



Calculating Production Costs to **Determine Your Bottom Line**

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Starting Point: Goal is to Make a Profit

- Pork production can be a very eniovable career
- But we live in a 'capitalist' society, we still have to support our family
- This requires, over a period of time, that pork production makes a profit
- History has shown that Iowa is a great place to raise pigs and prosper

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Pork Production has Changed Over the Past Years

- At one time, the pork producer ran a diversified business (multiple crops, multiple livestock species) and could just focus on raising pigs and crops
- Now, all of agriculture, all businesses have changed
- "Wal-Mart" effect

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Pork Production has Changed Over the Past Years

- Consumer demands an acceptable quality commodity product, at the lowest price
- So as price lowers, the pork producer has taken the brunt of the effect
- Smaller profit margins per unit of production have demanded the need for more business skills and orientation

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Effect on Pork Production (and Pork Producers)

- If the profit per pig is smaller, then the production unit must be larger to generate the same profit for the producer
- The producer must also be more 'efficient' at pork production
- Specialization can enhance efficiency
- Result = shift away from diversified farms

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New Demands on Pork Producer



- Larger size to capture efficiencies
- More specialized production skills
- More management skills (now manage people and pigs)
- More business orientation
- Use of computer technology
- Need for software to manage the farm, manage the business, for decision making and analysis



Today's Discussion

- Focus on cost of production components that influence profit
- Also, consider the production performance of the farm (higher performance lowers per unit cost)
- Package this so the producer can apply their 'farm specific' information so analysis and decisions can apply better

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Cost of Production Comes From Multiple Components

Feed costs:

 function of feed price, feed conversion, pigs marketed/year, mortality rate, growth rate.

Non-feed costs:

 Fixed (facilities, etc), Variable (ins., util., supplies, repairs, taxes, etc), Professional fees (mgt, acct.), Vet/Medicine, Labor, Breeding/Genetic costs, death losses, Trucking, and more

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How Do You Measure?

- Feed costs: function of feed price, feed usage, feed conversion, and pigs marketed/sow/year
 - Business records, computerized sow management systems and spreadsheets
- Non-feed costs: Labor, Fixed (facilities, etc), Variable (ins., util., supplies, repairs, taxes, etc), Professional fees (mgt, acct.), Vet/Medicine, Breeding/Genetic costs, death losses, Trucking, and more
 - Business records

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Bottom Line

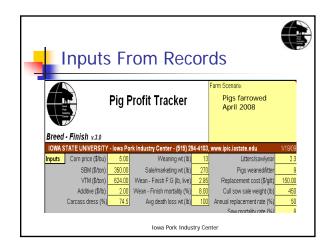
- In order for the producer to objectively examine their cost of production and performance,
- You must have these records in a usable format
- And access to 'decision making' tools that allow for farm specificity

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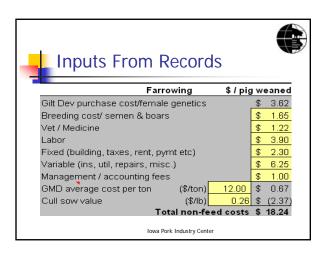


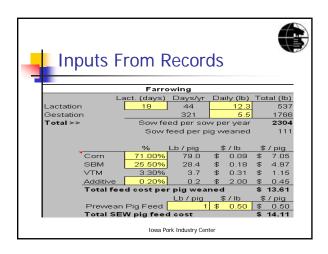
Pig Profit Tracker Pig COP/Profit Estimator

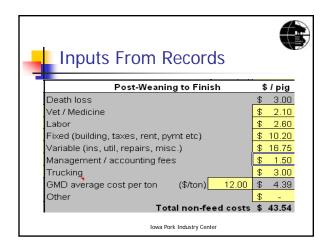
- Excel spreadsheet
- Enter production information
 - Farrowing from sow management system
 - Post-weaning from spreadsheet summary
- Enter cost of production estimates for primary component of costs (per pig)
- Enter feed component prices of interest
- Enter anticipated market return
- Program estimates the net profit/loss per pig
- Can change inputs to see impact on net profit

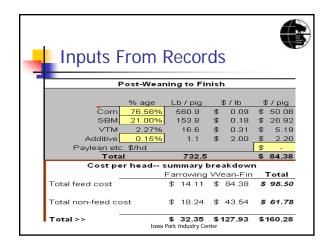


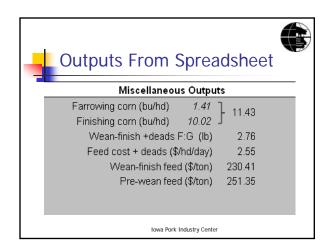


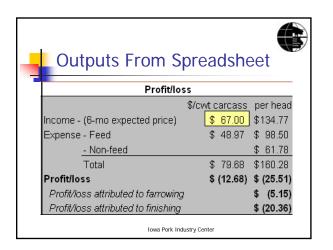














Scenarios To Examine Using Pig Profit Tracker®

- Current situation at your farm
- Effect of increasing reproductive rate
- Renting new facilities with higher cost, but better performance
- Raising market weight but with higher feed conversion rate
- Effect of improving a performance trait
- Effect of 'locking in' inputs and/or return



Demonstrate Pig Profit Tracker

- Available at www.ipic.iastate.edu
- Iowa Pork Industry Center
- **800-808-7675**

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Scenarios Shown in Talk

- Start with assumptions in "Estimated Returns from Farrow-Finish hogs in Iowa, born April 2008
- Use assumptions for pigs born in Jan 2009 (lower feed costs, higher market price)
- Show impact of increasing reproductive rate (20.7 PSY to 24.0 PSY)

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Scenarios Shown in Talk

- Show change if replacement gilt price was increased (\$150 to \$200)
- Show change if sow mortality increased (8 to 10%)
- Show change if annual replacement rate increased (50 to 60%)
- Show change if FCR was improved (2.85 to 2.75)

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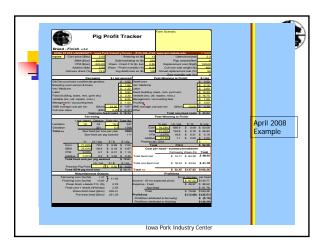


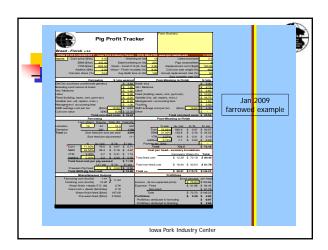
Scenarios Shown in Talk

- Show change if producer leases older WF facilities at a lower cost (10.20 fixed to 8.20 fixed), but FCR changed from 2.75 to 2.90
- Show change if added Paylean at a cost of \$2/head, but FCR improved from 2.90 to 2.80
- Show change if WF mortality increased from 8 to 9%

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Summary



- Producer needs to accurately know their cost of production (total + components)
- Producer needs to accurately know their herd performance (total + components)
- This requires a combination of records
 - Business records
 - Sow management system records
 - Post-weaning performance records

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Summary

- Analysis of these records using 'decision' based software tools will allow the producer to
 - Consider different options concurrently that individually influence profit,
 - So the producer can see the impact on profit or loss
- Accuracy of any software is dependent on the accuracy of the information used in the analysis

