hundredweight. Twenty percent of the groups provided group members kill sheet data in bar chart form so members could compare their hog carcass data with the rest of the group.

All of the marketing groups preserved individual identity of hogs marketed. Packers sent payment for the hogs directly to individual producer members in 70 percent of the groups. Payment to individual producers for hogs marketed in the remaining groups went from the packer to the group leader.

The group leader used kill sheet information to deduct appropriate

Table 4. Marketing Group Record Keeping

	Record maintained	Record not maintained
. . . . percent of respondents. . . .		
Volume of hogs shipped by group	50	50
Volume of hogs shipped by member	40	60
Average percentage of lean of hogs shipped by group	30	70
Average percentage of lean of hogs shipped by member	30	70
Average backfat measurement of hogs shipped by group	40	60
Average backfat measurement of hogs shipped by member	40	60
Comparison of base bid quotes with nearby terminal market	40	60
Average carcass premium received per cwt. by group member	30	70
Average sort-loss discount received by group member	40	60

marketing fees and disburse payment to individual producers. This method was used to facilitate kill sheet data collection and make marketing fee collection easy and efficient. Eighty percent of the marketing groups strongly agreed or agreed that kill sheet data should be used to make recommendations to group members concerning genetics and improving carcass quality. Forty percent of the groups said they currently used kill sheet data to make recommendations concerning genetic selection. Twenty percent of the groups also provided group members information on swine breeders, performance records, and prices of boars and gilts for seedstock selection.

Survey information was also collected on the records marketing groups maintained regarding marketing group shipments and

activities. Table 4 is a summary of the records maintained by all the marketing groups surveyed.

Maintaining these records required developing a database drawn from members' packer kill sheets. Forty percent of the groups maintained a detailed set of kill sheet data for each member and the group covering previous marketing.

In general, marketing groups organized to lower transportation costs kept few if any records. Marketing groups organized to market consistent quality hogs generally kept records of kill sheet data and three of these groups provided summary information to their members periodically. Distributing the summary information facilitated comparisons among members and made it possible to evaluate their progress in improving hog carcass

quality. These groups were also more likely to provide information on swine breeders and make recommendations concerning seedstock selection for group members. Finally, groups that charged fees to market hogs with the group provided more services to their members.

Marketing fees and payment

Information on fees charged to market with a marketing group, how trucking expenses were handled, and how group members were paid for the hogs marketed with the group was also collected in the survey. Fifty percent of the groups did not charge members to market with the group. In these groups, the expense of soliciting bids and coordinating loads for shipment was absorbed by the group leader. The other 50 percent of the marketing groups charged between \$0.20 and \$1.00 per head to market with the group. Marketing groups that charged members a fee provided their members with more extensive services.

Trucking expenses were not included in fees charged by the marketing groups. Trucking expenses were usually deducted by packers prior to paying for hogs. However, in a few instances trucking expenses were the responsibility of the individual member.

Disease transmission was a concern of all the marketing groups, although none of the groups surveyed reported any specific incidence of disease transmission. Health risks were of greater concern to groups requiring more than one member's hogs to fill a group shipment. Marketing groups minimized the risk of transmitting diseases between member herds by loading hogs at central loading sites or on rural roads away from production facilities. Some groups used a packer's hog buying station facilities to load hogs.

Marketing strategies

Approximately 85 percent of the hogs marketed by the groups surveyed

were sold on carcass merit. The marketing techniques employed by the groups varied. Some groups routinely solicited bids from two or three packers and chose the packer with the highest bid when they were ready to make a group shipment. Other groups solicited bids from one packer and tried to choose the best day of the week to market hogs to this packer.

Marketing groups organized to lower transportation costs by shipping hogs directly to packers generally used one of these two marketing methods. Marketing groups organized to market consistent quality hogs solicited various packer bids for each shipment or entered into longer term marketing agreements with a packer. In these longer term marketing agreements, the group agreed to deliver a specified number of hogs per week, guaranteed a minimum quality for hogs marketed by the group (carcass weight range, minimum percent lean, etc.) and agreed to a base price to be received for a shipment according to a predetermined price formula for a specified period of weeks or months. Only groups organized specifically to market consistent quality hogs used this marketing strategy.

Advantages and disadvantages

Several advantages of group marketing were identified by group leaders responding to the survey (Table 5). The number one advantage was a higher sale price for hogs marketed through the group compared to those marketed individually. Selling hogs directly to packers instead of through a buying station and selling on a carcass merit rather than on a live weight basis accounted for much of the price increase. Several groups reported they were able to increase their base price on carcass merit programs through group marketing. Reduced transportation costs from marketing hogs in semi-trailer load lots was another advantage often expressed. These

responses indicate that marketing groups organized to increase prices and to lower transportation costs have generally been successful in meeting their initial objectives.

Information gained on carcass quality of hogs marketed in comparison with other producers in the group was another advantage often cited. Group marketing enabled members to compare their carcass quality with other members. The quality of hogs marketed by group members often improved as a result of group marketing, perhaps because of the opportunity to compare carcass quality information with other group members.

Packers desire hogs that produce carcasses in specific weight ranges which vary somewhat across packers. Carcass weights within this range have a history of providing pork cuts with the most value to the packer. Sort-loss discounts are used by packers to penalize producers for marketing hogs with carcass weights that fall outside the desired weight range. One respondent felt group marketing allowed members to become more disciplined in their marketing which led to significant reductions in sort-loss discounts. Group marketing can help reduce sort-loss discounts by increasing producer awareness of lost revenue and by initiating competitiveness among group members to minimize sort-loss discounts.

Group marketing can potentially

increase prices received for hogs through any of several avenues. First, by pooling large groups of hogs together and marketing them as a group, transaction costs of packers (as well as producers) can be reduced significantly. Packers can go to one source for a larger percentage of their slaughter. This reduces buyer search costs for hogs and the uncertainty regarding their ability to fulfill their slaughter needs. In addition, if the producer group is large enough and carcass quality is consistent, packers gain certainty regarding fabrication yields and cut qualities.

Secondly, market access may be enhanced by marketing hogs in larger groups. Packers cannot routinely afford to negotiate the purchase of small groups of hogs from numerous sellers. As a result they tend to offer "take it or leave it" price bids. But they can and will devote more effort to purchasing negotiations if larger quantities are available from a single source. Marketing in a group can lead to more potential packers competing for an individual producer's hogs which could increase price. Through group marketing, producers with small operations can pool together and, as a group, counterbalance some of the market power a pork packer might have in terms of market information, hog supplies, and negotiating position.

Several disadvantages of group marketing cited by group leaders were

Table 5. Group Marketing Advantages

Advantage	Strongly Agreed	Agreed	Indifferent	Disagreed	Strongly Disagreed
Received higher prices for hogs from group marketing	40	40	10	10	0
Spent less time marketing hogs	70	20	0	10	0
Significantly reduced sort-loss discounts	44	22	34	0	0
Lowered marketing costs	40	40	10	10	0

problems associated with the coordination of a group load when several producer's marketing were required to fill a semi-trailer for shipment. Notifying the group leader of marketing intentions and members following the loading schedule for group shipments were two load coordinating difficulties stated. Additionally, the lack of flexibility in marketing hogs because shipments are only made on a certain day of the week, loss of individual marketing independence, and increased susceptibility to diseases were other commonly cited disadvantages of group marketing.

Guidelines

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. Subtle policy or procedural operating changes can make 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;
- Keep records of kill sheet data;
- Distribute information to group members and make comparisons concerning carcass, growth, and reproductive traits; and
- Consider using new marketing strategies.

Marketing groups should have a written agreement clearly stating:

- Goals of the marketing group;
- Group operations
 - bid solicitation
 - bid acceptance
 - notification requirement to ship hogs
 - loading procedures

- marketing fees and collection
- payment method to producers
- record keeping services
- information sharing procedures
- time frame of agreement;

- Procedures to hire, elect, or appoint group leader;
- Group leader's authority and responsibilities;
- Specific membership requirements and responsibilities; and
- Procedures to amend agreement.

Hire a marketing group coordinator.

Decide what services the marketing group should provide that would benefit the group and the individual members. Assign the marketing group coordinator the authority to provide these services. Compensate the group leader according to the time and value of the services provided. The benefits of the services provided by a resourceful marketing group coordinator will significantly outweigh the costs. Charge a marketing fee per hog shipped to cover the marketing group's operating expenses.

Market hogs on a carcass merit rather than on a live weight basis.

Marketing consistent, high-quality hogs will make it possible to earn carcass premiums by selling hogs on packers' carcass merit programs. These programs provide direct pricing signals to producers regarding the quality of hogs they are producing. These price signals encourage producers to improve carcass quality and better meet consumer demands. Negotiating higher base bids with packers can increase net returns substantially. Marketing groups should use their bargaining power to obtain higher base bids. Additionally, marketing groups that are marketing hogs long distances will avoid the revenue loss associated with liveweight shrink when selling on a carcass merit program since carcass weight, unlike live weight, does not

shrink significantly if hogs are slaughtered within 12 hours of shipping.

Learn how packers measure quality (backfat measurement and/or muscle measurement), and how sort-loss discounts are calculated. Selling hogs on carcass merit can generate more gross revenue per hog versus selling hogs on a live weight basis, if the hogs are average or better than average quality. Packers might also increase base bids to producers who sell hogs on carcass merit due to the reduced likelihood of overcompensating producers for lower quality hogs. Determine the weight range at which the group's and the members' hogs receive the largest premiums and smallest sort-loss discounts. Decide whether a muscle measurement needs to be taken in order to be adequately compensated for quality. Producers marketing heavy muscled hogs will generally not be compensated adequately for their hogs when premiums are determined by a backfat measurement only.

Keep records of kill sheet data.

Maintain data for each member and the group on all the following:

- Number of hogs marketed;
- Average weight;
- Average backfat;
- Average percent lean;
- Average premium per hundred-weight;
- Sort loss discounts; and
- Base bid received compared with nearby terminal or publicly quoted direct market.

Distribute information to group members and make comparisons concerning carcass, growth, and reproductive traits.

Information on hog carcass quality, pricing and productivity should be provided on a regular basis to group members so they can compare their marketing with other group members. Hold periodic meetings to discuss the operation of the marketing group, production methods, feeding programs, breeding programs, and seedstock selection.

The goal of the meetings should be to share information to improve the operation of the group and individual operations. An example could be discussing if a central loading site would make the loading and shipping of hogs less time consuming and reduce disease transmission concerns. These meetings could include guest speakers who have expertise in marketing, genetics, breeding systems, or any other subject of interest to the marketing group.

Producers should not make production decisions based solely on information provided by kill sheets. Kill sheet data should be used in conjunction with corresponding hog growth and sow productivity records. These data can be analyzed to make more informed decisions concerning seedstock selection and other variables that influence profitability. Work toward a long term goal of producing hogs with consistent high quality carcasses that provide a good combination of carcass traits, growth

traits, and reproductive traits.

Consider using new marketing strategies.

One example of an innovative marketing strategy is selling hogs to one packer using a long term delivery contract that guarantees a certain volume and quality of carcass. The base bid is usually a regional terminal market's weekly top plus or minus some specified amount set forth in the contract. Contracts where the marketing group specifies a certain volume and quality to be delivered are appealing to packers. These agreements can lower packers transaction and procurement costs and enable packers to do a better job of using their labor and facilities. Consequently, packers are sometimes willing to increase base bids to producers or groups entering into these contracts.

Consider purchasing inputs as a group. Although none of the groups that participated in this survey were

purchasing inputs as a group, there are a number of successful input purchasing groups located in the Midwest. Buying inputs such as veterinary supplies, feed additives, soybean meal, crates, flooring, and other supplies in bulk quantities can lead to substantial discounts and lower the production costs of group members. Finally, maintain flexibility and be dynamic in group operations and long run planning. Industry structure, production technology, slaughtering methods, pricing systems, and consumer demands are all rapidly changing.

Producer marketing groups need to be at the forefront of this change. Progressive management of the group will be required or it could quickly become obsolete and ineffective at enhancing individual member goals. This suggests that continued interaction among marketing groups, group members, industry leaders, scientists, and market analysts will be valuable.

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