

## **Chapter 7**

### **Focus Groups Look at Change in the Hog Industry**

**By Daniel Otto, Tom Feldman, Kelvin Leibold, John Lawrence**

Rural residents are increasingly concerned that large scale hog facilities are adversely affecting the economic base of rural communities. To learn what's happening and how rural areas are adjusting to change, ten focus group meetings were held around Iowa with hog producers and agribusinesses during the summer of 1997.

Five focus groups involved hog producers, with another five sessions involving agribusiness representatives. The sessions were held in Atlantic, Iowa Falls, Sioux Center, Manchester and Washington. These sites were chosen to represent regions where different styles of hog production are prevalent.

The producer groups were composed of full-time independent farmers of different ages finishing between 800 and 5,000 hogs annually. Most of the producers had farrow-to-finish operations. Some contract finishers were included. The agribusiness group represented the full range of inputs and services used by producers, and included feed suppliers, veterinarians, equipment dealers and local bankers.

#### **Agribusiness Responses**

The agribusiness focus groups reported dramatic changes in the hog industry. Many of the smaller, independent operators are leaving the hog industry with many large scale finishing facilities being constructed. Very few young farmers are getting into the business and those who have, tend to do contract feeding.

Another major change observed in all regions is that many producers are getting out of the farrowing business. A major reason cited for this change is the difficulty in hiring reliable,

skilled workers in this labor-intensive, higher-skilled portion of the industry. Instead, finding good sources of feeder pigs is becoming the critical concern for many producers.

Other observations from the agribusiness groups focused on changes in specific input industries.

**FEED:** Feed is generally purchased locally unless it is mixed on the farm. Producers who grind and mix on the farm, especially those who use a pre-mix and soybean meal, are more likely to purchase their inputs from greater distances. These people are very price conscious and expect good service. Timely delivery of quality product is required. Many feed dealers are now providing auxiliary services, such as feeder pig procurement, help in designing and/or financing facilities, networking management, and help in securing a long term contract with a packer, in order to attract and keep customers.

**CREDIT:** Credit is generally available for those producers who can show adequate cash flow or who have other collateral to back loans for buildings. Some local banks do not have the lending capacity or choose not to participate in larger facility loans.

**SERVICES:** Insurance, recordkeeping and legal services have changed. The advent of computers probably is as much the cause of changes in recordkeeping as changes in size. Insurance and legal services must be tailored to fit specific producers' needs. Insurance policies cover different risks and are larger, but there are fewer clients.

Livestock hauling is arranged with local haulers by independent producers. Large producers normally have their own trucks. Producers selling feeder pigs often deliver them using their own equipment.

Veterinary service is purchased locally by independent producers, but more of the work now falls into the consulting category. Most producers do their own treatments and vaccinations with medication purchased from a local veterinarian or other local supplier. Some common medications are purchased at wholesale or from large cash-and-carry suppliers.

**EQUIPMENT:** Equipment is generally purchased with the building. Repairs and replacements are also purchased from the original builder. Many times these are not available locally. Concrete and earth moving services are purchased locally. Structural material is often brought in from a longer distance. Most of the time a local contractor does the building work for independent producers. Even many of the larger units use local contractors to construct the buildings to their specifications. Manure handling equipment is purchased locally, if possible, but often this is acquired from outside the local area.

Overall, most agribusiness people felt the loss of ag suppliers was due more to the general reduction in the number of farmers than to changes in pork production. They said the pressure on margins requires larger volumes and the need for service and consultation with producers requires higher quality, and therefore, more costly people.

Many of the agribusiness representatives expressed an interest in working with fewer, but larger producers, and negotiating longer-term contracts to facilitate their long-run business plans. They said some smaller, independent producers are very fickle and price sensitive, and very willing to shop around. Each transaction with these farmers needs to be negotiated. Since some agribusinesses such as veterinarians are not able to compete on price with discount mail-order firms, they are attempting to provide additional services to producers. Customer loyalty and long-term commitments become important to these businesses.

The agribusiness people said local changes in pork production have been generally beneficial, given the fact that the pork industry overall is changing. Many felt that if changes are not made locally, pork production will move to some other area or state, which would depress the local business economy.

### **Producer Responses**

Most of the producers participating in the focus groups were independent. The majority were farrow-to-finish, but some specialized in farrowing-to-nursery and some in feeder-to-finish. There were few contract producers in the group and no large integrated producers.

Independent producers said they prefer to purchase inputs locally. Those who purchased off-the-farm complete feeds were most likely to purchase their feed locally. They will not, however, pay a higher price or accept lower quality or service just to stay local. They felt the changes in the local business environment were due to economic factors other than changes in the pork industry.

Independent producers, for the most part, believed they would remain independent. They will expand, but mostly as technology allows them to produce more hogs with the labor they have available. All expressed a concern that because of changes in the industry, producers cannot stay viable by doing business as usual.

Some who have family members extensively involved in their farming operation said they would expand to allow these family members to stay in production agriculture. Some independent producers thought they would need to change their facilities if they were going to adopt the leaner genetics preferred in the marketplace. Some independent producers believed that if they do not produce pork, they would have to exit farming.

The age of independent producers probably reflects farmers generally. Most independent pork producers are 45 years or older. Younger people, especially those who have not previously been in pork production, tend to work with contract producers. The long-term contract with an integrator helps entry level people get the necessary financing to get into pork production.

Independent producers were not happy with the changes taking place but recognized that there are some good aspects. Improved genetics and new facility technologies were areas where they felt large producers had helped the industry. In north-central Iowa, several producers thought they could use the technology introduced by the mega producers and raise hogs cheaper because they do not have as much overhead.

The major fear expressed by most independent producers was a loss of market access or power to the mega producers. They fear packers have, or will have, contracts with the megas and smaller producers will not be able to market their hogs at the same price.

Producers generally were concerned about regulation. They recognize there needs to be restrictions on locations of facilities and manure management, but they are concerned the regulations will be so stringent they will not be able to afford to comply. They also fear that some areas will have more lenient regulations, and thus, a competitive advantage. They believe independent producers are being held to the same strict environmental standards as the mega producers. They no longer expect special treatment just because they are independent hog producers.

Many independent producers also reported farrowing is being reduced in their area. They thought more feeder pigs were coming into the area from out-of-state, and that the same

number of hogs are being finished as in past years, but by fewer people. Overall, the producers felt the hog industry is important for their area and that the economy is in better shape because there is pork production in the region.

### **Lessons to be Learned**

Both producers and agribusiness representatives acknowledged there are fewer farmers overall and fewer farmers raising hogs and that these trends are not good news for businesses in rural communities. But both groups also felt there would be even fewer farmers without the adoption of new technology and production systems. They agreed not all farmers and businesses are benefiting from these changes, but the construction industry appears to be the consensus winner.

Among independent producers there appears to be a reluctance to expand beyond the point where someone outside the family must be hired. This trend is very damaging to the farrowing industry in the state. The loss of the farrowing industry is detrimental to economic development efforts because the more labor intensive farrowing activities involve the higher skilled, better paying jobs in the hog industry.

This unwillingness to go outside the family also seems to be limiting the development of effective networks among producers. In all regions there was apprehension about the growing influence of mega producers and what it might mean for independents in terms of market access and input supplies.

Agribusinesses are becoming more service-oriented in an attempt to build customer loyalty. A few high volume customers are perceived as providing a better base than many fickle

independents. They see producers demanding service, but not wanting to pay extra for it. On the other hand, the independent producer isn't sure the service is worth the extra price.

In the future, many agribusinesses expect to be part of a coordinated system where agribusinesses will need to provide a source of pigs to get the business of a producer. As fewer independent producers remain, agribusinesses also are likely to become integrated and fewer independent agribusiness firms will remain.