

PIPESTONE

System



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PREPARE TO GO THE WHOLE DISTANCE

BY MARK GREENWOOD

Editor's note: Mark Greenwood is Vice President of Agri-Business Capital at AgStar. He's in demand as a speaker on swine industry economic issues and is busy sharing his knowledge and experience at industry conferences throughout the United States, Europe, South America, and Canada. Mark grew up on a southern Minnesota hog farm and has worked in the swine industry his entire business career. He holds a bachelor's degree from the University of Minnesota at Mankato in business administration and economics.

Everybody needs a way to relieve stress, especially pork producers. Especially now. My running shoes are my ticket to calm. So maybe it shouldn't surprise you that when asked to list some positive things Pipestone System pork producers can do to survive their current economic woes I immediately thought of a foot race.

In the interest of honesty, I must admit the race I'm picturing is a long one...very long. I'd compare the pork producers' road ahead to running a half-marathon in 85-degree heat. In difficult conditions, a runner stops considering how to achieve a better finish time and simply concentrates on finishing. Crossing the finish line still on your feet becomes a very worthwhile goal.

ARE YOU RUNNING THIS RACE ON YOUR OWN TERMS?

Are you doing everything you can to get the most value from your feeding program? Are you constantly challenging your current feed supplier to help you achieve efficiencies, cost savings, and pig performance?

Maybe you should be asking about synthetic amino acids in your diets. Some producers I work with are finding these components to be much less costly. In all, just make sure you've done your best to access all the tools that will lead to maximum feed efficiency.

Are you overfeeding? A few extra days of the wrong ration for a particular growth stage means dollars wasted—and those dollars add up. Be especially watchful right now to make sure you aren't feeding a diet meant for 20-to-40-lb. pigs to 50-lb. pigs.

Are you optimizing sale weights? Selling in the low range of the packer-preferred weights every time will maximize your return on expenditures. That will also reduce the amount of pork on the market—by increments—which will eventually bring back more profit.

Are you paying attention to all the little things that nibble away profits? Possibly you can recall a time when you said, "What are a few dollars more or less?" Today you should be putting a value on the cost of running heaters when the pigs are big enough to warm the building

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SWINE LINE

PLANNED HERD DOWNSIZING BEGINS

Pipestone System is voluntarily selling off a portion of its sow inventory. We are reducing our sow herd by 3% because it is the right business decision for our shareholders and for our industry.

Downsizing the sow herd industry-wide will counteract swine oversupply at a time when some foreign buyers have abandoned U.S. pork exports. We realize you're being pressured by an unfortunate misunderstanding that linked the flu outbreaks with pork consumption.

In a normal year, without unrealistic fears, June typically lifts pork sales as consumers rediscover their barbeque grills. Reduced pork purchases recently have become another in a series of crushing events: a year's worth of higher-priced feedstuffs and record-breaking crop-production costs.

By shrinking our sow herd, Pipestone System hopes to help an entire industry apply the brakes until pork consumption speeds up. ■



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themselves and turning off all unnecessary lights. Most producers spend too much on heat and utilities at the end of the day.

Are you managing risk? Whenever, wherever you can, minimize losses using the futures market. Give yourself a floor to stand on so your operation can survive. I know which producers have really separated themselves from the herd in this crisis: they're the ones who've managed risk better.

Are you studying your own industry? Now is the time to prove you have a

passion for this business. Dig into all the information that can impact your market. Learn more about export demand, sow slaughter data, and cut-out values. Be alert to worldwide events capable of affecting your local operation.

Honestly, I review five times more data than I once did. There's no use ignoring it: your market truly has become global. Every week I review numbers coming out of China while talking to Minnesota pork producers. That data provides immense value.

Are you taking a clear-eyed look at

your financial status? Accurate financial records have never been more valuable. What you uncover in your calculations may not make you happy but at least you'll have the right numbers to help you make better decisions.

Are you maintaining a good relationship with your lender? Right now it's really important to keep talking. If I were your lender, even if you're delivering bad news I'd rather know as soon as possible. We're running this race together you know. ■

HOW ARE YOU MANAGING YOUR RISK?



*Dr. Luke
Minion, CEO*

While Pipestone System will continue seeking ways to help its farmer shareholders succeed, we know there is one important thing we can't exactly do for you. I'm referring to marketing, of course.

Marketing has become your most challenging, uncomfortable job and using marketing tools to ensure cash flow can be unnerving. But marketing experts tell me the person who did absolutely nothing to manage risk is the one getting hurt the most right now.

Throughout your years as a pork producer, you've made other operational and business-model changes that had to be unnerving. Still, locking in a hog-futures price seems to be the one adjustment you'd prefer never to make. Why is that?

Producers tell me they fear missing the top side of the market and the dreaded margin calls or they hold a long-term memory of that one bad trade. Add to that the complexity of marketing and many producers simply do not spend enough time in that area. It is very challenging to get it "right"—and it is very time consuming, as well.

Even though you've heard this a billion times I have to say it again: as a business person you need to know your own breakeven points. And you need to guard those levels—by using risk management tools—as if your livelihood depends on it. We'll continue working to help provide you with tools and assistance in the near future in these areas.

With the volatility we face in today's markets, I certainly do not claim that managing risk is a "silver bullet" for your business, but I do think it will differentiate the producers of the future from those of the past. ■



HERE'S HOW A RISK-LIMITING STRATEGY COULD WORK

One marketing expert created this hypothetical situation for us:

If July 2010 corn is \$4.54 on the Chicago Board of Trade and corn basis is 35¢ under the futures, then you would have \$4.19 cash corn. If July 2010 hog futures are \$75.80/cwt, that would give you approximately \$150 revenue per pig.

Let's say the corn to finish that pig would cost \$37 and meal would add another \$15 per head. Assuming \$90 per head for other production costs, you would end up around \$142 total cost per head.

By locking in July 2010 hog futures and also locking in cash corn and meal prices, you could be ensured an \$8 profit next July. Yes, futures

might go up before July 2010, and, yes, you might have to pay margin call on the difference. This is not necessarily a bad thing. As futures move higher cash hog sales would be that much higher, too. You would still reap a value close to where those futures were sold, plus or minus local packer basis. But in the end your pigs would still be worth more than they are at current cash prices.

When and how you market is always your decision, of course. If you're planning to investigate hog futures it helps to find an adviser knowledgeable in the uses of these marketing instruments. In order to add hog futures to your tool belt you'll need a hedging account and someone who can help you take the first step toward using it. ■





SOME GOOD NEWS



*Dr. Gordon
Sprank, DVM*

It hardly seems possible, but we've been dealing with PRRS for nearly 30 years. Across nearly my entire professional career—no matter how the markets performed—PRRS remained our #1 disease concern.

As an industry, we've tried all sorts of interventions to stop it but still we haven't successfully controlled PRRS movement between sow farms and grower-finisher sites. But now there may be hope.

Dr. Scott Dee and the Swine Disease Eradication Center at the University of Minnesota give us reason to be optimistic about controlling PRRS through air-filtration. For three years we've been successfully protecting our PAB boar studs with air filters, and we're impressed with the results.

Filter performance at the studs led us to a pilot project working with Scott Dee to purify air coming into two of our Pipestone System sow farms. After nearly a year, the results of Dr. Dee's research tell us the filters are keeping PRRS away from our sows.

Of course it's a day-to-day thing. We're cautiously encouraged—but as I said, in our battle with PRRS we've all been

knocked down a time or two.

If filtration continues to prove effective, we'll consider cost factors next. Filtering one of our sow barns will run about \$200 per sow space. The initial installation investment is high—so is the price tag for man hours to monitor and maintain the filtration system.

Accepting those costs could have real value. Assuming we can keep the weaned pigs PRRS-negative there's a greater chance individual shareholders will see better pig health in their own buildings. Herd health always makes a sound foundation when you're seeking to build profitability.

After fighting PRRS since the late 1980s this is the most encouraged I've ever been in regards to controlling this disease. ■

