

HOG-UPDATE

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Profitability of Hog Operations By Ben Dekker

At the onset of researching this paper I had preconceived notions about American advantages in pork production. I was convinced I would prove a substantial advantage in feed costs in the US. After researching several sources for the complete year 2005, I was surprised to realize the advantage was much less than I was expecting. This begs the question: Why so many consecutive months profitability in the US while we worry about our industry? Does it only come down to access to markets?

Cost of production is one half of the equation determining profitability of hog operations. The other is of course market price. As producers we can have some impact determining market price; but the reality is we can have a little more control over cost of production. As Ontario pork producers our largest competitor and market is the United States. We need to know our cost of production and how it compares to the US. With news of American expansion in the hog industry based on 33 consecutive months of profitability, (Grimes & Plain Hog Outlook Oct 6/06) we need to know why they are profitable.

At the Carthage Veterinary Service 16th Annual Swine Conference held this summer in Illinois, Latta, Harris Hanon & Penningroth L.L.P., a consulting and management information firm

representing approximately 4,000,000 hogs per year reported on "Profitability, Costs & Benchmarks". They used 2005 numbers to determine US industry benchmarks; then identified priorities leading to profitability. Assuming a 265 lb liveweight hog, the 50th percentile COP is \$112.98 US/hog. Determining an average US dollar value for 2005 at 1.20 CDN (\$1.00US=\$.83CDN) this equates to \$136.12 CDN COP/hog.

For an Ontario perspective; The Pork News and Views reports for the year 2005 were averaged, creating an Ontario based cost of production for 2005. For a 90.97 kg carcass (251 lb liveweight) John Bancroft determined a COP of \$134.90.

What about feed costs? For 2005 US costs were \$63.84 or \$76.92 CDN to feed the 265 lb pig. Ontario costs for the same period averaged \$70.03 CDN to feed a 251 lb pig. These numbers are remarkably similar which is likely a surprise to many producers. From these reports it appears the Americans really do not have the large competitive edge over Ontario producers. It would appear the bigger difference lies within a producer group. The difference between the 50th percentile and the 90th percentile COP is substantial. What makes the 90th percentile group so much better? The priorities leading to profitability have been identified as follows.

Sow herd: 23 pigs/sow year or better. 1 p/s/y = \$1.38 US per hundredweight COP f to f (US\$7292.00 per 100 sows) Improve sow herd productivity using yearly evaluations by two top level swine DVM's. Get efficient before getting bigger.

Herd Health: Highest cost producers have poor herd health. The top 10% have post wean mortality of 5% or less, with culls and off-sorts of 10% or less including death loss. Remember that ALL producers have recurring health challenges, but lowest cost producers recover much faster.

Feed Efficiency and Feed Cost: We need to aim for a 3.0 whole herd FC as a minimum; 2.8 for grow-finish operations. Use your own mill. Grinding your own feed was identified as being a substantial profit maker for the American producer.

Heavier Sale Weight. Maximize gross return. If your grid and barn space will allow it, feeding to a heavier weight will increase profitability. To go from a 250 lb (114 kg) pig to a 265 lb (120 kg) live pig would increase gross revenue by \$7.19 (6 kg gain = 4.8 kg carcass x \$1.40 x 107 index). Feed costs increase by \$4.20 (6 kg gain x 3.5 FC x \$0.20). This leaves \$2.99 net increase which is approximately \$6000.00 increase profit potential per year per 100 sows.

Facility Utilization. A farrow to finish farm should have to sell weaners from time to time, otherwise likely the barn is being underutilized.

Labor/people. Strong management skills a must, invest in training and personnel development.

Genetics. Impact on pig/sow/year and grow finish feed conversion is substantial.

The difference in COP between the average producer and the top 10 % in this report is equal to \$29,792.00 per 100 sow farrow to finish. We are in an industry that competes not only globally but also locally.

HOG UPDATE is published in the interest of helping hog producers become more profitable. We welcome your comments.

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Benchmark Assumptions

	50th Percentile	90th Percentile
Pigs/sow/year weaned	20	24
Feed/sow/year (tons)	1.15	1.15
Feed cost (\$/ton)	150	153
Feed cost (\$/sow)	172	176
Feed cost (per lb)	\$ 0.0749	0.0763
Feed per pound of gain - wean-to-finish	lbs 2.78	2.45
Feed per pound of gain (per cwt) - wean-to-finish	\$ 20.84	18.70
Post-wean death loss	4%	4%
Assume average weaning weight of 11 lbs		
Assume average market weight of 265 lbs and 265 lbs for 50° and 90° Percentiles		

2005 Comparative Cost of Production

**Farrow to Finish Units
 (US Cost Per 265 lb Pig)**

	50th Percentile	90th Percentile	OMA FRA (\$CDN, 251 lb pig)	Avg. BSC Feedcost (\$CDN)
Expenses:				
Personal	11.42	10.55		
Facilities	17.78	16.91		
Other Operating	5.83	4.21		
Total of Labor, Facilities & Other Costs Normally borne by Contractors	35.03	31.67		
Genetics	4.82	3.95		
Feed	61.88 (74.55 \$Cdn)	55.12	70.03	71.88
Veterinary/Medicine	4.27	3.34		
Death Loss Factor	0.00	0.00		
Total Cost of Production before Administrative & Finance	106.00	94.08		
Administrative	3.21	3.21		
Total Cost of Production before Finance	109.21	97.28		
Interest	1.43	0.66		
Total Cost of Production (per cwt)	110 .64 (133.30 \$Cdn)	97.94	134.90	

NOTE: \$Cdn are calculated by dividing by .83 (exchange rate)