

Swine Finishing Barn Cost-Return Budget

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Production Practices

The practice of dividing traditional farrow-to-finish hog production into three distinct phases has become a common practice in the swine industry. The age separation practice, known as segregated early weaning (SEW), produces healthier, more efficient pigs and helps to maximize the genetic potential of today's breeding stock. The ability to take advantage of this technology may help Kansas hog producers remain competitive in the industry.

The most popular modern production system is a three site all-in, all-out system consisting of a breeding-gestation-farrowing site, a nursery site, and a grower-finishing site. This budget is designed to serve as an economic guide to the grower-finishing phase of the production process.

Production Level

Costs per unit and net returns in livestock production are highly dependent on production levels. The following estimated budget includes three different production levels. Production levels vary for a number of reasons, such as livestock quality/genetics, weather, input levels, and management. Budgeting at multiple production levels can help producers examine the financial risk of a livestock enterprise that is directly related to production risk.

Production levels for finishing operations are assumed to vary due to differences in the feed efficiency of the pigs in the finishing barn. Varying this production factor, which has a major impact on the profitability of the finishing site, allows an analysis of alternative projected economic results.

Capital Investment

The capital invested in finishing facilities varies greatly, and is dependent upon the size and type of facilities constructed. Capturing the full benefits of the SEW concept, even in the finishing phase, is dependent upon high quality facilities that require large capital investments. The investment shown in Table 1 was used for the cost return projections. Producers should use their own figures and recalculate the fixed cost before construction.

A finishing building with liquid manure handling facilities and a totally-slatted floor is estimated to cost \$140 per pig (8 sq. ft. per pig), with the equipment inside the building costing an additional \$25 per pig. Office facilities, site preparation, and miscellaneous items are also included in the capital requirements. The capital requirements are assumed to be the same for all production levels, so fixed costs per pig are the same for all production levels.

Feed Costs

Feed costs were calculated using grain sorghum - soybean meal based diets. The *Kansas Swine Nutrition Guide* served as the basis for calculating feed requirements for each efficiency level. Feed costs account for a large component of the total costs per pig sold, and vary considerably across efficiency levels.

The breakeven price needed to cover all costs (Line 20) is sensitive to changes in feed prices and to the purchase price of the feeder pig. Also, for a given expected breakeven selling price, the maximum amount a producer can pay for the feeder pig (Line 17) is sensitive to feed prices. The amounts that breakeven selling or purchase prices need to be adjusted as feed prices and other factors change are revealed in Table 2.

Table 1. New Facility Investment—1,200 Pigs

Building Type	Investment		Capacity	Total Investment
	Per Space	Per Square Foot		
Finishing Bldg.	\$140 / Pig	\$17.50 / Sq. Ft.	1,200 Pigs	\$168,000
Equip.	25 / Pig			30,000
Other (Office, Site, etc.)				15,000
			TOTAL	\$213,000

Information Included in Finishing Budget:

	Productivity level		
	3.30	3.10	2.90
Feed efficiency (feed/gain, lbs.)	3.30	3.10	2.90
Average daily gain	1.64	1.64	1.64

Pounds fed per pig

1. **Grain:** sorghum
@ \$3.90 per hundredweight 542.6 509.7 476.8
2. **Protein:** soybean
meal @ \$178 per ton 116.0 109.0 101.9
3. **Base mix:** vitamins,
minerals @ \$353 per ton 17.8 16.7 15.6
4. **Pig starter:** @ \$509 per ton 0.0 0.0 0.0
5. **Feed processing:** total tons of feed fed times \$12.00/ton.
6. **Labor:** Based on 1/5-time employee at \$34,000/year (salary + benefits) divided by pigs sold/year.
7. **Veterinary, drugs, and supplies:** costs for prevention and control of disease.
8. **Utilities, fuel, and oil:** telephone, utilities, fuel and oil allocated to swine enterprise.
9. **Transportation and marketing costs:** trucking, commissions, etc.
10. **Buildings and equipment repairs:** annual building and equipment repairs allocated to swine enterprise calculated as 2 percent of the total investment.
11. **Professional fees (legal accounting, etc.):** business/miscellaneous costs allocated to swine enterprise.
12. **Interest on variable costs:** calculated on cost of feeder pig and one-half of variable costs at a rate of 8 percent for 130 days.
13. **Depreciation on buildings and equipment:** based on the total original cost less salvage value of buildings and equipment on a per pig basis divided by the estimated life. The budget value is based on a total investment for buildings of \$183,000 with a salvage value of 10 percent and an equipment investment of \$30,000 with a salvage value of 0 percent. A useful life of 15 years is used for buildings and 10 years for equipment.

14. **Interest on buildings and equipment:** interest is charged on one-half the average investment [(initial cost + salvage value) ÷ 2] for buildings and equipment at a rate of 8 percent divided by the number of finished pigs sold per year.
15. **Insurance and taxes on buildings and equipment:** based on 0.25 percent (insurance) and 1.5 percent (taxes, buildings only) times the original cost divided by the number of finished pigs sold per year.
16. **Finished pig sales:** based on 260 pound finished pig and a market price of \$39.87 per cwt.
17. **Less cost of feeder pig:** based on per head price of 55 pound feeder pig at \$47.68 per pig.
18. **Less death loss:** based on 4.0 percent of the value of finished pig.
19. **Average selling price of finished pig to cover variable costs:** calculated by adding cost of feeder pig (Line 17) to total variable costs (Line A). This value is adjusted by death loss and divided by weight of finished pig to obtain the average breakeven price per cwt.
20. **Average selling price of finished pig to cover total costs:** calculated the same as for variable costs except total costs (Line C) are used.
21. **Cwt. of pork produced:** weight of finished pig sold adjusted for death loss minus weight of feeder pig purchased divided by 100.
- I. **ASSET TURNOVER:** (gross returns per pig divided by investment) Asset turnover is the percentage of investment recovered by total returns. Inverting this measure allows different enterprises to be compared on the basis of capital required to generate a dollar of gross income.
- J. **NET RETURN ON INVESTMENT:** [(returns over total costs + interest on variable costs + interest on fixed costs) ÷ investment] Net return on investment is the percentage return on investment capital (both borrowed and equity). This measure enables comparisons to be made between enterprises as well as other investment alternatives.

COST-RETURN PROJECTION — FINISHING BARN

	Feed efficiency (feed/gain, lbs)			Your Farm
	3.30	3.10	2.90	
VARIABLE COSTS PER PIG SOLD:				
1. Grain	\$ 21.16	\$ 19.88	\$ 18.60	
2. Protein	10.35	9.72	9.10	
3. Base mix: vitamins, minerals, antibiotics, etc.	3.78	3.55	3.32	
4. Pig starter				
5. Feed processing	4.06	3.81	3.57	
6. Labor	2.10	2.10	2.10	
7. Veterinary, drugs, and supplies	0.80	0.80	0.80	
8. Utilities, fuel, and oil	0.46	0.46	0.46	
9. Transportation and marketing costs	3.00	3.00	3.00	
10. Building and equipment repairs	1.32	1.32	1.32	
11. Professional fees (legal, accounting, etc.)	0.74	0.74	0.74	
12. Interest on feeder pig and 1/2 variable costs	2.00	1.96	1.93	
A. TOTAL VARIABLE COSTS	\$ 49.77	\$ 47.35	\$ 44.93	
FIXED COSTS PER PIG SOLD:				
13. Depreciation on buildings and equipment	4.32	4.32	4.32	
14. Interest on buildings and equipment	2.86	2.86	2.86	
15. Insurance and taxes on buildings and equipment	1.01	1.01	1.01	
B. TOTAL FIXED COSTS	\$ 8.20	\$ 8.20	\$ 8.20	
C. TOTAL COSTS PER PIG SOLD (A+B)	\$ 57.97	\$ 55.55	\$ 53.13	
RETURNS PER PIG SOLD				
16. Finished pig	\$103.66	\$103.66	\$103.66	
17. Less cost of feeder pig	47.68	47.68	47.68	
18. Less death loss (2% of line 16)	4.15	4.15	4.15	
D. GROSS RETURNS PER PIG SOLD	\$ 51.84	\$ 51.84	\$ 51.84	
E. RETURNS OVER VARIABLE COSTS (D – A)	\$ 2.07	\$ 4.49	\$ 6.91	
F. RETURNS OVER TOTAL COSTS (D – C)	\$ -6.13	\$ -3.71	\$ -1.29	
G. FINISHED PIG SELLING PRICE NEEDED, \$/cwt:				
19. To cover variable costs	\$ 39.07	\$ 38.14	\$ 37.21	
20. To cover total costs	\$ 42.23	\$ 41.30	\$ 40.37	
H. TOTAL FEED COSTS (lines 1 – 5)	\$ 39.35	\$ 36.96	\$ 34.58	
21. Hundredweight pork produced	1.95	1.95	1.95	
22. Feed cost per hundredweight pork (H ÷ line 21)	\$ 20.22	\$ 18.99	\$ 17.77	
I. ASSET TURNOVER (D ÷ INVESTMENT) ¹	87.66%	87.66%	87.66%	
J. NET RETURN ON INVESTMENT				
((F + 12 + 14) ÷ INVESTMENT) ¹	-1.12%	0.98%	3.08%	

¹ Investment equals total cost of feeder pig, buildings, and equipment.

Table 2. *Sensitivity of selling price needed to cover total costs (Line 20)*

	Feed efficiency (feed/gain, lbs)		
	3.30	3.10	2.90
Finished pig breakeven selling price in budget	\$42.23	\$41.30	\$40.37
Maximum purchase price for weaned pig in budget	\$41.72	\$44.07	\$46.42
Factor	Change in break-even selling price of finished pig		
\$0.50/cwt. change in grain price	\$1.06	\$0.99	\$0.93
\$10/ton change in soybean meal price	\$0.23	\$0.21	\$0.20
\$20/ton change in base mix	\$0.00	\$0.00	\$0.00
5.0% change in feed efficiency	\$0.77	\$0.72	\$0.67
1.0% change in death loss	\$0.43	\$0.43	\$0.43
\$2.50/head change in feeder pig price	\$0.99	\$0.99	\$0.99
Factor	Change in break-even purchase price of feeder pig		
\$0.50/cwt. change in grain price	\$2.68	\$2.51	\$2.35
\$10/ton change in soybean meal price	\$0.57	\$0.54	\$0.50
\$20/ton change in base mix	\$0.00	\$0.00	\$0.00
5.0% change in feed efficiency	\$1.94	\$1.82	\$1.70
1.0% change in death loss	\$1.09	\$1.09	\$1.09
\$2.50/cwt. change in finished pig price	\$6.07	\$6.07	\$6.07

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