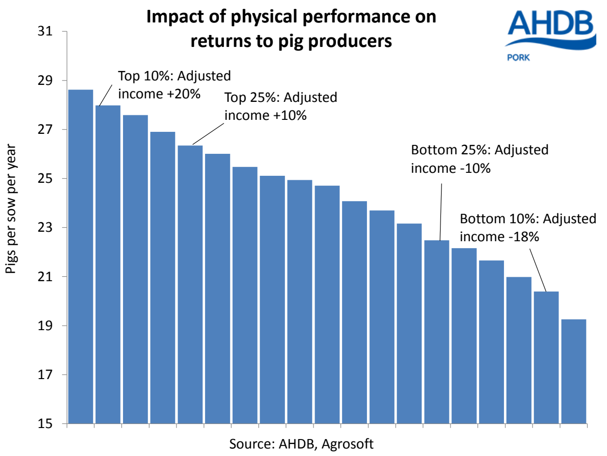
Importance of physical performance to producer returns

Each quarter, AHDB Pork publishes estimates of the cost of pig production. The latest figures showed that, on average, producers were losing money in early 2015, for the first time in 18 months, and that both breeders and finishers were back in the red. However, these averages do not give any indication of how much costs vary between producers.

A full evaluation of the extent of variation would require access to financial information for each farm. Experience in other sectors and countries shows that variation in cost structures have as much, or even more, influence on margins than physical performance. However, in the absence of this, we can see how physical performance impacts on returns, assuming that other factors affecting them don't vary.

Based on estimates from the AHDB Pork model, the average estimated cost of producing a piglet in 2014 was £34 per head. This was around £5 lower than the average 7kg weaner price during the year. For a breeder with 500 sows and average productivity, this equates to a positive margin of around £60-70,000 from sales income of around £475,000.

However, there was significant variation around these figures. The 10% of producers with the best physical performance, above 28 piglets weaned per sow per year, would have made around £80,000 more income, if prices for their piglets matched the average. The 10% of producers with the lowest physical performance, 20 piglets per sow or below, would have had income about 18% below average.



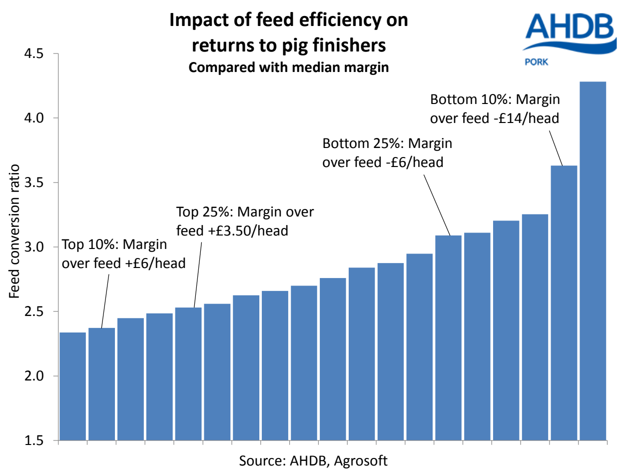
How this impacted on margins would depend on the cost structure of businesses, although it suggests that perhaps around 15% of producers would have had negative margins, even in 2014, one of the best recent years for producers. However, if wider costs were fixed, moving from the bottom 10% to the top 10% could be worth around £300 per sow.

It is worth reiterating that these estimates only take account of variations in physical performance. Some of the producers with relatively poor physical performance could spend less on inputs or achieve higher prices for their piglets. Improving physical performance may mean costs increase, so they may not be able to realise the full benefit. Despite this, the analysis does emphasise how important herd performance can be in determining financial returns to producers.

Turning to the finishing herd, there are again large variations between producers. The main impact of herd performance on costs for finishing is feed efficiency. Therefore, we can look at how feed efficiency affects the margin over feed. This isolates the effect of physical performance on returns, regardless of the wider cost structure of each producer.

Adjusting for differences in weights at transfer to finishing and slaughter, the average margin over feed for taking a pig from 35kg to 105kg, a typical range, was just under £30 per head in 2014. This figure includes the purchase of store pigs, based on the annual average price. For a producer selling 10,000 finished pigs a year, this equates to a margin over feed of around £300,000, although the final margin will have been much lower than that once other costs are added.

Based on this analysis, the most efficient 10% of feeders, based on Feed Conversion Ratio, had a margin over feed about £6 per head higher than the median. The gap was bigger at the bottom end, with the margin over feed of the least efficient tenth of producers around £14 per head below average. The gap between the top and bottom end is, therefore, around £20 per head, although, as always, the difference in overall margins will depend on how other costs vary between producers.



The lack of farm-level data on the full range of input costs and prices means we can't be precise about the variation in producer margins. However, the analysis presented above demonstrates that physical performance could have a major influence on them. Even modest improvements in productivity or efficiency, if achieved without adding to wider costs, could add tens of thousands of pounds to producers' margins, helping to protect them against the inevitable volatility of both pig and feed markets.