Ag Decision Maker

File B3-42
December, 1994

Swine Production Networking Advantages and Disadvantages

Networking is not a new concept. Rather it is a concept that is being reinvented by pork producers in a rapidly changing industry. This fact sheet discusses some of the advantages and disadvantages that should be considered as producers evaluate networking. It is not an exhaustive list of the pros and cons of networking, and may not address a particular type of network. However, it will attempt to discuss the basic concepts that drive a network that should be considered by individuals interested in forming or joining a producer network.

What is networking?

Networking is a term that is difficult to define. Although it means different things to different people, in general, networking can be thought of as two or more people working together to achieve individual and group goals that would be more difficult to obtain individually. In general, networking is *cooperating to compete.*

Networking is also not unique to the pork industry. The term was born in the 1960s in the business world and flourished through the 1980s. It is a term with many definitions in the business world as well. As businesses restructured through the 1980s, networks formed between suppliers and end users. For example, auto makers did not have to own a glass factory to manufacture their car windows if they could network with a glass company. In many cases the glass company may have only one account, the auto maker.

The often touted *good old boy* system of who you know being more important than what you know is also a network. It is a network that informally shares information between its members.

Basic types of networks

Although networking possibilities are only limited by one's imagination, there are three basic categories of networks that appear to have merit for pork producers. The basic types of networks are:

- information
- marketing, and
- production networks.

They each meet the definition of a network and require a commitment from their members, but they involve different objectives, degrees of financial involvement, and levels of formality.

Regardless of type, each network represents a change from how pork producers have operated in the past. They are not appropriate for every producer or every task, but they do offer advantages to those producers committed to making them work.

Evaluating networking

Before weighing the benefits and limitations of joining a network, the producer should research the particular network, then evaluate the network on its own merit. A few key questions to ask include:

- What are the mission and objectives of the network?
- Who are the members of the network?
- Do all members have the same objectives?
- Who is the leader / champion?
- Will it lower my cost of production?
- Will it improve my market access?
- Does the network fit my mission and goals?
- Is the network positioned to evolve?
- What is the complete impact on my operation?

When evaluating a networking opportunity keep two old sayings in mind: *If it sounds too good to be true it probably is*, and *there's no such thing as a free lunch.*

IOWA STATE UNIVERSITY
University Extension

John D. Lawrence
extension livestock economist
515-294-6290

Benefits of networking

Below are some major benefits from networking. However, you may discover other benefits not listed here.

Capture proven technology

One of the greatest benefits of networking is that it allows producers to use technology that cannot be used individually. For example, multi-site production has been shown to improve feed efficiency and average daily gain by improving the health status of the animal. This technology is difficult and often costly to use within a single operation, but lends itself well to networking with other producers. One person may farrow, a second has the nursery, and the third finishes the pigs. In addition to improved herd health, each operation is able to specialize in one aspect of production.

Networks built on scientific information and technology that produce real returns have a better chance of offsetting their costs. While not all technologies lend themselves to networking, many do if producers are objective, seek professional advice, and are committed to making them work.

Capture real economies

Like technology, producers may also be able to generate cost savings by networking with other producers to capture economies in volume sales and purchases. Cooperative genetic multipliers are an example where producers have worked together to produce their own gilts, are able to get state-of-the-art genetics at wholesale prices, and reduce their genetic access cost by $4 to $6 per pig.

Volume purchases of a manufactured product can reduce costs. However, make sure the savings are worth the effort of networking. Focus on the big ticket items such as feed and labor rather than the less important factors of production.

For example, saving 30 percent on the price of vaccines and antibiotics when total vet and medical cost represent only 3.6 percent of total cost is insignificant. Conversely, cutting feed cost per pound of gain by 30 percent will make a real difference. However, the way to save 30 percent on feed cost is through improved efficiency using proven technologies, because there typically is not that much savings available on purchase price. Two-thirds of the producers on **Iowa State University Swine Enterprise Records**, (files **B1-41, B1-42**, and **B1-43**) are within 21 percent of each other's ration costs, but the low profit third used 52 pounds more feed per hundred pounds of live animal produced than the high profit third.

Improved product quality and market access

An increasingly important factor for producers to consider is market access. A uniform, high-quality product that meets specific criteria in sufficient volume to be processed efficiently will be necessary for market access in the future. Networking can allow producers to efficiently provide processors and the end consumer with a better product. Producers with similar genetics, nutrition and health programs, and facilities can pool their hogs to fit the needs of the processor and generate real value to the pork sector.

However, networking to simply get volume without making other management changes may reduce transportation cost, but does little to improve value. The entire processing sector is built around securing volume. To be of value, the network must provide the processor something he/she cannot get otherwise. This something else may be scheduled delivery, known genetics, guaranteed weight range, PQA III, prescribed handling procedures, etc., all to insure improved product quality for the consumer.

Use production, marketing, and information systems

Networking can facilitate improved production and marketing systems and also allow individuals to share information to further improve the process. Pork production is a complicated business and often beyond the expertise of one individual to successfully manage and operate.

A *systems approach* to production and marketing simplifies the pork production process. A system merely implies that the entire pork channel is considered when production and marketing decisions are

made and that actions are taken to improve product quality and capture efficiency where possible throughout the channel. Genetics, nutrition, animal flow, labor, facilities, etc., are matched to each other to produce a high-quality, low-cost product. While there is more than one type of system, the critical factor is having a system that is competitive and can access capital. Besides facilitating a systems approach, networking can reduce the cost of acquiring the superior management expertise needed to develop and operate the system.

Limitations of networking

Below are some of the major limitations of networking. However, you should be alert to other limitations that may arise in your situation.

Commitment of people

If networking was easy, everyone would be doing it. Thus, networking should not be viewed as a magic cure-all as it requires work, leadership, and commitment. Networking will seldom make a poor manager better, but it may allow him or her the opportunity to improve.

Because pork production has been relatively profitable for quite some time, it is often difficult for producers to see the need for change or agree on what that change should look like. Many producers will have trouble accepting a compromise if they have to give up something even if it is a win-win solution.

Networks also require long term commitment that may require producers to forgo some short term gains. Pooled marketing is a classic example. Pooling hogs to develop market leverage creates a shortage of hogs in the local market and prices may be bid above the pool, price to attract hogs. If producers are not committed to the network and sell hogs outside of the pool they have lost the long term benefit from group marketing. Thus, the success of a network depends on the efforts of the leaders and the commitment of all members.

Joint responsibility

Networking typically implies that the success of the group depends on the performance of each individual member. Some producers may not want the responsibility of determining their fellow member's future, along with their own. Others may not trust their neighbor to deliver the goods.

For example, the pressure may be on the marketing negotiator to extract the best price bid for everyone; or it may be the responsibility of the member who is breeding and farrowing sows to keep new finishing buildings full for fellow members. Often these agreements can be formalized through checks and balances or contracts, but they require increased communication, business structure, and overhead.

Loss of control

Along with sharing responsibility, networking also requires that members turn over some degree of control. Loss of control may be as simple as complying with a marketing date, or it may require changing input suppliers, management practices, facilities, and priorities.

If a member has properly researched the network, has been involved in its development, or has accepted the mission of the network, he should accept the results. However, human nature often shortens memories and clouds logic.

Some networks require an investment of capital. Others require that management be turned over to someone else. For some producers, the cost of following another person's management requirements may offset any benefits from improved production efficiency.

Formal business procedures

Although many networks are informally structured and loosely operated, tighter control and more formal business procedures are necessary as transactions become more complicated. Networking requires increased communication because more than one individual is involved. The minimum cost of communication is the higher overhead cost of the time involved in keeping people informed. However, a higher cost may result if communication breaks down and members feel that they are not being kept

informed. Effective communication may involve newsletters, meetings, memos, etc.

Networking typically involves financial transactions, and credit-worthiness and collection procedures become essential. Formalizing a network to include articles of incorporation, bonding, licensing, etc., is often costly, but is much less expensive than trying to correct a problem later.

Loss of markets and suppliers

Networking typically involves direct negotiation and contract agreements with a supplier or buyer. As a result, the product or commodity is removed from the open market. At a minimum, a physical market such as a terminal market or buying station may close. In a broader sense, the market is less actively traded, no longer represents the direct trade product, and may disrupt the price discovery process. Problems arise if the network negotiates a price based on a certain market (i.e., the Omaha terminal price) and that market closes or its trades are based on inferior products. While some argue that networks are a consequence of thin markets, they may also accelerate a change in markets.

Just as local open markets may close as producers enter selling networks, input suppliers may close as purchasing networks buy wholesale to bypass retail vendors. Local suppliers include lenders, veterinarians, equipment and supply stores, as well as feed dealers. The impact on these businesses will also be felt elsewhere on main street.

Also in some cases the local supplier may be included in the network or negotiate for the network's business. However, even if local businesses are in the network, there may be one or more that are negatively affected. Also, remember that successful networks will be those that capture real economies. It may not be worth the potential damage to the local economy to save one percent on cost by purchasing inputs cheaper if improved efficiency due to adopting appropriate technology can lower cost of production by 20 percent.

Summary

In summary, networking provides progressive producers the opportunity to keep up with a changing industry. It should not be viewed as a way to avoid change or as a last ditch effort to stay afloat. The success of a network will depend on the people involved and their commitment to the network and the competitive production of high quality pork. Networks that are based on sound technology to generate real value will also be more successful.

Working both horizontally and vertically in the pork channel is not without its costs. Members may find themselves in the position of picking winners and losers and may at times forgo short term gains to achieve long run sustainable advantages. Also, as with any leader in business, members will need to take risks and may be criticized by peers. However, it may be better to take the shots from the rear as you pull ahead of the pack than to be run over by an industry passing you by.