

Making More Profit with Value Chains

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▪ Introduction

The changing structure of pork production from smaller independent operators to integrated or integrated-like systems (such as a network or a strategic alliance) has provided challenges and opportunities for producers and veterinarians to organize into various operating “systems” or chains. The Pipestone System was started in the early 1990’s by a group of producers and veterinarians who recognized these opportunities.

Organized value chains already exist in poultry and broiler production. Small backyard flocks were replaced with large production companies that produced a consistent, high quality, value added branded product. This branded product has either real or perceived added value that was differentiated from commodity products. This is now occurring or has already occurred in the fresh pork trade. Where there are challenges, there are always opportunities. The ability to recognize the challenges and capture the opportunities may define the survivors in the pork industry as they organize into value added chains.

▪ The Challenges

The key drivers of success to any value added pork chain might be summarized as follows:

- **Size** - the ability to produce a certain product over a long-term period and meet the consumer demands usually means that a certain size and scale must be met.
- **Vertical Integration** - the ability to have centralized control or influence at all the steps of production and marketing process reduces the profit centers and focuses each production area on cost.

- ▶ **Controls of Information** - all areas of production generate their own unique set of data and methods of capturing the data. The ability to capture, control, manipulate data into useable forms and generate knowledge is a key challenge to adding value.
- ▶ **Operations Management** - is a major hurdle in coordinating all parts of the operation to run smoothly. This includes the logistics of people and pig movement and all associated inputs needed.
- ▶ **Business Management** - the skills necessary to operate a value chain profitably and with long term success differ from operating each entity individually - some decisions may have a negative impact on an individual piece of the chain, but yet be necessary for long term success of the chain.
- ▶ **Financial Strength** - lenders have always played a key role in any agricultural enterprise, when operating a value chain it is often necessary to educate lenders on the interaction of each operating unit and even combine balance sheets in order to obtain a fair analysis of the business.
- ▶ **Lack of Strategic Vision** - all parties need to be fully informed of the direction and goals of the value chain - this insight into the direction and grasp of where the objectives are and a comprehensive plan of action differentiate many value chains.
- ▶ **Understanding Commodity vs. Branded Production** (or consumer demand).

■ Opportunities

The opportunities in adding value to the pork chain are evident when compared to other livestock models. The farm-to-table concept has long been seen as the way the chicken industry revolutionized it's methods of production, but was also able to lower cost of production while increasing consumer demand for it's products. The results are increased research into new consumer products and reduced costs, which may result in increase returns and another round of research and lower costs. As in any situation, the ability to capture the opportunity depends on early recognition and implementation. The current opportunities to add value to pork production could be summarized as follows:

- ▶ **Improve Profitability of Producers** - the variation of profitability across farms is still tremendous and the opportunity for veterinarians to assist their clients to higher profit levels.
- ▶ **Improved Animal Health** - the health of the swine herds has direct impact on the profit levels.
- ▶ **Improve Quality and Food Safety.**

- ▶ Improve Environmental Management.
- ▶ Improve Animal Welfare.
- ▶ Improve Risk Sharing - among producers and parts of the pork chain.
- ▶ Improve Information Collection and Exchange.
- ▶ Improve Strategic Vision.
- ▶ Improve Consumer Marketing.
- ▶ Improve Research and Implementation.