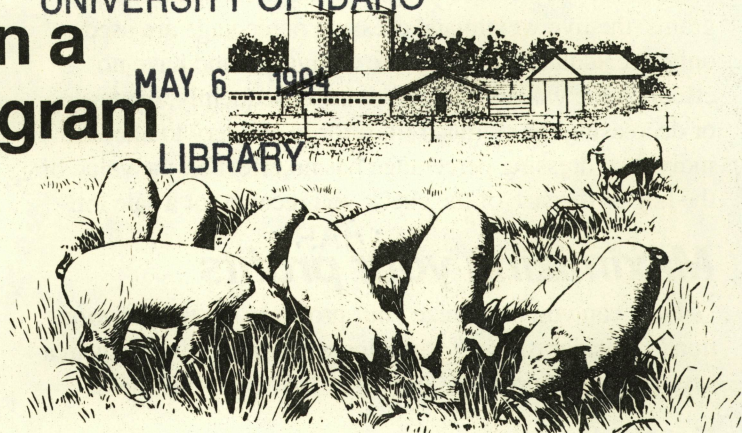


# Marketing Your Hogs in a Lean-Value-Based Program

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**M**any pork producers make the mistake of not taking the time to evaluate and thoroughly understand their marketing program and alternatives. Consequently, misunderstanding exists between producers and packers and both lose potential profits.

Many Idaho pork producers market hogs in value-based programs through Independent Meat Company in Twin Falls, Tri-Miller Meat Pack in Utah, or Hill Meat Company in Washington. Each of these plants uses a similar strategy when valuing the lean content of a pork carcass. In the following discussion, the Independent Meat Company (IMC) will be used to show how you can maximize your profits under a lean-value-based program.

## IMC's lean-value-based program

IMC uses a variation of the Lean Guide to Pork Value developed by the National Pork Producers Council. IMC's program establishes premiums and discounts for hogs differing in their lean contents. The program also identifies the ideal carcass weight for pigs marketed at IMC. Ideal market weights are based on the average quality of hogs IMC purchases and on local consumer preferences for IMC's retail cuts. Hogs are valued according to carcass weight and fat thickness, both of which are directly related to the lean content of the carcass.

The average hog marketed at IMC weighs 230 pounds, has a 168-pound carcass, and 1.1 inches of backfat. Carcass weights are recorded directly after slaughter, and backfat thickness is measured on the midline of the carcass at the last rib. Hot carcass weight and last-rib backfat thickness account for about 60 percent of the variation in lean carcass content. IMC does not include the skin in the fat thickness measurement.

How does this information translate into dollars received for an individual hog?

### Example 1

Suppose you delivered a 230-pound pig to IMC. It had a hot carcass weight of 168 pounds and 0.9 inch of fat at the last rib (pig A). Using IMC's lean guide, this hog would

receive a premium of 2 percent based on the hot carcass weight and the fat thickness. The value of this hog would then be:

$$\begin{aligned}\text{Value} &= \text{hot carcass weight} \times \text{premium (or discount)} \times \\ &\quad \text{base price for the lot} \\ &= 168 \text{ lb} \times 1.02 \times \$70.00 \text{ per cwt} \\ &= \$119.95\end{aligned}$$

$$\begin{aligned}\text{Live-value equivalent} &= \$119.95 \div 230 \text{ lb} \\ &= \$52.15 \text{ per cwt}\end{aligned}$$

The base carcass price for the lot is calculated by dividing the current live price by the standard industry dressing percentage (72 percent). Consequently, the base carcass price is simply the value of a standard carcass equated to the current live price. The base carcass price of \$70.00 per cwt in the preceding example corresponds to a current live price of \$50.40 per cwt ( $\$50.40 \div 0.72 = \$70.00$ ). The base price is established daily but is constant for every hog delivered by an individual producer on a given day. The live-value equivalent is simply the value of the carcass on a live-weight basis.

### Example 2

Suppose you delivered a 230-pound hog with a hot carcass weight of 168 pounds and 1.3 inches of backfat (pig B). This hog would receive a discount of -2 percent. Consequently, this hog would be valued at:

$$\begin{aligned}\text{Value} &= 168 \text{ lb} \times 0.98 \times \$70.00 \text{ per cwt} \\ &= \$115.25\end{aligned}$$

$$\begin{aligned}\text{Live-value equivalent} &= \$115.25 \div 230 \text{ lb} \\ &= \$50.11 \text{ per cwt}\end{aligned}$$

The difference in the values of these pigs is the difference in the lean contents of their carcasses. Pig A produced a 168-pound carcass containing 85.25 pounds of lean (51 percent), while pig B produced a 168-pound carcass containing only 77.82 pounds of lean (46 percent).



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Note that in the IMC program, and in most similar programs, the live weight and dressing percentage are used only to calculate the live-value equivalent and have no effect on the value of the sale lot. Consequently, increasing or decreasing the stomach fill prior to delivery to alter the individual dressing percentage has no effect on the value of the hog or the size of the check you receive for a sale lot.

## Maximizing your profits

How can you maximize your profits using this information? Consider two key variables when marketing hogs in a system like the one IMC uses. The first is fat thickness.

### Fat thickness

The leaner the hog, the more valuable it is to the packer. At IMC, every tenth of an inch of backfat over 0.7 inch costs you a minimum of \$1.10 per head in a \$51.00 live-hog market and \$1.40 per head in a \$60.00 live-hog market. For 100 sows, that difference translates into a minimum loss in annual revenue of \$1,500.00 to \$2,000.00 for each tenth of an inch backfat over 0.7 inch (1,350 hogs at \$50.00 to 60.00 per cwt). A reduction in average backfat from 1.2 inches to 0.8 inch would increase annual marketing profits alone by \$6,000.00 to \$8,000.00. These profits are *in addition to* the profits generated by producing and marketing leaner, more efficient hogs.

### Carcass weight

The second key variable is carcass weight. At IMC a 10-pound change in live weight (7- to 8-pound change in carcass weight) often results in a 1 or 2 percent premium or discount. For example, a 161-pound carcass (220-pound live weight) with 0.9 inch of backfat has a 1 percent lower premium than a 168-pound carcass (230-pound live weight) with 0.9 inch of backfat. This difference results in a \$1.18 increase in profit per hog sold at 230 pounds in a \$50.00 live-hog market and a \$1.45 increase in profit per hog sold at 230 pounds in a \$60.00 live-hog market.

The higher profit is *in addition to* the value of a 7-pound increase in carcass weight and is because a 168-pound carcass is worth 1 percent more per pound than a 161-pound carcass. For 100 sows, marketing at 168 pounds rather than 161 pounds (or any 1 percent increase in premium) translates into an increase in annual profit of about \$1,500.00 to \$2,000.00 (1,350 hogs at \$50.00 to \$60.00 per cwt).

Unfortunately, producers face a major problem in determining what the carcass weights for a group of hogs will

be. You can address this problem by monitoring the dressing percentages of your hogs. Over a period of time, you will be able to accurately estimate the dressing percentage of hogs that differ in weight, gut fill, phenotype, genetic makeup, and management routine.

Remember that dressing percentage is influenced by two primary factors: stomach fill and fat thickness. Hogs with an empty gut will dress higher than hogs full of feed, and dressing percentage tends to increase as fat thickness increases. For example, a 230-pound hog carrying 10 pounds of gut fill and with a carcass weight of 168 pounds has a dressing percentage of 73 percent ( $168 \text{ lb} \div 230 \text{ lb} = 0.73$ ). The same hog with no gut fill would have a live weight of 220 pounds, a carcass weight of 168 pounds, and a dressing percentage of 76 percent ( $168 \text{ lb} \div 220 \text{ lb} = 0.76$ ).

## To increase your profits...

- ✓ Thoroughly understand the lean value program where you market your hogs. If you sell hogs at a plant using a version of the Lean Guide to Pork Value, get a copy of it from the packer and determine the carcass weight and backfat thickness at which you can most profitably market your hogs. Get to know your packer and don't be afraid to ask questions.
- ✓ Lean hogs, marketed at the proper weight, are the key to your profitability. Keep in mind that fat hogs are usually more profitable when marketed at lighter weights at which they are leaner and more efficient.
- ✓ If your hogs are too fat, evaluate your breeding program. Strive to consistently produce heavy muscled, lean hogs that are genetically and phenotypically uniform. Develop a formal breeding program and stick with it.
- ✓ If you have questions about your breeding program or marketing practices, please contact the University of Idaho Extension swine specialist or the Extension agricultural agent in your county.

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