

Lynn Marchand
and Ken McEwan

A TOOL TO HELP YOU MANAGE DEBT

one line at a time

Ridgetown's Ontario Data Analysis Project provides a strong benchmark for producers to measure, learn about and improve their farming operations

Managing debt through periods of low prices is challenging for all pork producers. But there are tools that can help producers take control of their debt and better manage their bottom line.

The Ontario Data Analysis Project (ODAP) for swine is prepared annually by Lynn Marchand, research associate, and Ken McEwan, production economics and agribusiness researcher with the University of Guelph, Ridgetown Campus.

Based on extensive financial information from 13 Ontario hog farms, the ODAP report provides considerable insight into the financial workings of a typical farrow-to-finish farm in Ontario, including assets, expenses, debt and profitability.

McEwan says the ODAP report, used in combination with Statistics Canada's annual Farm Financial Survey, provides a strong benchmark for producers to measure, learn about and improve their farming operations.

"It's important to realize that there is a lot of variability in running a hog farm. What you want to do is reduce that variability and try and zero in on the things you can control," says McEwan. He suggests focusing on the top four or five major cost line items that make up 80 to 90 per cent of the cost of production. "That's where you can make the biggest impact."

McEwan suggests that "you need to drill down line by line, especially with things like feed, which is normally 50 to 60 per cent of costs and see where you can do better. You have to either lower your cost structure or enhance productivity."

Using the ODAP data -- available at: www.ridgetownc.uoguelph.ca/research/research_reports_topic.cfm?ref=DATA_ANALYSIS -- producers can see exactly where they stand on a per-pig basis compared to other pork-producing families.

The ODAP report also provides producers with key financial ratios that can be used to benchmark

their operation. "You don't want to have your debt-to-equity ratio too far out of line with what you see in the report," says McEwan, noting that the average debt-to-equity ratio for ODAP farms is 0.53.

"It's important that your ratio remain consistent because pork production is a biological process -- there's tremendous variability and some things like disease are out of your control. So it's a good idea to have a reasonable amount of equity in the business."

Other key benchmarks that can be gleaned from the ODAP report include pigs per sow per year and days to market. The report can also play an important role in establishing cost control measures.

"For every dollar that comes in, you want to keep 12 or 15 per cent of it," explains McEwan. "A lot of these operations are \$500,000 to \$750,000 in gross sales. With cost controls, producers could have a sufficient family living, pay debt servicing and begin to think about repairs and replacement, and those types of capital items." □