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External comparisons for financial decision making

Mark Greenwood
AgStar Financial Services

Benchmarking

- Everybody wants to compare
- Everybody wants to be told they're among the best
- Very hard to compare apples to apples
- Difficult to compare systems on costs
- Different sale weights
- Different packer arrangements
- Different geographic locations
- Varying year end periods
- Lets look at Net Income Margin – that is the most important item to benchmark

Net income margin

- Total Sales \$\$
- Less – Cost of Goods sold – all costs to produce pig to sale – does not include General-Admin. Expenses
- = Gross Profit – Less G&A = Income from Operations
- + Other Income – Hedge Gain or loss – Interest expense = Net Income Margin
- This is the most important number to address!
- Key factors that influence NIM
- Sale Price received
- Cost of Goods Sold
- Other factors

Sale price received

See Table 1.

2006 prices received

- 06 Avg: \$62.80
- Producer A: \$67.32
- Producer B: \$65.17
- Producer C: \$64.48

Table 1: 2006 price reporting info PM prices

	IA/MN	ECB	WCB
1st Qtr.	\$56.38	\$56.25	\$56.24
2nd Qtr.	\$65.48	\$64.44	\$65.23
3rd Qtr.	\$68.33	\$67.41	\$68.07
4th Qtr.	\$61.08	\$60.42	\$60.79
06 Avg.	\$62.80	\$62.12	\$62.57

- Producer D: \$60.47
- Difference between high –low \$6.85 cwt.
- Question: Which one do you think made the most money?
- Answer: It was not the one with the highest revenue!

Net income margin per head

- Average Net Income Margin/Hd in 2006 - \$16.72 per head
- Producer A: -(\$.14)
- Producer B: \$20.67
- Producer C: \$22.56
- Producer D: \$3.36
- Difference: \$22.70 per head!

Why such a variance?

- Production costs per cwt.
- - Variation of a low of \$38.62 to \$50.30 high - live costs or a difference of \$11.68 or \$31.54 per head on a 270# animal

Other large differences

- Weaned pig costs - \$28 - \$41
- Feed costs Wean – Market = \$.04/lb difference or \$10.40 per head

Other factors that affect margin and variances

- Yardage/Hd: \$17.50 - \$22.75
- Vet/Med: \$2.15 - \$6.35 Hd

- Interest: \$0 - \$2.85/ Hd
- Heavier sale weights above 270# seem to increase margin – function of throughput

Keys to profit margins

- Production
- Cost Control
- Maximizing revenue – optimum weights
- Maximizing Revenue - \$ sold/wt
- Luck – locking in feed/prices at the right time

2007 and beyond

- Higher costs means more variation
- A separation is occurring:
- Producer A margin was \$22.56 and producer D was (-\$.14) per head
- You cannot afford to fall behind
- Strong Margin companies will take over the low margin companies
- You will need to be better every day

