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Alternative Marketing Arrangements in the Livestock and Meat Industries

Presented by

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Presented at

Agricultural Outlook Forum

February 17, 2006

Arlington, VA

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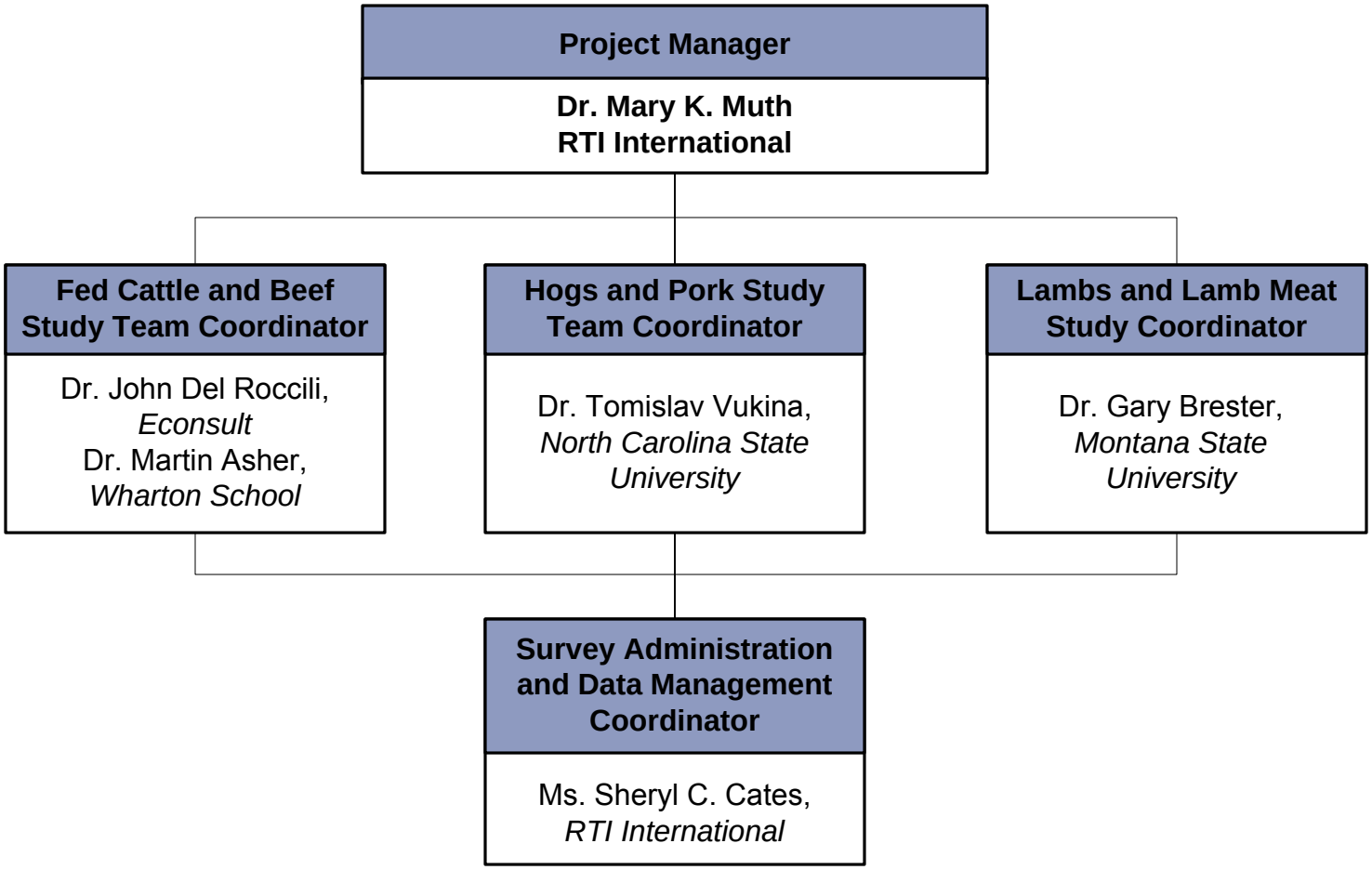
Overview of Presentation

- Background and purpose of the Livestock and Meat Marketing Study
- Definitions of alternative marketing arrangements used in the livestock and meat industries
- Brief overview of results presented in the July 2005 interim report for the study
- Data collection efforts currently underway
- Analysis plans for the next stage of the study

Background and Purpose of the Livestock and Meat Marketing Study

- Funded by Congress in 2003; awarded to RTI International in July 2004
- Purpose: conduct a broad study of the effects of alternative marketing arrangements in the livestock and meat industries
  - Fed cattle and beef
  - Hogs and pork
  - Lambs and lamb meat
- Results will be used by the Grain Inspection, Packers and Stockyards Administration (GIPSA) to determine what policy changes are needed to address concerns about marketing practices in the livestock and meat industries

Structure of the Study Teams



Alternative Marketing Arrangements Refers to All Alternatives to the Cash or Spot Market

- **Cash or spot markets**
  - Auction barns
  - Video/electronic auctions
  - Dealers or brokers
  - Direct trade
    - Order buyers
    - Buying stations
- **Alternative marketing arrangements**
  - Forward contracts
  - Marketing agreements
  - Marketing contracts
  - Production contracts
  - Packer-owned farms
  - Custom feeding
  - Custom slaughter

Pricing Methods Are Integral to Each Type of Marketing Arrangement

- **Cash or spot markets**
  - Individually negotiated prices
  - Auction bid prices
  - Posted or list prices
  - Sealed bid prices (rare)
- **Alternative marketing arrangements**
  - Formula pricing
    - Various bases for formulas are used
    - Carcass formulas might be on a grid
  - Fee for service (feeding or slaughter)
  - Internal transfer pricing

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Descriptive Results Presented in the July 2005 Interim Report

- Profiles of the livestock and meat industries
- Reviews of the literature on use of alternative marketing arrangements
  - Economics literature identifying motivations for use
  - Applied studies describing actual use
- Results of in-depth interviews with industry participants from farm to retail

Broad Descriptive Results of the July 2005 Interim Report (I)

- Livestock and meat industries from farm to retail generally involve using a *portfolio* of marketing arrangements, including cash/spot markets and different types of marketing arrangements.
- Key factors affecting the choice of marketing arrangements related to
  - supply chain management
  - maintaining quality and consistency
  - price risk management
  - obtaining market access
  - reducing transactions costs

Broad Descriptive Results of the July 2005 Interim Report (II)

- The structure and characteristics of each species and meat type affect types and extent of use of alternative marketing arrangements.
  - Results by species are provided in the report.
- Use of alternative marketing arrangements provides benefits to producers, packers, processors, and consumers that need to be weighed against the possible disadvantages.
  - Advantages need to be weighed against possible creation of thin markets and market power.
  - Magnitude and distribution of net benefits need to be quantified and compared.

July 2005 Interim Report

The report can be accessed at:

http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Interim_Report.pdf

Data Collection Efforts Currently Underway

- Industry surveys
  - Producers and feeders, packers, meat processors, and companies that buy meat (retailers, food service, exporters, wholesalers)
  - Census of largest plants and companies; random sample of remaining entities
  - Voluntary data collection using pretested questionnaire
- Transactions data and profit and loss statements
  - Census of largest plants and companies
  - Mandatory data collection for packers and processors and voluntary data collection for companies that buy meat using pretested data request form

Types of Questions in the Industry Surveys

- Methods for receiving livestock or meat (marketing arrangement, pricing method, use of alliances)
- Terms of purchase methods (delivery method, contract length)
- Reasons for using specific purchase methods
- Methods for selling livestock or meat (marketing arrangement, pricing method)
- Terms of sales methods (delivery method, contract length)
- Reasons for using specific sales methods
- Operation characteristics (number of employees, sales range)

Transactions Data and Profit and Loss Statements

- Data request is for October 2002 through March 2005 (2.5 years)
- Transactions data with information on types and terms of marketing arrangements for packers, processors, and downstream
  - Livestock or meat purchase transactions
  - Meat sales transactions
- Profit and loss statements for packers and processors
  - Weekly statements
  - By stage of operation (slaughter, fabrication, further processing)

Analyses Planned for Next Stage of the Study (I)

- Price Differences and Price Effects of Alternative Marketing Arrangements
  - Determine price differences associated with alternative marketing arrangements after adjusting for quality, lot size, and other characteristics
  - Determine patterns of price differences resulting from changes in market conditions
  - Identify relationship between packers' use of alternative marketing arrangements and spot market prices for livestock and meat

Analyses Planned for Next Stage of the Study (II)

- Measurement and Comparison of Costs and Benefits of Alternative Marketing Arrangements
  - Measure producer and consumer surplus differences
  - Measure size and other economies and diseconomies and their sources
  - Identify types and measure efficiency differences (e.g., labor costs, marketing costs)
  - Determine differences in livestock and meat quality
  - Determine degree of risk shifting among market participants and measure differences in risk levels

Analyses Planned for Next Stage of the Study (III)

- Implications of Alternative Marketing Arrangements
  - Assess overall negative and positive economic incentives for increased or decreased use of each type of marketing arrangement
  - Examine implications of expected changes in use
  - Assess system-wide implications of restricting packer ownership and control of livestock prior to slaughter

Conclusion

- Overall goal of the study is to provide information to help guide policy decisions regarding marketing arrangements used in the livestock and meat industries
- Short schedule for the study will require focusing on the key effects
- Final report is scheduled for release in early 2007