

IMPLEMENTATION OF PORK VALUE PROGRAM

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The assignment given to me for this conference is to discuss with you how Hormel will implement the Pork Value Task Force recommendations into their buying and carcass evaluation programs. Presently, I will not be able to exactly do that, because major decisions as to what will emerge from this have not yet been made. But I can assure you that it has been discussed, generally in concert with rather regular discussions which take place relative to improving buying techniques. Further, any consideration will be in harmony with the determined needs of producers who sell to us and consumers who buy from us.

Paying premiums and discounts for hogs is great in theory and commands a lot of backing from people who have the premium hogs or from seed stock producers who sell the type of breeding stock which will produce premium hogs. But as we get down to the real facts, it is easy to pay the premiums, the discounts are harder to get, and some people who talk of producing hogs which demand a premium may in fact not be producing that kind at all.

Our organization has experienced a buying program which actually sorted out fat hogs at a modest discount. At the same time the meat type hogs were sorted out for a premium payment. The end result was that the hogs to be discounted went to other buyers carrying along other butchers and packing sows. Perhaps the industry is better geared for this type of program today, or perhaps the Pork Value Task Force can convince farmers to sell certain hogs at a discount. In any event according to today's proposals, at one point in history, we were 25 years ahead of the times. A sad footnote is that our customers didn't know that and really didn't care.

In the meantime, I think it would be advantageous for us to understand the grade and yield system Hormel is presently using and to learn some of the history of their buying leading up to present day practices.

Hormel first started buying hogs on a grade and yield basis in 1932 and continued to do so in a limited way until World War II. During the period of the Office of Price Administration, limits above the ceiling were not allowed. Therefore, it was necessary to discontinue grade and yield buying. The program was actively reinstated in 1948, and increasing numbers of hogs have been purchased using the grade and yield method since that time.

The buying of hogs on a carcass grade and yield basis does two things: 1) It makes it possible to more accurately pay premiums for hogs of higher yields and better grades than are generally received. 2) It inflicts penalties on hogs of lower yields and poorer grades.

Grade and yield buying recognizes that a real difference does exist in the actual value of hogs or lots of hogs at the same weight

and class. We feel as if the carcass grade and yield technique is a more accurate method of translating these value differences into dollars and cents.

Since 1932 Hormel has made several changes in the program and feels as if grade and yield merit buying techniques have influenced the type of hog which is being raised within their buying areas. Presently we are buying 50% of our hogs grade and yield. Of this 50% purchased grade and yield, 75% grade #1 and #2. The remaining 50% which are bought merit, grade 70% #1's and #2's.

One point recorded as a fault of present grade and yields programs is the yield factor. Yield cannot be removed from a system which weighs hogs alive and then weighs the carcasses. Perhaps a part of the yield criticism comes from those who correlate fat hogs with higher yields. Too much credit is given to fat as a yield increasing factor. Increasing the backfat does increase the yield of hogs, but not much. Adding .1" of backfat to a hog without increasing his weight will increase his yield by .07%. Therefore, 1" of backfat will cause a hog's yield to increase only .7 of a percent. Adding 1" of backfat to today's hogs will cause most to grade #4's which would, in the buying systems that I understand, cause them to get a grade discount greater than the yield premium.

We have tried some of the new hog grading machines, one of which is presently on-line in the Austin Plant, and can get excited thinking about a machine which can accurately grade and calculate the percent lean of hog carcasses as they go by at chain speed. In addition to correct hog grading, hog shows could conceivably be calculated on-line. The accuracy has been proven, the durability at high speeds is being tested.

One question which will arise with a system change, particularly in the area of paying on something other than grade is "how will a producer use the information in his selection program?" He is presently able to relate grade to backfat and select accordingly, but how will he relate percent lean or percent lean cuts to his selection program? Will it continue to cause the production of hogs which best suits our market as we know the present system does?

Our faith in this matter will rest in the National Swine Improvement Federation. As changes occur it will be up to this group to devise the testing station procedures, carcass evaluation techniques, and visual appraisal criteria which will guide the hog producer in his selection techniques.

We have not seen the Task Force carcass evaluation recommendations in their final draft. A part of the original proposal was not exactly as we would have written it. Particular reference is made to the elimination of a maximum backfat disqualification figure and the minimum 4 square inch loin eye requirement. Realizing, of course, that entries with excess backfat and/or small loin eyes will naturally range toward the bottom of the evaluation sheet. We find it difficult to accept a proposal which does not disqualify hogs specifically pointing out areas of disqualification.

In conclusion, you should understand that Hormel will continue to be progressive in all areas of procurement, carcass evaluation, hog shows, and industry promotion. Be assured that, having already tested and researched model buying programs similar to those suggested by the Task Force and after a careful study of the carcass evaluation proposals, we will be ready to respond to their recommendations making changes which are also in response to the needs of our plants and the concerns of producer customers.

IMPLICATIONS TO PUREBRED AND COMMERCIAL SWINE BREEDING PROGRAMS

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Progress made by the swine industry in improving the lean content of pork has been remarkable. Lard yield per hog has been reduced from 32 lbs. in 1960 to approximately 12 lbs. in 1980. Only 50% of our market hogs produced U.S. No. 1 and 2 carcasses in 1969. In 1980, the USDA random sample study of over 25,000 hogs revealed that over 96% of all barrows and gilts carcasses fell into these two grades. This change represents a reduction in backfat of approximately 0.3 inch in 11 years — nearly .03 inch reduction per year. This estimate of change is beyond our expectations based on genetic theory particularly since improved composition has not been considered the trait of primary interest in the minds of the commercial pork producer.

Further reductions in backfat thickness and lean composition, however, over the past 3-5 years are not in evidence. Average backfat probe data from central testing stations has been rather static for the past several years. Summaries of carcass shows reveal little if any change in composition in this time frame. Although part of this lack of change may be due to procedures that prevent old, slow-growing hogs from entering the competition, some is no doubt due to reduced emphasis on reducing fat thickness.

This result is not unexpected. The economic pressures facing the pork industry have required producers to become more cost conscious and to emphasize those traits contributing directly to reduced production costs. Price differentials offered by the packing industry have been only a fraction of the value differences that exist and have provided little incentive for placing extreme pressure on carcass traits. Commercial and seedstock producers have begun to place major emphasis on sow productivity, rapidity of growth, structural soundness and mating behavior. This has been further stimulated by previous experience that has suggested that animals extreme in muscle content are often reproductively inferior, slower in rate of growth, more subject to leg unsoundness and frequently subject to stress death and/or the production of pale, soft and exudative carcasses.