

Resilience and Profitability: Attributes of Precision Production

Preventing disease outbreaks and managing down those which occur rapidly are key to produce high quality pork and to minimize variance in profits. This capacity creates economic resilience for the farm.

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The motives for being a pork producer are multiple and varied. A way of life, a desire to be away from a desk, to be an entrepreneur rather than an employee is just a short list of the reasons people share for choosing this vocation. However, in order to be sustainable on a long-term basis, to attract capital investment or secure loans at advantageous rates of interest, to provide a good living for the owner's and to eventually bring a high sale value, pork production must be considered a business.

More than one goal can be operative but the business goal of the farm is to create **long-term, low-variance, higher-than-industry-average profitability**. Each part of that goal is key to being successful in a global economy which is teeing up unprecedented opportunity along with unprecedented challenges for pork producers everywhere.

In the farm's external environment, patterns of global exchange are changing as major new trade pacts are in the final stages of negotiation across both the Atlantic and Pacific oceans. New legal requirements are being promulgated, restrictions on certain input and technology use (such as antibiotics, castration and certain sow housing) are rising rapidly. Couple that with increasing dependence on rising export sales to maintain profitable prices and growth and the forces which produce profit variance are being amplified dramatically.

Internal to the farm we have discussed how disease is the number one creator of increased weight variation in the production process. That weight variation creates higher cost and lower gross sales value under almost all harvest buying schemes put forward by purchasers of the live animals in developed countries. As this happens, the trail of increased physical unit (kg) variation leads straight into cost and revenue variation. This in turn is rolled up into increased profit variability and higher variance in the key financial benchmarking metrics of business success: returns on equity, assets or investment.

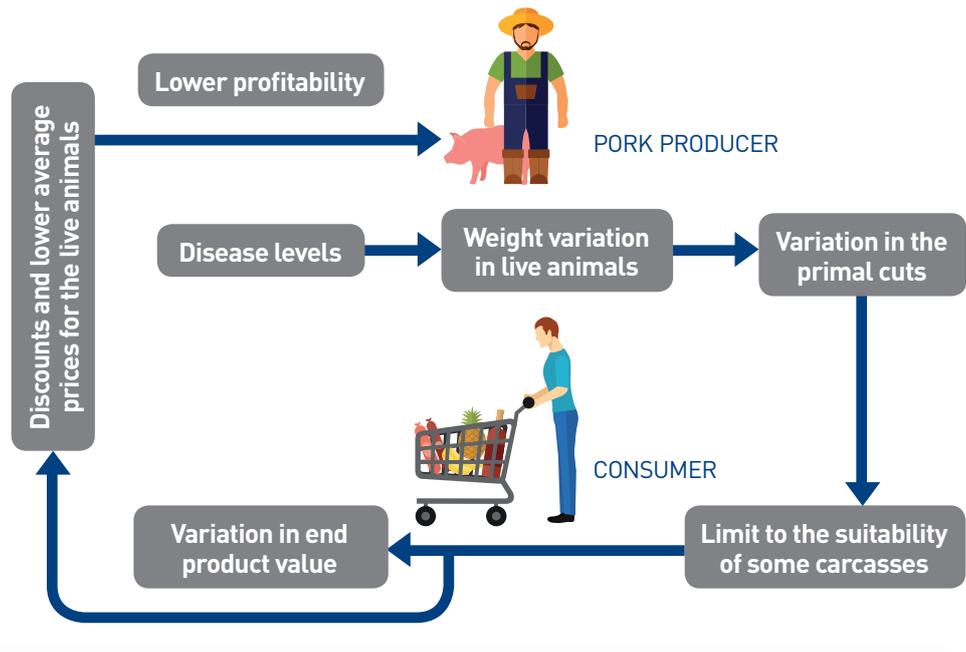
Live weight variance creates revenue variation

Let's take a look at how weight variation, originating on the farm, creates profitability variation and works against our primary business goal to produce low-variance profitability. This happens because the weight variation of the live animal is directly transferred into the primal cuts (hams, shoulders, belly, loins, etc.) after harvest. When a truckload of animals reaches the fabrication tables and the carcasses are turned into primal cuts, there is a distribution of primal cut weights which mirror the live weight distribution of the animals. While most markets can manage to sell all the variation in primal cut sizes, the wholesale market provides differential pricing for primal cuts in different weight ranges. Some size ranges are more desirable than others. Just like many harvest buying schemes that differentially reward producers for pigs in differing live or carcass weight classes, the same is true in the wholesale markets.

Disease is not the only threat to the business goals of farm but as the largest single cause of weight variation, it weakens the business and makes it more vulnerable.



Live weight variance creates revenue variation



In spite of this, many meat processors will tell you that they like variation because they have ethnic and other markets with a variety of size demands. The problem is, there is no “invisible hand” which guides this process and guarantees that the variation created across producers is the profit optimal variation for processors. Quite the opposite is very often the case. Too many light loins, too many heavy hams, too many shoulders with not enough intramuscular fat. In those places where final consumers make traditional pork dishes which start from pork cuts fabricated to support these dishes, the size of the cut, level of fat and inclusion of skin or bone in the cut can be critical to authenticity and variation a little too far from tradition spoils the dish. Disease affects all these things. Disease levels in the production environment produce variation in live animals which is transferred to the primal cuts and in many cases limits the suitability of some carcasses for their highest value use at the consumer level. The variation in end product value to the consumer is passed back to the producer in the form of discounts and lower average prices for the live animals and works against consistently high profitability.

Successful pork producers have higher economic resilience

Like never before, the successful pork producer must create and operate a business which has the characteristic of **economic resilience**. Mirroring the sources of the farm’s threats mentioned above, arising from both the external and internal farm environments, there are two components of economic resilience.

Economic resilience is an attribute of how a production process is designed, including such things as technologies employed, genetics chosen and the creation and consistent implementation of standard operating procedures which allow the farm to resist forces which drive profit variance. As an example, a carefully designed disease prevention program of strong bio-security and vaccination forms a first line of defense against disease outbreaks and are therefore key elements in establishing this dimension of economic resilience for the farm. The ability of farm to consistently achieve high throughput at low cost while maintaining output quality characteristics ensuring premium prices are the characteristics of resilience.

Preventing disease is the single most important thing a producer can do to create profitability and it lays the foundation for resilience in an uncertain world.

Another dimension of economic resilience is the ability of management, through ingenuity and skill to return the farm to its low-variance, higher-than-industry-average profitability quickly when random shocks do intrude. In addition to the ones previously mentioned, things such as temporary input shortages, transportation or processor strikes, severe weather such as drought, flooding or extreme temperatures, a disease outbreak or even the regularly recurring seasonal challenges to growth all conspire to raise cost and reduce returns. No farm is immune to random shocks. The farms which exhibit economic resilience however, do not linger in the consequences of setbacks but immediately move to staunch the impacts.

In summary, creating the capacity to produce consistently high quality pork in the size ranges which are most desired by purchasers of pigs requires above all, the ability of the farm to prevent disease outbreaks and to manage down those which do occur rapidly in order to minimize variance in profits. This two-part capacity creates economic resilience for the farm. Resilience is increasingly evaluated by sources of capital and both loan rates and the size of the loan as a percent of fixed asset or inventory value are determined by judgments regarding the economic resilience of the production system.

Disease is not the only threat to the business goals of farm but as the largest single cause of weight variation, disease weakens the business and makes it more vulnerable to and amplifies the negative effects of non-disease challenges and shocks, the frequency of which is rapidly increasing. Changes in the global economy and trade patterns are conspiring with increasing government regulation of food chains to demand faster responsiveness to remain successful. Preventing disease is the single most important thing a producer can do to create, long-term, low-variance, higher than industry average profitability and it lays the foundation for resilience in an uncertain world.



The successful pork producer must create and operate a business which has the characteristic of economic resilience

