

# Contract hog network features incentive bonus

BY DICK ANGLESTEIN

LITITZ — David H. Wenger, of Lititz, has had a lot of experience with raising contract hogs.

He's been raising them under various contract arrangements ever since he came to the 80-acre farm located just west of the northern Lancaster County borough more than a quarter century ago.

But the present contract arrangement he recently entered with Delmarva Farms, Inc., of Baltimore, Md., has three specific features that he really likes.

First, all of the pigs he receives are supposed to be Number 1 feeders and he has the option to reject any he doesn't like.

Second, the feeders come directly from Delmarva facilities and their stress is limited to a few hours of truck travel as compared to a couple of days or more if they came through an auction.

And third is the financial arrangement which, in addition to a basic guaranteed amount per head, features a feed conversion efficiency bonus. This bonus can add significantly to the per head payment he receives when the finished hogs go to market.

"My previous contract included a flat amount per pig and then a percentage of profits, if there were profits," he explained.

"Now, the higher flat amount in the contract with Delmarva, plus the feed conversion bonus, is an improved arrangement.

"If I do a good job in raising the pigs, it's to their benefit and mine, too."

Under the contract, the incentive bonus can add up to \$2.00 per head, depending on the final feed con-

version rate that's achieved with a batch of pigs.

The basic guarantee payment per head is paid at a 4.0 feed conversion rate — four pounds of feed for every pound of gain.

Then, for every tenth-of-a-pound improvement in the feed conversion rate below the 4.0 level, there's added a 20-cent per head bonus.

Thus, up to a \$2.00 per head bonus can be earned if a feed conversion rate of 3.0 or better is achieved.

Wenger is waiting to see how the bonus works out on his first batch of pigs he's raised for Delmarva. Approximately half of the 845 pigs in the initial batch have been moved out and the others will go within the next couple of weeks. He just began the arrangement with the Baltimore firm on Feb. 1.

"I like the direct shipment of the feeder pigs from them, too," Wenger said.

"They seemed to gain so much better and were not stressed as much as other pigs I've raised.

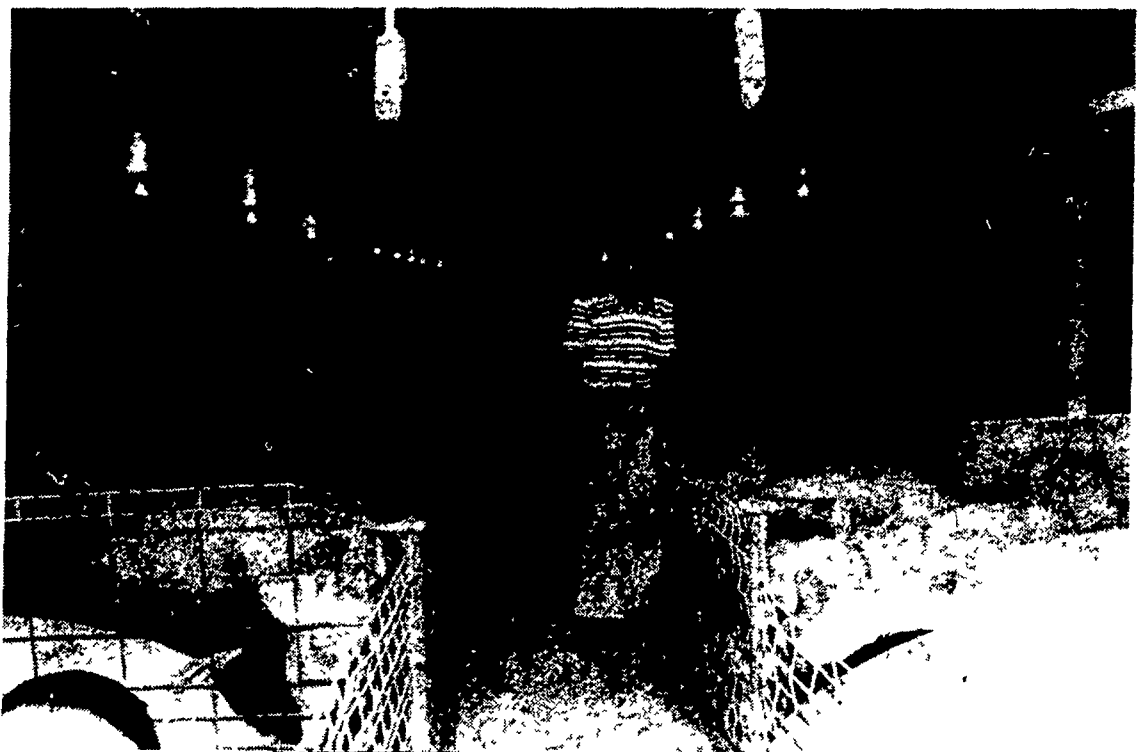
"I didn't see them go backwards at first; they just took right off."

The feeders spend only about 5 to 8 hours on a truck as compared to a couple of days of stress when they move through regular auction channels.

The Delmarva Farms, Inc. network includes some 18 farms — three facilities that are owned by the corporation and 15 owner-operator farms on which the pigs are finished under contract.

Ten of the contract farms, such as that of Wenger, are located in the York, Lancaster and Berks counties area.

"We really like to work with the



Jay Wenger, 14, son of Mr. and Mrs. David which are finished on contract for Delmarva H. Wenger, Lititz, helps in caring for hogs, Farms, Inc., of Baltimore.

farmers in this area because of the good facilities they have and the excellent way they take care of the stock," explained Bruce Lantz, general operations manager for Delmarva.

In Wenger's initial batch of 845 pigs, he experienced a mortality of just eight. He attributes the low rate to the reduced stress and his right to reject any pigs that he wishes.

Wenger receives his feed from Master Mix facilities at Camp Hill. Delmarva has purchased a feed

mill in Maryland, which will supply operators in that state and Delaware.

The three facilities owned by Delmarva include a farrow to finish operation and two finishing operations. The corporation has been in operation for about the past year and started with a 1500-sow operation at Dorchester, Md.

The Delmarva network now includes some 3500 sows overall and markets 45,000 to 50,000 hogs a year. The firm also has its own breeding stock, including a 150-sow

purbred Yorkshire herd.

Owners are Gerald Klein, of Baltimore, and Robert Gibbs, of Red Hook, N.J. Advisor is Dr. Raymond T. Murphy, West Minister, Md.

In addition to the contract hog operation, Wenger also feeds some 200 head of steers. Due to the sizable hog manure and the limited acres, he double crops, such as barley followed by silage corn.

Tobacco and alfalfa as cash crops also fit into the cropping schedule.

# Squeeze more pork per production dollar

WASHINGTON, D.C. — Despite concerns that productivity gains may be leveling off in much of the U.S. farm sector, hog producers might produce significantly more pork at essentially the same level of inputs — given the right economic incentives.

For instance, many could decrease feed use by as much as 20 percent by simply improving average feeding efficiency to levels already attained by the better producers, says Richard Crom, chief of the animal products brancy of USDA's Economic Research Service.

Pork productivity, in simple terms, is the amount of meat produced per unit of input.

Crom outlines several areas which offer hog growers and researchers the potential for significant productivity gains by improving application of existing technology and management

practices. While some areas still need research, many are now available to producers for adoption.

For the time being, most producers aren't interested in increasing productivity if it requires borrowing money at today's high interest rates and tight economic conditions. In March, farm prices were only about \$11 per hundredweight over cash costs — a small margin on which to cover labor, general farm overhead and other noncash expenses. Nevertheless, producers may be more interested than ever in ways to cut production costs through better management practices — so long as more cash outlays aren't required.

According to Crom, better feeding practices may be a prime area for productivity gains, without new investments in most cases.

The average feed conversion ratio — the amount of feed used to produce a pound of pork — is about 4.4 to 1. This means it takes 4.4 pounds of feed for each pound of pork produced.

However, better producers are achieving a 3.5 to 1 ratio. This is about a 20-percent gap which could be closed by most of today's producers, researchers note. How? By better genetics and cross breeding, improved disease control, and better protection from temperature extremes that cause weight loss.

Genetic research has already provided at least part of the answer to another productivity need: Scientists have developed hogs that can produce larger litters more frequently, with higher live birth rates. Although research is continuing, many producers haven't yet looked into the new strains already available.

Improved litter performance would allow hog farmers to maintain smaller breeding herds that would require less feed.

The number of pigs produced can also be increased by immediate rebreeding to produce more litters per sow per year. Many hog farmers wait longer than necessary.

Still another potential savings in breeding herd maintenance is for producers to send cull sows to market at lighter weights and not waste feed.

Genetic research might yield still other dividends by improving boar characteristics. Boars achieve slaughter weights at earlier ages than sows, thus offering a major advantage. However, sexually mature boars may have an undesirable taste.

Breeders can seek to develop a boar which achieves sexual maturity at a relatively late age, but which retains a fast growth rate.

A final area which Crom cites for improvement is to breed larger framed hogs for the heaviest possible slaughter weight and still achieve the U.S. No. 1 grade.

Heavier, larger hogs would increase the yield of lean cuts by a small amount, and would still attain premium prices, if the U.S. No. 1 grade could be maintained.

While most hog farmers can benefit from better breeding and management, some potential

efficiencies are open only to larger operators.

Large units — those farrowing about 2,500 to 5,000 or more hogs — have an economy of scale advantage of about \$7 per hundred-weight over small-scale producers. This doesn't include the cost advantage of large-volume inputs purchases.

Large operations are usually closed-confinement systems which require a huge initial investment but offer lower labor costs and longrun savings. Currently, such investments may need to be forestalled until interest rates drop.

However, such systems must continuously operate near capacity to spread the high overhead costs, such as debt servicing. Thus, large operators can't easily vary production according to market prices.

"As more large systems predominate," Crom says, "the change in structure may tend to even out the hog cycle."

Small producers can achieve some economies of scale by joining with other farmers in cooperative buying of inputs, and in cooperative sales with grading and sorting of hogs.

The bottom line, Crom notes, is that the pork industry has considerable capacity to turn out much more meat with little additional investment — if the price is right.

## More Efficient Hog Feeding Boosts Profits and Productivity

Feed Conversion Ratio	Total Feed Used to Produce 100 Lbs. Liveweight <sup>1</sup>	Total Feed Cost per 100 Lbs. Liveweight <sup>2</sup>
3.5-1 Very Efficient	350 Lbs 	\$21.26
4.4-1 Average	440 Lbs 	\$26.73
5.0-1 Less Efficient	500 Lbs 	\$30.38

<sup>1</sup>Based on farrow-to-finish operation  
<sup>2</sup>Based on February 1982 feed prices

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