Public Abstract
First Name:Jongick
Middle Name:
Last Name:Jang
Adviser's First Name:Michael
Adviser's Last Name:Sykuta
Co-Adviser's First Name:
Co-Adviser's Last Name:
Graduation Term:SS 2008
Department:Agricultural Economics
Degree:PhD
Title:PRODUCT DIFFERENTIATION AND THE ROLE OF CONTRACTS: THE US PORK INDUSTRY CASE

This dissertation studies factors influencing the rapid transition from spot markets to contracts recently observed in the exchanges between farm producers and processors or distributors. In particular, it attempts to fill gaps between the existing literature on organizational form choice and processorsâ€™ or retailersâ€™ practices on contract choice recently observed in the agro-food sector by offering theoretical arguments and empirical analysis. On the theoretical side, it explores two aspects of transactions between processors or retailers and growers through which two major innovations to the existing literature will be made: attributes of products to be exchanged; and the interaction between processorsâ€™ or retailersâ€™ product differentiation activities in downstream markets and their procurement practices in upstream markets.
The research proposes that a contract provides a platform for bilateral planning and incentive designing for the production and exchange for buyer-specific products, which is less accessible through spot markets governing instantaneous exchange. It discusses that the individual processors or retailersâ€™ increasing demand for idiosyncratic agricultural products in upstream markets is derived from their product differentiation activities in downstream consumer markets. Based on the concept of product specificity to a buyer, it then extends the existing theories of contracts into the context of the agro-food sector where transition from spot markets to contracts has been recently widespread.
On the empirical side, the product specificity analytical framework is applied to a more comprehensive analysis of contract structure and choice in the US pork industry. This dissertation analyzes long-term hog procurement contract documents using the notion of product specificity to a buyer and the agency theoryâ€™s measurement difficulty-based contract externality and task programmability arguments. The analysis results show long-term hog procurement contracts are designed in ways to save costs associated with procuring intertemporally consistent carcass qualities and reducing hog growersâ€™ incentive distortion arising from difficult-to-measure meat quality attributes including marbling, muscle color, and meat tenderness.
Finally, based on these findings from hog contract analysis, this research generates testable hypotheses regarding product specificity and measurement difficulty explanations for contracts, and for more comprehensive empirical tests of existing theories of contracts, temporal specificity hypothesis is included. The primary data generated from a survey of pork packers support the product specificity and measurement difficulty predictions but do not support the temporal specificity explanation that is most often suggested in the literature. The empirical results suggest that the dramatic change in organization form in the pork industry may be better explained by looking at attributes of hogs to be exchanged rather than attributes of assets required for the transactions.