Study On Iowa-Based Differentiated Pork

Prepared for:
Pork Niche Market Working Group

Project sponsor:
Practical Farmers Of Iowa

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Section 1  Executive Summary

The Pork Niche Marketing Working Group (PNMWG) was formed in September of 2001 to focus on the challenges and needs of niche pork efforts. Its mission is "To foster the success of highly differentiated pork value chains that are profitable to all participants, that incorporate farmer ownership and control, and that contribute to environmental stewardship and rural vitality". The value chain disclosed in the mission is illustrated below.

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FARMERS  PROCESSORS  DISTRIBUTORS  MARKETS  CONSUMERS
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Constituents of this working group are largely involved in pork production; some are actively involved in pork marketing as well. Food & Livestock Planning, Inc. was engaged to research the feasibility of a producer-owned coordinated pork niche marketing approach for foodservice markets and to aid in planning its development. The following is a summary of findings:

1) Market opportunities exist both inside and outside the state of Iowa for an Iowa family farmed “branded” specialty pork program.

   a. To be effective in promoting a niche pork program, a story must accompany the products. Premiums are available for products depending on level of quality, demand, and differentiation. The terminologies used in the description of production practices of pork have an impact on the perception of these products.

   b. A marketing enterprise model was used to predict certain outcomes from selling fresh pork. This model demonstrated margins above commodity for fresh loins, butts and ribs must range between from 33 to 56 percent (12.5 to 21.3 percent on a whole carcass cut-out basis) to compete with lean hog carcass prices of $0.50 to $0.64 / lb. Fresh bellies, picnics or leg cuts from natural or specially marketed hogs typically do not bring a premium over commodity wholesale prices.

   c. Cut-out models demonstrate a revenue improvement of approximately $64 per market hog by further processing 62 percent of carcass weight. Therefore, it is important to attempt to market further processed pork as quickly in the project as possible.

2) Several Iowa-based distribution companies are interested in pursuing a marketing relationship in conjunction with a high quality supply.

   a. Several distribution options are available for the marketing of niche pork products. Two SYSCO operating companies (SYSCO of Iowa and Mid-Central SYSCO) and four SYSCO owned meat companies were interviewed as to their interest in a differentiated, specialty pork program. SYSCO Iowa and Mid-
Central SYSCO expressed willingness to explore buying options and have start-up customers planned for the distributing of product. The four SYSCO subsidiary companies appeared pleased with their current specialty pork programs.

b. A number of Iowa based distribution companies expressed interest in the representation of an Iowa based niche pork program.

3) There is adequate capacity to custom slaughter/bone/and further process pork in Iowa.

   a. Custom pork processing in Iowa is not a limitation for a niche pork program. Several packers and further processors were identified to provide custom processing services to pork producers in a future specialty pork-marketing program. The costs for these services are dependent on the volume processed, degree of boning required, and the finished products required.

4) Currently, within the existing Iowa hog production infrastructure there is adequate capacity to produce hogs for one or more “branded” pork programs.

   a. Based on preliminary data, specialty hog production groups in Iowa represent at least 395,000 hogs marketed as specialty pork annually. Some of the groups involved produce and market a specified genetics program and others a specific hog feeding and management program. Of interest are the capacity estimates of over five times the current marketing volume, which suggests existing pork producers of specialty pork programs can significantly increase production to meet a new or expanded program.

   b. A pork production model predicts net income per hog from selling both fresh and further processed niche pork products superior to the current live market with as few as 1,000 market hogs. This net income prediction assumes the pork items are sold through a relationship with a marketing partner.

5) Coordinating a specialty supply of pork to a marketing partner can be facilitated by:

   a. Partnering with existing supply or marketing companies. A larger pool of pork numbers could result in distribution options in larger markets. Existing marketing companies would be able to expand present markets.

   b. A new “start-up” business. There are several options for organizing new start-up businesses ranging in order from low-risk, low-reward to high-risk, high-reward:

      i. Supply cooperative to marketing partners.
      ii. Marketing LLC owned by both the marketing partner and supply cooperative.
      iii. A closed cooperative of pork producers producing and merchandising a specialty line of pork products.
c. Non-profit certifying/promotion company. Development of a high quality "brand" of products originating from licensed farmer-operator pork producers and the promotion of this brand to the food industry.

6) Several core competencies are necessary at each segment of the value chain to ensure its sustainability and durability. These competencies also guarantee the value chain as a whole successfully rewards its participants.

a. Production. During production, product differentiation begins. Products and programs must have valuable attributes differentiating them from conventional pork products and programs. Producers must pay attention to detail regarding established quality specification standards and accurate production information. Accurate production information must be provided to other supply chain partners. Producers must also be willing to assist marketing efforts, giving the products a "farmer's face."

b. Processing. Processing must be accomplished with the highest standards possible for workmanship and food safety. Accurate meat quality information must be provided to all segments of the supply chain.

c. Distribution. Distribution companies must be willing to stick with the new program, especially in start-up phases. A high level of support must be provided in an attempt to bring continual attention to a new program. Margins and marketplace feedback must be shared throughout the supply chain.

d. Marketplace. Continual attention must be paid to the promotion of product differentiation. Margins must be shared throughout the supply chain. Continual support of the program is needed particularly after initial promotion and ad campaigns.

e. System Coordination. Overhead costs to support the entire system must be frugally managed. Financial drain to the chain could be fatal. Information must flow freely between supply chain partners. The overall mission of the program must remain the primary focus.