U.S. Hog and Poultry Marketing: Similar Paths, Similar Outcomes?

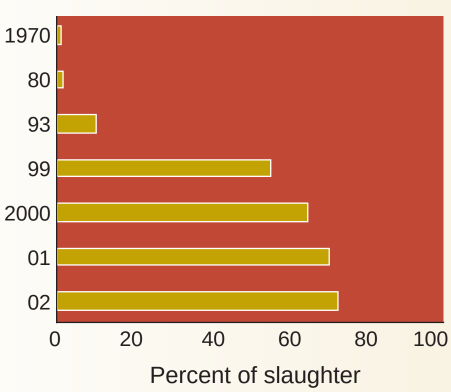
Recent changes in the structure of the pork industry echo past changes in the poultry industry.

How U.S. pork producers and processors sell and buy hogs has changed significantly since 1990. The use of long-term contracts has largely replaced production for the open, or spot, market. Over 70 percent of hogs are sold under contracts, where producers are required to deliver a specified number of hogs to the processor at a specified time. In return, the producer receives the spot price, adjusted for the size and quality of the hogs.

These developments raise concerns by some about anticompetitive behavior of large processors and the demise of small, independent farmers. Others emphasize how contracts facilitate steady flows of high-quality farm products for processing, among other benefits.

In the U.S. poultry industry, contracts and common ownership of production and processing (called "vertical integration") expanded in the 1950s. By 1977, contracts and vertical integration accounted for over 85 percent of broiler, turkey, and egg production. Today, these arrangements account for over 90 percent of production in each of the three sectors. At the same time, the poultry industry significantly improved production efficiencies. It also capitalized on consumers' interest in lower fat sources of protein and responded to their quest for convenience with a wide variety of processed, branded poultry products. These developments were reflected in large supplies of poultry products that were priced low relative to other meats.

Contracts dominate the share of hogs delivered to processors



The pork industry has also improved production efficiency. Offspring from a typical breeding hog produced 30 percent more pork in 1999 than in 1990. The industry is offering more lean, further-processed, case-ready products. From 1995 to 1999, the number of new pork items on foodservice menus more than doubled, and the number of pork mentions on menus exceeded all other meats in 1999, except for chicken, according to a study by the National Pork Producers Council.

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These efficiencies and expanded product offerings have led to larger pork supplies that have lowered pork prices and may have tempered declines in demand dating back to the 1970s. From 1990 to 2002, pork production increased by 2 percent per year, and deflated retail pork prices fell by 1 percent per year. From 1980 to 1995, the demand for pork fell by 34 percent. Since 1995, the demand for pork has increased by 8 percent.

The pork industry is also following the lead of poultry in export markets. The U.S. poultry industry has experienced considerable growth in exports, as indicated by its status as the world's largest exporter of poultry meat. Similarly, reliable supplies tailored to customer specifications have helped boost U.S. pork exports fivefold in the 1990s. AW

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This finding is drawn from . . .

Vertical Coordination of Marketing Systems: Lessons From the Poultry, Egg, and Pork Industries, by Steve W. Martinez, AER-807, April 2002, available at: www.ers.usda.gov/publications/aer807 and from *Vertical Coordination in the Pork and Broiler Industries: Implications for Pork and Chicken Products*, by Steve W. Martinez, AER-777, April 1999, available at: www.ers.usda.gov/publications/aer777