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5-14-1997

Production and Financial Standards for the Pork Industry

Allen Prosch

University of Nebraska-Lincoln

Larry Bitney

University of Nebraska-Lincoln

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Prosch, Allen and Bitney, Larry, "Production and Financial Standards for the Pork Industry" (1997). *Cornhusker Economics*. 824.
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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Production and Financial Standards for the Pork Industry

The 1996 summary for the Nebraska Swine Enterprise

and Analysis Program shows that there is a lot of difference between average, the high 1/3 and the low 1/3 of producers when it comes to a profit. Producers in the average group showed a 27% rate of return on capital, while those in the top 1/3 showed a return of 49%. Total cost per cwt. for an average producer on the records program was \$50.71 while the producers in the high profit 1/3 produced that pork for \$44.96 per cwt.

Record summaries from other states show similar results. A comparison of the “average” producer in Iowa and Missouri to the same states’ “top 1/3” producers shows a cost difference up to \$4.91 per cwt. (\$12.27 on a 250# hog) and \$4.00 (\$10.00 on a 250# hog).

However, a comparison of the total production cost of average producers between states shows a difference of only \$2.22 per cwt. (\$5.55 per 250# hog). The comparison of top producers, those in the high profit 1/3 in each state, shows even less difference, \$0.93 per cwt. (\$2.33 per 250# hog). The difference in total production cost between top producers in Iowa, Nebraska and Missouri was less in 1996 than the difference between top producers and average producers within each state. Producers within the profit groups apparently have more in common than producers within states.

While comparisons like this are interesting, they may mislead the reader, due to differences in methodologies between the record systems. For example, most record keeping programs eliminate the variation caused by differences in the price of corn. Both the Nebraska and the Missouri data in these examples adjust grain prices, to eliminate this source of variation in production cost.

Market Report	Yr Ago	4 Wks Ago	5/9/97
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb			
Omaha, cwt.....	\$59.81	\$ 66.88	\$ 68.63
Feeder Steers, Med. Frame, 600-650 lb			
Dodge City, KS, cwt.....	58.82	78.56	80.26
Carcass Price, Ch. 1-3, 550-700 lb			
Cent. US, Equiv. Index Value, cwt. ...	89.85	96.47	101.56
Hogs, US 1-2, 220-230 lb			
Omaha, cwt.....	56.60	55.43	58.95
Feeder Pigs, US 1-2, 40-45 lb			
Omaha, hd.	*	*	*
Fresh Pork Loins, Wholesale, 14-18 lb			
Cent. US, cwt.	119.00	115.70	125.60
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt.....	90.88	97.75	89.63
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb			
FOB Midwest, cwt.....	173.00	183.00	183.00
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W.			
Omaha, bu.	6.85	4.64	4.45
Corn, No. 2, Yellow			
Omaha, bu.	4.83	2.78	2.76
Soybeans, No. 1, Yellow			
Chicago, bu.	8.05	8.33	8.92
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt.....	8.15	4.80	4.73
Oats, No. 2, Heavy			
Omaha, bu.	*	*	*
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better			
Platte Valley, ton.		*	*
Alfalfa, Lg. Round, Good			
Northeast Nebraska, ton.	*	72.50	77.50
Prairie, Sm. Square, Good			
Northeast Nebraska, ton.....	62.50	72.50	72.50

* No market.



In addition, not all record systems use the same formulas to reach their results. An example will help illustrate this point. Three ways to calculate pigs per sow per year are shown below. The first, Example 1, uses the whole female population kept for breeding on the farm. The second, Example 2, excludes the unmated parity females (gilts) and the bred but never farrowed gilts (mated parity zero females). The last, Example 3, uses the mated females regardless of parity (includes the bred gilts). The results are the following pigs per sow per year.

Example 1	18.9 Pigs/sow/year
Example 2	23.1 Pigs/sow/year
Example 3	20.1 Pigs/sow/year

Which is correct? Well, up to now they all are. That is changing.

The National Pork Producers Council, in cooperation with University and Industry staff have been working to create financial and production standards for the pork industry. These efforts have recently resulted in the publication of such standards.

Beginning with terminology and proceeding to formulas, the new standards will help the members of the pork industry speak the same language. Whether it is the definition of a breeding female (an unmated or mated female kept for breeding purposes), or the balance sheet (accounting report showing the financial position of a business at a given moment in time), there is precise terminology. Producers, when they use these standards, will be able to report production and financial data that will describe and compare their operations to any others within the industry.

Financial terminology and reporting methods based on the recommendations of the Farm Financial Standards Council will put pork producers on par and in many cases ahead of comparable industries. In addition to these standards, a National Pork Producers Council task force prepared a chart of accounts for pork producers.

The chart of accounts was created to simplify linking production and financial information and to utilize database technology. Built around the producers' management needs, the chart of accounts provides adequate credit information as well as production information. The consistent data elements for revenues and expenses allows for comparisons. Managers can compare themselves to similar operations.

Similarly lenders can analyze the performance of an operation and make informed credit decisions when consistent information is supplied. This will help individual producers be assured of adequate financing for sound

operations.

The new Production and Financial Standards for the Pork Industry offer a blueprint for consistent, quality information in the future. They will increase the value of data collected, and could result in accurate and comparable records that allow larger numbers of operations to be compared.

Allen Prosch, (402) 472-0079
Pork Central Coordinator

Larry Bitney, (402) 472-2047
Extension Farm Management Specialist



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