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Small Farmers Combining to Stay Profitable and Compete with Large Scale Agriculture

Rick Costin

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SMALL FARMERS COMBINING TO STAY PROFITABLE AND COMPETE WITH LARGE SCALE AGRICULTURE

By

Rick Costin

Department of Agricultural Economics
University of Kentucky
Lexington, Kentucky, USA

ABSTRACT

Small and intermediate full time farmers in Kentucky are finding it difficult to remain profitable and continue in business. Agriculture trends continue toward larger scale operations. These trends have been driven by economies of scale when purchasing inputs, reduced profit margins on per unit basis and the need of providing a large quantity for marketing advantages. Small farm operations are searching for ways to compete and still maintain some form of independence.

This paper will focus on the need for small and intermediate size farmers to work together to take advantage of the benefits achieved by large operators while still maintaining independence. One group and industry, in particular, will be highlighted. I will discuss the hog industry and illustrate how a group of small and intermediate size farmers worked together to successfully compete in today's difficult agriculture environment.

INTRODUCTION

Larger has been the trend that Agriculture in the United States has taken for several years. Kentucky agriculture has mirrored the U.S. trend, larger farms getting bigger and smaller farms finding it difficult to compete. Economies of scale have definite advantages in buying inputs and marketing farm commodities. Many people argue that even the U.S. government agriculture policies favor the large scale farm operations.

LARGE CO-OPS

Large co-ops such as Farm Credit Services and Southern States Cooperative have been a part of United States agriculture for many years. But most farmers in the U.S. do not acquaint these large business entities as co-ops. In recent days I have explained to two of my own farmer clientele why purchasing stock in Farm Credit is necessary when obtaining a loan. While working in Eastern Europe in the early nineties, I explained many times to farm groups that the U.S. did not have many small operating co-ops, but there were large businesses operating under the heading of co-ops.

FARMERS WORKING TOGETHER

Farmers working together is nothing new in the United States. Neighbors helping neighbors has been a part of farming since the beginning! But since the farming crisis of the late seventies/early eighties, farmers seem to have been focused on their operations and the “every man for himself” attitude. Farming has taken a more competitive attitude and because young farmers today did not grow up in this “neighborly attitude and cooperative effort” that was seen prior to the crisis, it has not been perpetuated. With work to be done, farmers find it hard to take time away from their farming operations to help others while their work goes undone.

HISTORICAL SWINE INDUSTRY

Following national trends, Kentucky has also experienced a decline in its number of swine operations. In 1979, there were 31,000 farms with hogs. Less than 5 percent of those farms raise hogs today. Since 1990 the number of swine operations in Kentucky has dropped from 6500 to 1400. Again, Kentucky’s trend following the U.S. numbers showed that in 1999, 80 percent of hog inventory was

owned by only 10 percent of the farms producing hogs. Of the 1400 swine farms in Kentucky, 52 percent of the operations hold inventories of over 2000 head of hogs, 20 percent hold inventories of 1000–1999 head, while 28 percent hold inventories of less than 1000 head.

CENTRAL KENTUCKY HOG MARKETING CO-OP

In the early part of 1990, six hog producers started meeting on a casual basis with a Vocational Agriculture teacher to start keeping hog production records. These producers knew the importance of records and wanted to improve production information to help with management decisions. Four of the six were participating in the Kentucky Farm Business Management (KFBM) program receiving financial and total farm production records and counseling to aid in making sound business decisions. This program is a joint effort between the University of Kentucky and farmers throughout the state. Farmers participating in the KFBM program pay a fee for the records and services received from a farm management specialist, such as myself.

While meeting for the benefit of production information, the small group of producers saw a need to address the problem of losing market opportunity due to the closing of slaughter plants in and around the state of Kentucky. During 1991 the first of three remaining processing plants in Kentucky closed. Since the late seventies, concentration and consolidation in the pork packing, processing and retail food industries contributed to the loss of ten processing plants available to Kentucky producers. Loss of markets and resulting increases in transportation costs created a lack of competitive marketing opportunities and eliminated the profit potential for many small hog producers. Since the mid nineties, there has been only one slaughter plant in the Kentucky region. The next closest plant is a five-hour drive from central Kentucky.

The group of hog producers realized the importance of marketing hogs in large groups to take advantage of economies of scale for transportation cost savings and increasing marketing options. This small group marketed 15,000 hogs together and formed the Central Kentucky Hog Marketing Co-op during the last half of 1991. At the time the co-op was formed, its member/producer operations ranged in size from 25 to 120 sows. The main goal of the co-op was to assist in providing pork producers in central Kentucky with a fair, transparent, and competitive market for their hogs.

Through the early years membership grew, but some individuals found that a cooperative relationship did not fit their personalities, independent goals or ways of thinking. These producers left the co-op and in most cases became a casualty of low hog prices, high input prices, and overall lack of profitability.

Today the co-op has ten members marketing over 35,000 hogs per year. Two of these members have less than 50 sows, five have 90 to 140 sows, and three have more than 200 sows.

Selling semi loads of hogs during the infant stages of the co-op allowed the farmers to reduce their marketing costs of selling hogs and provided premiums for load size of hogs and arriving at requested times for slaughter. Efforts of the co-op have broadened since the early days. Today member/producers not only market hogs with same genetics based on consumer demand but also buy inputs such as feed, animal health products, and equipment gaining the power of economies of size. They have always had a focus on obtaining and disseminating accurate information to producers and improving producers' abilities to make informed business decisions.

The co-op holds the belief that information and knowledge will be the basis for long-term solutions for competing in a changing marketplace. By being proactive

and remaining competitive these producers believe they can compete with large operations.

EXAMPLES OF DOLLAR SAVINGS

Kentucky Farm Business Management (KFBM) 1999 Data			
<u>Cost</u>	<u>Co-op Members</u>	<u>Other Hog Producers on KFBM</u>	<u>Difference</u>
Cost of protein/mineral to produce 100 lbs of pork	\$ 7.31	\$ 9.27	\$1.96
Lbs of protein/mineral to produce 100 lbs of pork	72.2	77.8	5.6
Total feed costs per 100 lbs produced (includes homegrown and purchased grain)	\$17.13	\$19.94	\$2.81
Assuming 240 lb market animal	\$2.81 difference per 100 lbs <u>X 2.4</u> \$6.74 difference in feed costs per market animal		
<u>Seed Corn</u>			
	<u>Co-op Members</u>	<u>Individual</u>	<u>Difference</u>
	\$70 per bag	\$90 per bag	\$20 per bag
Assuming 200 acres of corn	2.75 acres per bag = 73 bags		
	73 bags		
	<u>X \$20</u>		
	\$1460 savings on seed cost		
Co-op members realized a savings of \$7.30 per acre on seed cost			

ENVIRONMENTAL

Agriculture is learning to step lightly on the land and leave fewer environmental footprints. Small livestock farmers have a far better chance to live within environmental regulations than do the mega operations. For example, in Kentucky, larger farms have a harder time getting rid of their manure than the small farms because of the ratio of acres available to manure produced.

A “renewed emphasis” has been placed on manure and its nutrient value. Substantial research is addressing how to turn this “liability” into an asset. Society and communities seem to be taking a hard line stand against mega operations due to environmental factors (i.e. odor, pollution, noise, etc.), while smaller family farms are less susceptible to this scrutiny. Recent environmental regulations in Kentucky make it mandatory for confinement livestock operations to secure permits that deal with environmental issues. Large confinement hog operations wanting to locate in Kentucky, as well as some other states, have met resistance and have been turned down.

OTHER GROUPS

Kentucky has seen the emergence of other farmers working together in localized areas as well as regional areas. Some of these groups are taking steps to form legal co-ops while others have agreed to work together in other ways.

Vegetable

In Kentucky, vegetable producers in four regions have organized and formed marketing co-ops. The farmers in these co-ops can access wholesale markets more easily than they could individually. They pool their products and increase

marketability potential while lowering costs to individual farmers. The co-ops grade, pack, cool, and market the produce.

Cattle

Cattle producers are working together to market like groups of cattle. It is a well-known fact that a semi-load of similar feeder cattle brings a premium over selling individual or small groups of cattle. The average size cowherd in Kentucky is 30 cows. Farmers are putting together calves of same size, color and sex, as well as using the same health programs, to market their cattle. Going a step further, some groups have purchased same genetics in bulls so off spring will be related. Cattle producers are also taking advantage of economies of scale by buying inputs such as mineral and vaccinations.

Hogs

Three other groups of hog producers in Kentucky tried working together to market large groups of hogs. These groups did not form a legal entity. The groups realized benefits of marketing hogs together for the first few years. However, when hog prices dropped in 98-99, these producers were not able to remain in business. Taking the benefits of economies of scale into buying inputs never materialized for these groups, consequently, their losses were too great.

BENEFITS OF WORKING TOGETHER

The benefits of farmers working together can be good. One obvious benefit is enjoying economies of scale. Also, farmers in the Kentucky groups seem to take on a more positive attitude toward the future of farming. Some of these farmers have realized the importance of comparing records and sharing of information and knowledge.

Educational and research efforts are more available and affordable with groups than with an individual. Another benefit that some of these farmers like is that they are not giving up independence that contracting sometimes brings about.

SUMMARY

Trends of larger farming operations and consolidation of agricultural businesses are expected to continue in the foreseeable future. Small and intermediate full-time farmers will continue to put their management abilities up against the large operations that benefit from economies of scale, only to realize the marginal profitability will not be enough to sustain an acceptable life style.

But by working cooperatively with other farmers having common goals, the small independent operations do have a promising future. Smaller farming units must buy inputs and market commodities together realizing the benefits of size. With the economies of scale benefits, good management, and environmental practices, these farmers can be prosperous and sustainable in years to come.

BIOGRAPHICAL SKETCH

Rick Costin is an Area Extension Specialist in Farm Management at the University of Kentucky Agricultural Economics Department. Priority areas include working with a diversified group of farmers in the Kentucky Farm Business Management Program. Record keeping, enterprise analysis, marketing, financial and tax management are areas of emphasis. Since 1993, the author has worked in Eastern Europe for USDA and other organizations.