Non-feed Costs

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Niche market producers must have a higher return per pig sold in order to make a living selling fewer pigs. Non-feed costs can quickly grow out of balance in a small operation. Efforts need to be made to stay on budget. Non-feed costs are managed by spending less, by producing more, or by some combination of both.

Successful niche pork producers find the optimal levels of labor, scale, and efficiency for their operation. Each operation is unique; however, there are some considerations that all producers should take into account.

Labor and Management

When determining where to devote labor resources, it is critical that both financial budgets and personal interest/skills be considered. The pig herd should be sized to match available labor, interest, and skills. Technique and skills will improve and adapt over time. It is critical that the people working with the pigs want to do the work, especially if farm employee labor will be relied on for success of the operation.

Balancing work and personal time is important and may be difficult. For many niche producers their choice to raise pigs in this manner is as much a lifestyle choice as a business decision.

Maintaining an acceptable level of income is critical for the long-term survival of an operation. It also is important that producers balance the demands of the farm with personal and family goals.

Pig operations should be sized to match available labor. Insufficient labor—both in terms of manpower and hours in the day—results in important tasks that are not done correctly or in a timely manner. This ultimately will hurt the productivity of the pig herd and result in higher production costs per pig. Finding the optimal herd size for available labor is critical for success in niche pork production.

Pig production can be scheduled to adjust for seasonal work loads. For example, a farm needing extra labor in spring and fall for planting and harvesting can farrow pigs in the winter and summer, thus spreading the workload throughout the year.

Recording how you spend your time on a daily basis may seem trivial, but critically examining how you spend your workday enables you identify areas in need of adjustment. For jobs like handling pigs or manure, well-designed facilities or adequately-sized equipment can make dramatic differences in the time required.

Capital Costs

Niche pork producers often have lower capital or fixed costs because they use older or lower cost buildings and equipment. This impacts the importance of productivity. For example, the cash cost of not filling to capacity a new building that has an outstanding loan is greater than the cost of not completely filling an older building that has already been paid for.

Niche producers often take advantage of the lower fixed costs of their buildings and allow them to sit empty between groups of pig or provide more space per pig. Both situations can improve herd health, and ultimately the profitability of the farm. This is difficult to do with higher cost, new facilities that still have outstanding debt.

Before purchases are made, the value of time along with the potential impact of the purchase on returns should be considered.

Questions to ask before making purchases:

- Does the purchase fit the scale of the operation?
- What is the cash cost?
- Will the purchase pay for itself through improved production or reduced labor?
- Will the purchase retain its value or will this depreciate?
- How quickly will this purchase depreciate?
- Can I repair or maintain the purchase myself?
- Is the purchase durable and easy to use?
- Is the purchase critical for the operation, useful but not essential, or something I want but that is not related to the operation?
- Does this fit within the context of the long-term farm plan?
- If labor is saved, how will I use the extra labor?

Remember to make use of cash flow budgets to evaluate purchasing decisions.

Fixed Costs

Debts or costs that must be paid regardless of production are known as fixed costs. They are summarized by the acronym DIRTI:

- **D**epreciation: Most things that are purchased decline in cash value over time.
- **I**nterest: Interest on a loan does not change if production stops.
- **R**epairs: Buildings and equipment must be maintained regularly regardless of production fluctuations.
- **T**axes: Taxes on property depend on the value of the property, not necessarily the income generated by a property.
- **I**nsurance: Insurance premiums are usually paid on an annual basis, while production may fluctuate monthly.

Missing your target output impacts your fixed costs. If your buildings can house 1000 pigs and only 800 pigs are produced, fixed costs per pig will increase by 20%.

The same is true for each group through the system. If a hoop barn holds 180 pigs and only 140 pigs are fed (because not all the sows that were bred farrowed), fixed costs per pig will increase by 28% for the group. The increase occurs because there are fewer pigs over which to spread the fixed costs.

Operating Budget

Expenses that are incurred only if production occurs are labeled variable costs or operating expenses. Feed costs are by far the largest portion of operating expenses and they are addressed in section 800 of this handbook. Labor and management is another operating expense. Labor and management are considered throughout the entire handbook.

For this discussion, the following expenses are considered operating expenses:

- Fuel
- Utilities
- Vaccines
- Veterinarian
- Interest on operating loans
- Bedding
- Land or building rent

The economic strategy of a niche producer is to make more money on fewer pigs. Although niche producers usually receive a higher price for their pigs, profit margins also are affected by operating expenses. Production efficiencies can be found at any scale and successful niche producers schedule pig flow to optimize production. For example, trucking a partial load of pigs to market may or may not make sense depending upon the cost of transportation and the market discount for pigs that are too light or too heavy. Unused vaccines that cannot be stored are another example. It may be more cost effective to purchase a smaller bottle that is more expensive per dose but will be entirely used than to purchase a larger bottle that is less costly per dose but will be mostly discarded.

Additional Resources

Iowa State University Extension. 2007. Ag Decision Maker. Iowa State University. Ames.

U.S. Pork Information Gateway http://pork.porkgateway.org/web/guest/home