

# Hog Contracting

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ground up, helping the producer to obtain financing and working with a building contractor on the facility's layout and specifications.

"It's very important that the unit's design be successful," stresses Hershey, adding that size is one important component. "You've got to be large enough to be here," he says. "The universities are telling us that you need 250 sows per unit for adequate cash flow."

Beyond the set-up phase, the company keeps its hand in all areas of the business, providing the breeding stock, feed and veterinary care, and monitoring the unit's activity on a weekly basis. At least once a month a serviceman visits the operation.

No matter that the producer knows little more about hogs than which end is which. In addition to all the technical support available, he also has the opportunity to attend swine farming school in DeKalb, Kansas. "Within a year we can make a hogman out of him," estimates Hershey.

Hershey takes issue with the statement that going on contract involves selling your soul to the company. "I view them as independents," he asserts. "They've got their own business and their own schedule to run."

The contractor points out that arrangements offered by companies such as his offer opportunities to young producers who would otherwise have little hope of breaking in. "The man who can build a \$300,000 unit today is truly fortunate."

Although most farmers think big

when they think contract, an operation's size isn't all-important at Elizabethtown's White Oak Mills, according to marketing director Mike Pflieger. "We try to provide everyone with the same service, whether they're big or small," says Pflieger, pointing out that a diversified farming operation may only be able to fit 25 to 50 sows into its schedule.

Pflieger stresses that there are no hard-and-fast rules in the contracting business. He cited one instance where the mill serves only a marketing function, moving producer-owned feeder pigs from a farrowing operation to a finisher, then moving the finished hogs to the packing house. Some young producers start out on contract, then buy the breeding stock when finances permit.

Pflieger emphasizes that his firm never tries to discourage independent ownership. "Our philosophy is whatever's best for the farmer is good for us," he says.

Like Pflieger, Pennfield's swine operations manager Mark Miller believes in contract flexibility. Even though Pennfield's contracts are written for five years, "Anyone on contract can go independent any time they choose to," says Miller.

But maintaining true independence will only become more difficult in the future, he says. One reason agribusiness will play an increasingly important role in pork production has to do with the public's mounting concern over environmental quality. "It's taking more capital to put together an operation that meets all the requirements for the

(Chesapeake) bay cleanup," says Miller.

Sharing the risk is also attractive to producers in areas where communicable diseases such as pseudorabies can financially cripple a farmer in one outbreak, says Dave Snyder of Keystone Mills, Ephrata. When depopulation is the only answer, sharing the expense can make it easier on both the farmer and the contractor, Snyder says.

Acutely aware of what disease can do to an operation, Keystone requires their contract growers to shower in and out of their buildings. All incoming animals must be isolated, and company trucks are cleaned and disinfected between deliveries of feeder pigs and finished hogs.

Like the other companies mentioned, Keystone believes there's still a place for the independent operator in the swine business. "We still promote the independent philosophy for those who want to do it," says Snyder.

Nonetheless, the lure of dependable markets and big business expertise in all areas of the swine industry is becoming increasingly attractive. "I don't think there's any question that this business is going the way that the chicken business has," says Penn State extension ag economist H. Louis Moore. He points out that in 1977 3.4 percent of the nation's hog producers had 500 sows or more on their farms, accounting for 35.3 percent of the swine inventory. By last year, 6.7 percent of the country's hog farms were controlling 55.5 percent of the inventory, and Moore says that it's safe to assume that the majority of



Brent Hershey (left), Hershey Ag Services, inspects a new arrival in Paul Felty's farrowing house. Contracting with Hershey Ag gave him the chance to break into the swine business, says Felty.

these big swine factories are vertically integrated. "If this trend continues, we might get to the point where 12 percent of the operations control 80 percent of the hogs in another decade," he says.

In southeastern Pennsylvania, where plenty of feed mills, large numbers of hogs and ready access to markets provide fertile ground for integration, between 50 and 80 percent of the hogs are on contract, estimates Penn State extension swine specialist Ken Kephart.

But does it pay a farmer to go on contract? "Right now circumstances make it tough to justify contracting," says Kephart, pointing out that a three-year finishing contract simply won't cash flow in today's market. Kephart estimates that costs to the producer, including his building, interest, labor and utilities, will

probably average \$18 to \$20 unless his facilities are paid for. Assuming that most feeding contracts are paying producers about \$7 to \$8 per head and splitting a \$15-per-head profit down the middle, the producer still comes up short of meeting his expenses.

"There are other ways to reduce risk," says Kephart. "Forward contracting is just as attractive as a feeding contract, and in today's market (\$55 hogs) it's much more attractive. Last year at this time the tide would have been reversed. In the long run a person is better off on his own."

Ephrata swine producer Allen Burkholder agrees. Burkholder, who maintains a 200-sow herd, says that, at present, farmers can buy their feed ingredients for about the same price as the feed

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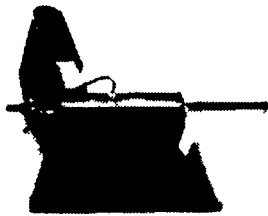
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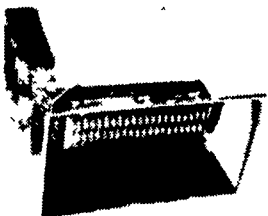
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