

## **MAKING INFORMED DECISIONS ON MARKETING**

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While there are several marketing options and programs available to Ontario hog producers, currently they are all based on the same principles. These principles include an USA based formula price, a grading grid based on weight sort and a yield % calculated on fat and muscle measurements in the loin. Index values are applied against the base price that will reward or penalize each hog depending on the weight and yield % category that the hog falls under. Additional premiums or discounts may be applied depending on the weight sort, muscle and or fat depth as well as special delivery times (i.e. Sunday night delivery), etc.

Before any marketing options are considered, you need to determine the needs of your hog operation and review what is currently happening. Some areas that one should look at include the weight of the hogs being shipped with respect to the weight classes of the grid. Examine the degree of variability shown by your hogs within that grid. Determine the genetic potential of your herd and review your feed program to ensure you are feeding to maximize your returns and to maximize the genetic potential of the hogs. Most importantly, you need to know your cost of production (per kg of pork produced) vs. your returns (per kg of pork produced). If the costs to maximize the premiums of the grid are greater than the income received for that grid then one must re-examine the marketing option being used.

When looking to make any changes to your marketing program or how you raise your hogs, it is important to review what your current marketing plan is telling you. For example: Currently only 60% of your hogs are hitting the target weight area as defined on your grid. Out of these hogs within the defined target weight, only 40% are earning the available premiums. Is this acceptable and if not, then why? From here, you need to establish a benchmark that will represent the basis for the marketing goals of your operation. That new target may be 80% of your hogs hitting the target weight and 70% of those hogs in the target weight receiving the premiums.

Once you have set your benchmark, you need to examine if your current program will achieve the set standards or will you need to look at a new program. Your hog operation may be restricted by limited finishing room, feed or genetic constraints or other factors that may eliminate the option of a heavy grid program. For logistic reasons, bi-weekly shipping or all in/all out facilities may require dual marketing options or selection of a grid with wider target weights.

Once you achieve your goal of 80% or more of your hogs hitting the target weight, either by weighing or sourcing a wider grid, you will need to determine how many hogs are receiving the highest index values available. In the case of premiums and discounts, one must compare premium gains against the losses attributed to lower quality hogs that are discounted. A worse case scenario can have each hog receive a zero or negative value to your bottom line.

Avoid making marketing decisions exclusively on averages. Review the degree of variability within your market hog shipments. Often you will notice that only 40% to 50% of your hogs are receiving a premium, even though your average for the hogs have great averages for weight, muscle, fat and yield %. Unfortunately, averages can mask major variability issues within shipments. For example, see Table 1:

**Table 1. Variability chart.**

	Weight	Muscle	Fat
Hog A	84	49	22
Hog B	92	65	11
Hog C	99	72	28
Average	91.7	62	20

While variability will always be a factor in livestock production, the challenge will be to minimize the highs and lows. Producers using consistent genetic sources and solid feed and management programs appear to have a higher rate of success meeting the goals of tighter weight sorts and reduced carcass variability within their operations.

Finally, it is important to know your cost of production per kg of pork produced. Knowing your feed conversions and hog growth characteristics by graphing your fat/muscle/yield vs. weight of hogs should help you to determine your best rate of return. Table 2 shows a comparison of an 80 kg and 90 kg hog. Table 3 contains the actual weight and gradings the comparison is based on.

**Table 2. Hog Comparison - 80kg and 90kg hog (Conestoga grid).**

	80 kg		90 kg	
Yield class	per carcass	per kg	per carcass	per kg
1	\$122.76	\$1.53	\$142.30	\$1.58
2	\$109.55	\$1.37	\$141.09	\$1.57
3	\$108.48	\$1.36	\$134.89	\$1.50
4	\$105.27	\$1.32	\$137.48	\$1.53
5	\$102.06	\$1.28	\$120.26	\$1.34
6	\$91.35	\$1.14	\$115.44	\$1.28
7	\$91.35	\$1.14	\$108.21	\$1.20
Average:	\$104.40	\$1.31	\$128.52	\$1.43

Based on August 26-30/02 pricing; PW Mon to Fri @ 103% \$133.82.  
Includes all premiums/discounts.

**Table 3. Actual weights and gradings for hog comparison in Table 2.**

Hog Weight	Yield Class	Yield %	Fat	Muscle	Index	Premium* or Discount
80 kg	1	64.6	10.0	54.5	110	\$5
	2	63.3	12.5	56.5	107	(\$5)
	3	60.8	18.5	65.5	106	(\$5)
	4	58.2	23.0	52.5	103	(\$5)
	5	57.1	24.5	44.5	100	(\$5)
	6	55.6	29.0	44.0	90	(\$5)
	7	54.0	36.0	46.0	90	(\$5)
90 kg	1	65.1	11.0	75.0	114	\$5
	2	62.3	16.0	66.0	113	\$5
	3	60.0	18.0	56.5	112	\$5
	4	58.4	24.0	62.0	110	\$5
	5	57.1	27.0	57.5	104	(\$5)
	6	55.4	29.0	40.5	100	(\$5)
	7	54.6	35.0	51.0	94	(\$5)

\* muscle must be  $\geq 60$ mm to get \$5.00 premium

If you cannot make your objectives for the program you are currently shipping on, and switch without being prepared to make management changes, odds are your results will probably end in disappointment. While the primary goal for choosing a marketing option is to maximize your farm gate returns, there are other factors to remember. Consideration for location, price options (i.e. fixed pricing, forward pricing) or ledger style pricing mechanisms may also be a necessity, especially for new producers. The flexibility, comfort level and trust with the packer are all part of the puzzle that should help to provide the hogs and quality of pork necessary to ensure the longevity and sustainability for both the producer and packer in Ontario.