Feeder Pig Marketing Techniques
Michigan State University
Cooperative Extension Service

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pork industry handbook

COOPERATIVE EXTENSION SERVICE • MICHIGAN STATE UNIVERSITY

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Feeder pig marketing is an important part of the swine industry. Dollar value of feeder pigs sold is estimated at over $700,000,000 per year. About 40% of all slaughtered hogs are produced on farms other than where they are farrowed. Feeder pigs are marketed locally and intra-state in the central part of the United States, with large volumes of feeder pigs being shipped from states on the fringe of the traditional Corn Belt to the major hog feeding areas.

Guidelines for Choosing a Market

Market day is payoff day for the feeder pig producer. Whether or not he makes money depends upon making intelligent market decisions.

Feeder pig producers have many outlets and markets for their product, depending upon location. Consider the following factors when selecting a market. A market outlet or selling agency should:

- recognize and reward quality
- offer reliable price and grading information
- accurately grade and price hogs at a competitive market level
- provide fair weighing conditions
- weigh hogs on accurate, government-tested scales
- select the best possible buyer on any given market day
- provide necessary marketing services
- guarantee prompt payment

Methods of Marketing Feeder Pigs

Feeder pigs are sold at a wide range of weights from early-weaned pigs to half-finished slaughter hogs. Feeder pigs are generally sold close to a standard weight of 40 lbs. with prices above 40 lbs. reflecting value of additional weight. Discounts are generally applied to lighter-weight pigs. Feeder pigs may be sold by the pound on a per head basis or by a forward pricing formula.

Feeder Pig Marketing Techniques

Methods of marketing feeder pigs vary by state and community. Techniques range from simple sale transfers of ownership between producer and feeder to highly sophisticated pooling systems using modern communications technology. The most common selling techniques include the following:

Feeder pig producer to neighbor or feeder. Producer advertises pigs in his community or sells regularly to a producer with feeding facilities. Price is mutually agreed upon, with the grade, weight and delivery negotiated. Market price obtained by producer depends upon knowledge of current price levels.

Producer to dealer. Feeder pig producer sells to a dealer who purchases pigs for resale at a margin or profit. Dealer assembles pigs in larger lots and sells them to producers who feed hogs for slaughter. Price asked by feeder pig producer depends upon his current knowledge of market and price conditions. Price charged to final purchaser reflects margin of dealer for cost of services and profit on the transaction.

Producer to cooperative—farm pick-up service. Feeder pig producer joins cooperative feeder pig association. He then contracts to have pigs picked up on his farm by a cooperative fieldman when pigs weigh 40 lbs. Pigs are sorted, graded and weighed at the farm by the fieldman. Pigs are hauled to an assembly point operated by the cooperative marketing agency. Pigs are pooled into large, uniform-graded lots and sold to distant feeder buyers by salesmen using skilled selling techniques via the telephone. Cooperative salesmen sell pigs at the highest price possible, deducting the costs of selling and pickup. The feeder pig producer generally receives an average price computed from sales made by the cooperative the first two days of the week. Some cooperative organizations offer special premium incentives for quality and volume.

Producer to feeder pig fair—concentration point. Producers bring pigs to a designated geographical area in a community or to a scheduled feeder pig fair. Pigs are viewed in a vehicle by buyers and sold by the feeder pig producer. Price obtained depends upon buyer demand and skill of producer in negotiating a competitive price.

Producer selling at auction. Producer brings or consigns pigs to the livestock auction operated by a firm or farmer-owned marketing cooperative. Pigs may be sold as delivered or graded or pooled for sale to buyers. Pigs graded into large, uniform-graded lots are attractive to feed lot buyers. Pigs may be sold by weight or by the head to the highest bidder. Price levels depend upon buyer demand. The auction owner or cooperative charges a commission per head for services, which include sales facilities, weighing, grading, advertising and selling.

Producer selling at tel-o-auction. Feeder pig producer brings pigs to the cooperative tel-o-auction. Pigs are graded and pooled into large, uniform lots with a stated average weight that can be described to buyers on the phone. The cooperative hires an auctioneer who auctions pigs on a conference type telephone and can hook up over 20 buyers on the line. Each buyer on the phone has a number assigned to him. The auctioneer describes a lot of pigs by weight, grade and number and starts to chant an opening price. When a buyer wants to bid, he shouts his number. The auctioneer continues to take phone or ring bids and raises the price until he hears no further numbers. The auctioneer then sells the pigs to the last responding bidder. In some instances, several buyers are located on one phone, increasing the total buyer demand. Buyers may also bid from ringside. Successful tel-o-auction sales require large numbers of uniform pigs and sufficient buying demand. See Figure 1.

The major advantage of the tel-o-auction system is that producers receive a competitive price, established by buyers in a wide geographical area. A commission is charged by the cooperative for facilities, phone and selling costs.

Proposed Marketing Techniques with Teletype and Computer

Modern communication systems using electronic selling have been proposed for the feeder pig industry. Slaughter hogs have been successfully sold on a teletype network in Canada for several years.

Market agencies have developed plans to use computer selling of feeder and slaughter livestock. A new computer selling system, called HAMs, is currently being tested in Ohio for selling slaughter hogs. Buyers are given location, weight and grade information on Cathode Ray Tubes (CRT) screens. Prices are set by computer auction, first by auction in a descending order, then by auction in an ascending order. A similar computer marketing system is being tested in Texas for feeder cattle, called CATTLEX. Early observations of the system indicate that computer selling may offer new pricing techniques for feeder pigs in the future.

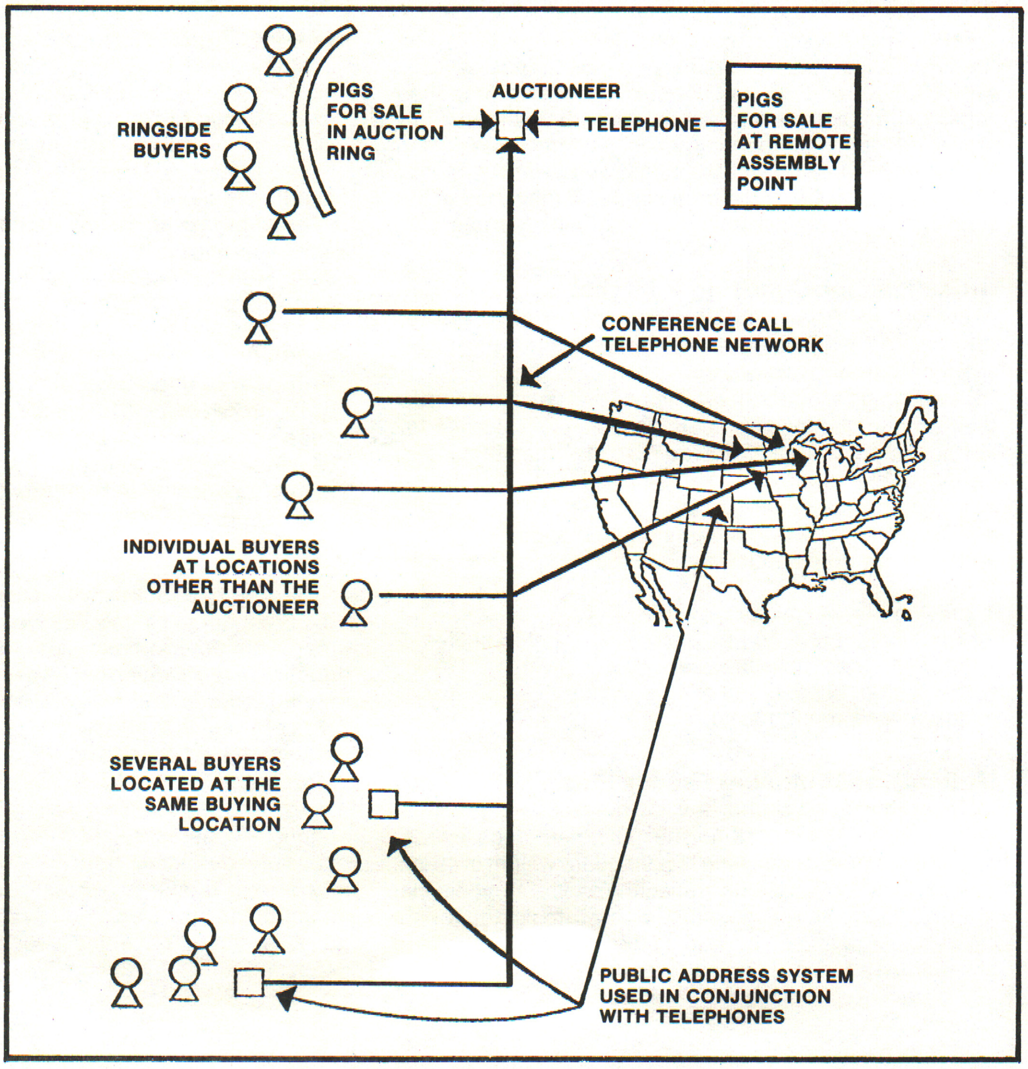


Figure 1. Schematic diagram of the Tel-O-Auction.

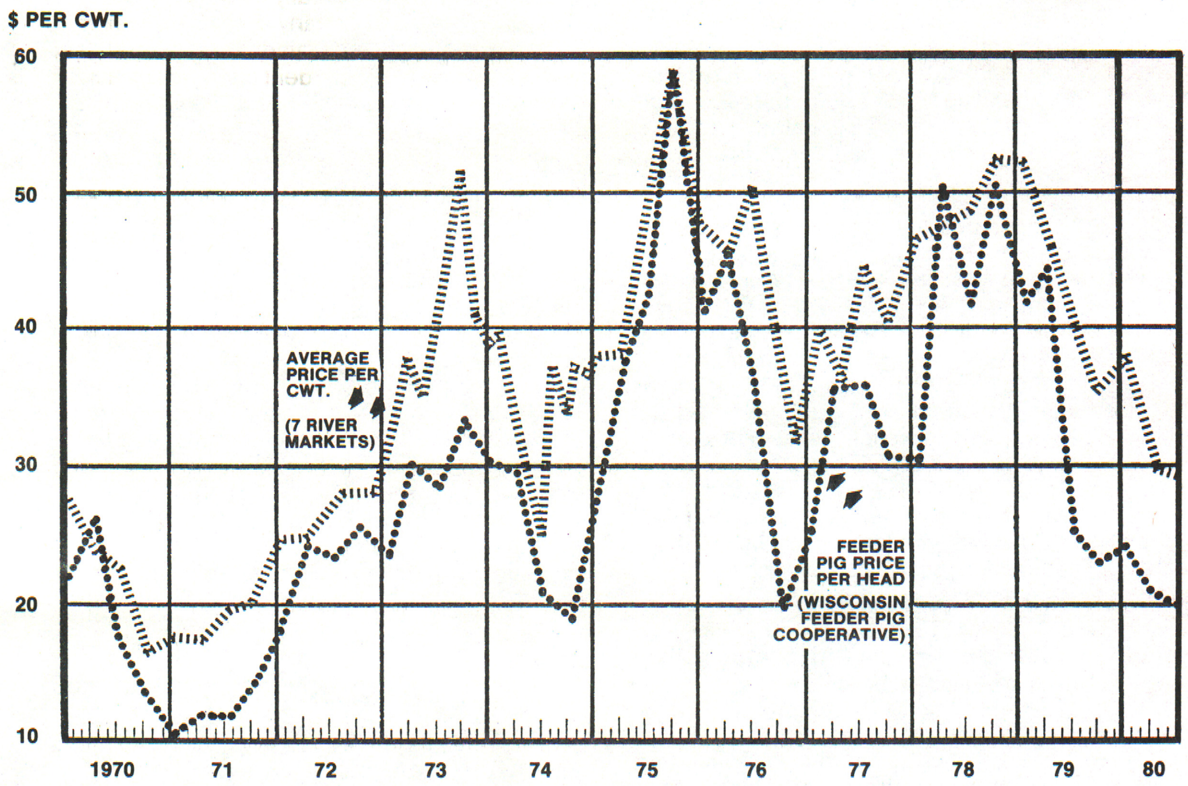


Figure 3. Price variations USDA slaughter hogs and feeder pigs—1970-80.

Estimating Price or Formula Pricing. There are many techniques or formulas that have been suggested for pricing feeder pigs. Formula pricing is difficult because of the changing price relationship of slaughter hogs, feed prices, feeder pig production costs, supply and expectations of the buyer and seller. The following formulas published by marketing specialists in Kansas, Nebraska, Indiana and Illinois are examples of many that are available.

▶ \$/head = 90% X (average market price, \$/cwt., on the first five days of the month at a designated market)

Gaydon (Indiana)

▶ \$/head = (market top, \$/cwt., at river markets) - \$5.00

or

▶ \$/cwt. for 40-lb. feeder = 2 X (market top, \$/cwt., at river markets)

Figurski (Kansas)

▶ \$/head = 1.8 X (market hog price, \$/cwt.)

Pritzer (Nebraska)

▶ \$/head = feeder wt. x factor from table below x anticipated market price when feeder reaches 210 lbs.

Pig weight	Factor	Pig weight	Factor
40 pounds	1.8	80 pounds	1.45
50 pounds	1.7	90 pounds	1.4
60 pounds	1.6	100 pounds	1.35
70 pounds	1.5		

G. R. Carlisle (Illinois)

Factors to keep in mind when considering pricing formulas are:

- Formulas are only price indicators and work best when market hog prices and feed prices are stable.
- Feeder pig prices tend to climb rapidly with rising slaughter hog prices and fall sharply on down turn (see graph).
- Fluctuating prices will not consistently yield either the producer or finisher an equitable share of the profit for his efforts.
- Formulas can only serve as a pricing guide—the price must be ultimately set by competitive forces in the market place.

Forward Contracting

Many plans have been developed for forward contracting of feeder pigs. Presently, feeder pig futures are not available but are under consideration by commodity markets. Presently, no standard industry contract is in general use.

When contracts are formulated they are based on estimated cost of production, stated charges for custom feeding, relationship to live hog futures or on agreed upon pricing formulas on live markets at market or purchase time. Because of the changing relationship between feed, slaughter hogs and feeder pig prices, contract specifications should be understood by all parties involved.

Grade

USDA grading standards are available for feeder pig producers. Grade description can provide the uniform terminology for trading nationwide, using new communication technology. The changing hog industry requires acceptable standards. The standards are periodically studied and updated.

Some organizations have modified the USDA standards with a three-grade system for sorting top, average and acceptable pigs. All grading descriptions attempt to relate the feeder pig grade to the final finished grade of the pig.

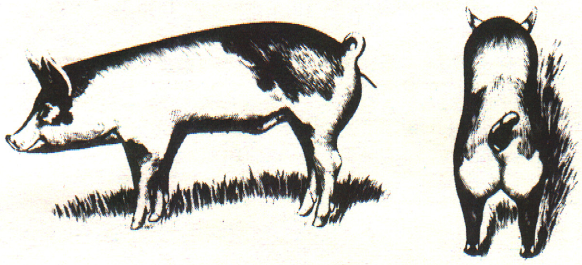
USDA grades include: U.S. Number 1, U.S. Number 2, U.S. Number 3, U.S. Number 4, and U.S. Utility. See the section entitled, "Specifications for Official United States Standards of Grades for Feeder Pigs" for a complete explanation of these grades.

Specifications for Official United States Standards for Grades of Feeder Pigs

U.S. No. 1

This U.S. No. 1 grade feeder pig has very thick muscling and a large frame which will allow him to reach 220 lbs. with a low degree of fatness. Notice from the rear that the legs are set wide apart because of the very thick muscling. Also note that the hams are wider than the loins. From the side he is trim throughout, and he will have a high degree of trimness even at market weight.

Feeder pigs in this grade are expected to produce U.S. No. 1 grade carcasses when slaughtered at 200 lbs.

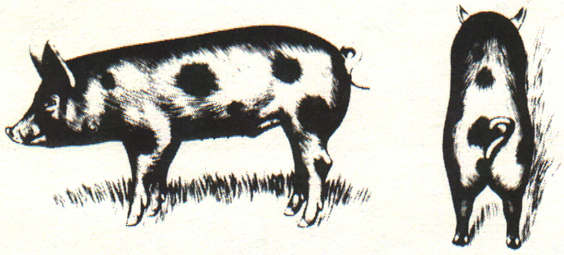


U.S. NO.1

U.S. No. 2

This U.S. No. 2 grade feeder pig has moderately thick muscling and a moderately large frame. He should reach 220 lbs. with only a moderate degree of fatness. As viewed from the rear, the hams are slightly wider than the loin. The legs are moderately wide-set indicating moderately thick muscling. From the side he has begun to lose the look of trimness shown by the No. 1 barrow in that the jowl and flank are beginning to fill with fat.

Feeder pigs in this grade are expected to produce U.S. No. 2 grade carcasses when slaughtered at 220 lbs.

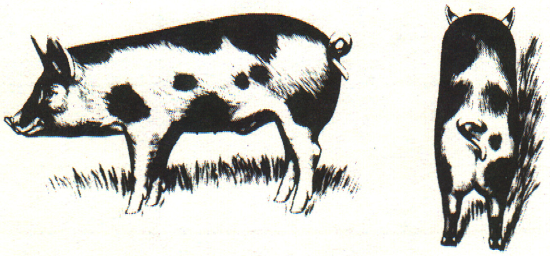


U.S. NO.2

U.S. No. 3

This U.S. No. 3 grade feeder pig has slightly thin muscling and a slightly small frame. When he reaches 220 lbs. he will have a high degree of fatness. From the rear he looks relatively uniform in width through the hams and loin because of the low degree of muscling and relatively high degree of fatness. And because of his slightly thin muscling, the legs are set fairly close together. When viewed from the side he shows definite signs of fat already being deposited in the jowl and flank.

Feeder pigs in this grade are expected to produce U.S. No. 3 grade carcasses when slaughtered at 220 lbs.

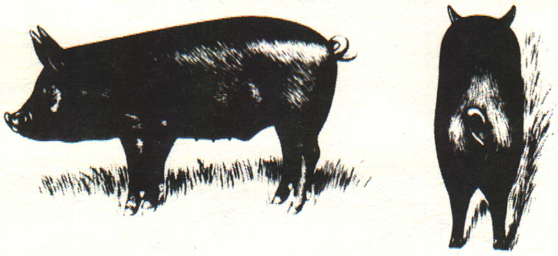


U.S. NO.3

U.S. No. 4

This U.S. No. 4 grade feeder pig has thin muscling and a small frame. At 220 lbs. he will have a very high degree of fatness. From the rear he is uniform in width through the hams and loins and the back is rather flat. Also, the legs are set close together because of the thin muscling. Even at this size, from the side he is beginning to look wasty throughout. The jowl and flank are moderately full. Also, the lower parts of the hams are beginning to fill with fat.

Feeder pigs in this grade are expected to produce U.S. No. 4 grade carcasses when slaughtered at 220 lbs.



U.S. NO.4

Price, Demand and Supply Structure for Feeder Pigs

Feeder pig pricing is complex and indirectly affected by a wide range of pricing factors. Current prices often reflect the daily or weekly movement of live hogs. A more basic feeder price consideration should be the market conditions which are projected for the pigs when finished for market.

The price and demand for feeder pigs depend upon many other economic factors. The price of feeder pigs is basically dependent upon current buyer profit expectation from anticipated feeding plans. These profit expectations are generally based on current slaughter price, expected feed costs, previous feeder pig price, anticipated slaughter price, hog cycle and current pig crop reports. Also important in successful pricing are considerations of the price and supply of competing products, economic conditions, government actions and policies, availability of feed supplies and imports.

The feeder pig market price variables and their direction of influence are illustrated in Figure 2.

Successful pricing requires a close watch on projected farrowings, number of pigs on feed, total supply, current stage of cycle, feed prices, wholesale pork demand, price of competing products, economic conditions, government policies and imports.

Markets also vary by regions and local weather conditions. Demand, crops, drought or severe weather conditions will affect the price level and should be included in the basis for market decisions in selecting and planning a market strategy.

Source of Price Information. Daily feeder pig price information is frequently limited in many areas. The availability of feeder pig price quotations will vary by region and locality. Producers are usually dependent upon weekly auction quotations, cooperative market reports, terminal market sale broadcasts, local sales, private releases from agribusiness firms and periodic releases from government sources.

Prices will be quoted by the head or hundredweight basis and the volume of pigs offered will be stated. Interpretation of price data is most meaningful if the producer understands the market conditions, terminology and grade standards. Producers need to interpret reports carefully and to consider pig quality, type of grade, location of market, sales conditions and services involved in pricing.

Feeder Pig Prices. Decisions on when feeder pigs will be marketed are made at the time the sow is bred. Generally pigs will sell at a higher level when low supplies are stimulating demand. The graph on page 4 indicates the ten-year average price level of slaughter hogs and feeder pigs. It illustrates the price relationship between slaughter hogs sold by the pound on the seven River Markets and feeder pigs sold by the head in the Upper North Central Region from 1970 to 1980 (Figure 3).

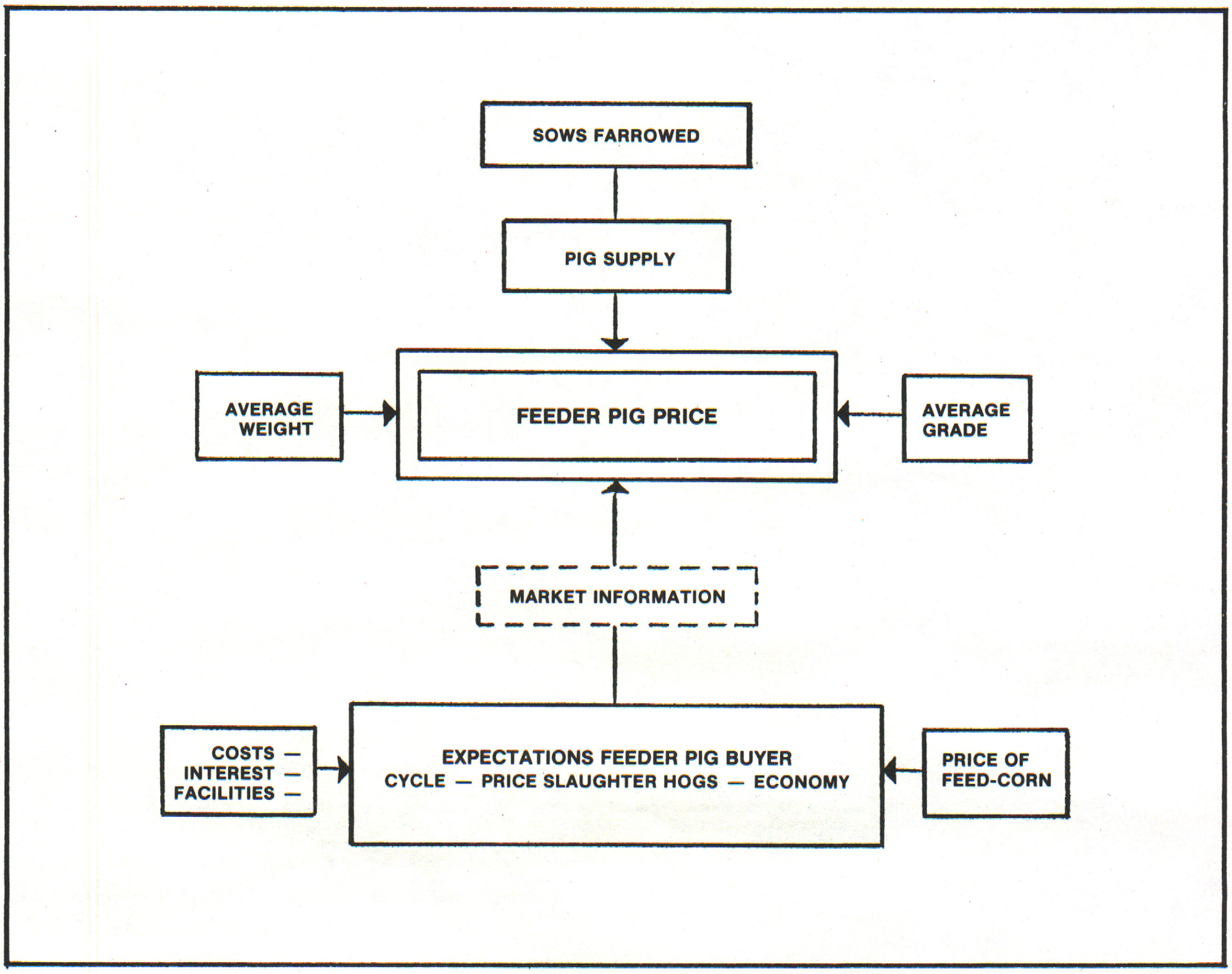
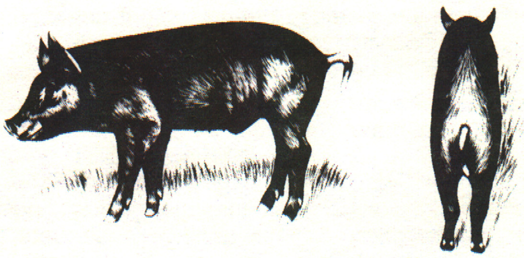


Figure 2. Factors determining feeder pig prices.

U.S. Utility

This U.S. Utility grade feeder pig is unthrifty because of disease or poor care. However, his unthrifty condition is not so serious that he could not recover with proper care and treatment. Notice the wrinkled skin, rough unkempt appearance and the head which appears larger than normal. These are typical characteristics of pigs in this grade. If their unthrifty condition is corrected, pigs in this grade may become a No. 1, 2, 3 or 4 at 220 lbs. Cull feeder pigs, although not shown, will be less thrifty and will require a long and costly feeding period to reach market weight.

U.S. Utility grade feeder pigs whose unthrifty condition is not corrected will produce U.S. Utility Grade carcasses.



U.S. UTILITY

U.S. Cull. Feeder pigs typical of this grade are very deficient in thriftiness because of poor care or disease. They can be expected to reach normal market weight only after an extremely long and costly feeding period, if at all.

Producer Marketing Organizations

Many successful feeder pig cooperatives and producer organizations have been organized in the major supply areas. These organizations generally provide valuable services for producers including field service, information meetings, breeding stock price quotations, health services and supplies and representation on key issues affecting the industry.

The primary purpose of the feeder pig organization is to provide a competitive price through skilled market representation and development. Producer associations' representatives assemble, grade, sort, inspect and sell pigs. Cooperative salesmen, using a central telephone desk or telo-auction, contact producers offering large lots of uniform pigs delivered on the buyer's specification. Producers are usually paid a pooled price for their graded pigs which they have consigned to the organization. Most organizations have a member contract giving them a supply commitment from producers.

Pigs may be picked up on the farm by association fieldmen who weigh and grade the consignment, or they may be delivered by the producer to a central auction or tel-o-auction system.

The association arranges for final shipment, trucking, necessary vaccination and final settlement from the ultimate buyer. Cooperative organizations charge a commission or a margin for services. Earnings exceeding the cost of operation are allocated to the producer for return as patronage refunds.

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