



Raising Cows, Raising Profits - 2005 “Understand Your Options” Seminar Review

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Economics & Competitiveness

AgriProfit\$
Information Bulletin

During the last week of January, the “Raising Cows, Raising Profits” team hit the road to speak with Alberta beef producers about:

- how the industry is evolving,
- beef market opportunities and developments and
- what primary beef producers can do, in managing their own business, to chart a course to a profitable future.

The topics covered by the speakers ranged from business analysis and planning to trade, and from cow/calf production to packing and processing.

What Was Presented?

The topics and speaker roster for each day were:

- Positioning Your Business – Darryl Hutchings
- Who’s the Off-Shore Customer? – Ben Thorlakson / Canadian Beef Export Federation
- Commercial Beef Utilization Strategy – Michael Young & Candice Stanoyev / Beef Information Center
- What’s the Product? / The Beef Processing Industry – Darryl Hutchings

Presentations were also given on:

- Tools for the Beef Industry
- Renewal – Canadian Farm Business Advisory Services
- *AgriProfit\$* Business Analysis & Research Program

These topics addressed key issues and questions on the minds of Alberta producers today ... the challenge was to put these diverse messages into the context of what they mean to individual producers, regarding:

- what will the industry look like in the future, and
- how it relates to the business analysis and decisions for their farms and ranches.

At the end of each day, the presentations were reviewed and linked to how they translate to primary producers’ business opportunities and directions for their businesses. This review is fleshed out in the following discussions.

It’s Your Business ...

Participants were challenged with a number of questions. “What drives your decisions?” Then, “Looking at the issues of productivity, unit costs,

prices, market access, etc., how much control, or influence do you have over each?

Furthermore, “If you have more control over production, crop mix/choice, input use & costs, asset use, credit use, withdrawals ... *defining what & how you produce*, then, isn’t the investment in management time on these areas at least equally as important as price & access issues?” The point was made that, as you ponder the future of your business:

- separate those things you can control or influence from those you cannot, and
- learn from the things beyond your control as to where you want to take your business.

Information of Strategic Value

In managing your business for the short and long term the information you collect, the “technology” you adopt, and the decisions you make, fall into two key areas ... *doing things right*, and *doing the right things*.

Doing things right relates to:

- identifying what you, and your resources do well, and
- constantly seeking ways to be more efficient (covering production, economic & financial elements) ...

and adjusting over time to meet the changing economic times. Producers tend to be comfortable with much of this area as it relates to the sustainable production systems they’ve been working with for years. But, in the future, economic forces will press for ongoing improvements in both production & economic efficiencies.

Doing the right things relates to:

- identifying what your buyer, or immediate “downstream”, wants in the product you produce, and
- “positioning” your product, *on your own or with partners*, so it serves your buyers’ needs.

There seems to be some broader-based discomfort in these areas. They may imply the need for deeper- rooted change.

On one hand, changes relate to adjusting or positioning what you produce realize on its full “value” and to fit with the best long term market. On the other hand, to do things right may require “re-structuring” your business to be long term cost effective. This is harder to define and is certainly viewed as riskier than the status quo.

Finally, for the materials of the day to be viewed as “information of strategic value”, anything beyond the relationship with your immediate “downstream” is only of passing strategic value. Your concern is more what kind of animal does your buyer desire to fit into the needs of the supply chain delivering beef products. You have little direct influence on the beef on consumers’ plates. This is a subtle but important distinction.

What Have You Heard Today?

Each presentation has been reviewed under the categories of “doing things right” and “doing the right things”.

Positioning Your Business

Under *doing the right things*, Mr. Hutchings put the Alberta industry into global perspective. Alberta is but one small player in a large global business. We shouldn’t overstate our role or impact on global trade.

We do, however, fill an important market segment of this overall trade, as what we produce and perceive as more of a commodity is positioned in value-based markets. “Beef is not just beef”. The nature of beef products demanded around the globe varies significantly. Different regions, cultures, income groups, etc, prefer and pay for different products. How is our product different? Is this a strength? Can we build on this?

In the *doing things right* segment, Mr. Hutchings reviewed a business assessment framework, process and/or checklist producers can use to evaluate business performance, and then define long term business directions and operating plans.

- Assess your land base and what it can do for you (strengths and weaknesses)
- Inventory your cow herd ... is it productive? Is it what you’re good at? Where can it get better? Do the same with each of your other livestock enterprises.

- Evaluate your facilities and equipment, asking primarily “is what you have now suited to your business of tomorrow?”.
- Create and actively use production, market, costing and financial information to take control of your business
- Ask the hard questions ...
 - what business am I really in?
 - what business is critical to my success?
 - where do I want to go?
- Manage each of your enterprises as a business unto itself ... to be profitable and add to your whole farm’s bottom line.
- Utilize “critical success factors” and “key cost drivers” in managing for performance.
- Plan for change and evaluate against your business goals.

Who’s the Offshore Customer

Mr. Thorlakson spent a few moments touching on issues of *doing things right*. His message primarily related to the notion that the beef business is truly international, and brings with it international pressures.

As an example, he used the recent movement in exchange rates to illustrate how beef production net returns have changed, on both the revenue and cost sides, in response to a shift in the value of the Canadian dollar relative to the U.S. dollar. The question underlying Mr. Thorlakson’s message was “do you work these international pressures into your operating and strategic plans?”

The balance of this presentation related to *doing the right things* ... the players in the international beef trade, policies, politics, BSE spin-off’s and the activities of the Canadian Beef Export Federation (CBEF). These can be summarized in the statement, “actions and events that create value and volume for fed beef ... which indirectly funnels back to producers as price and sales opportunities.”

Mr. Thorlakson set the ground work with the following general observations:

- Historically, Canada has been highly dependent on the U.S. as a customer for beef and live cattle
- Canada is frequently subject to trade actions launched by American interests who do not recognize Canada as simply another supplier in the North American beef market

- As such, CBEF is focusing on building alternative markets to reduce the risk of this dependence and increase the overall value of exports.
- BSE has provided some challenges ... the process of re-establishing trade is on-going. There is some reasonable movement of restricted products. We're slowly moving to a broader based resumption of trade patterns.

His next segment involved a review of status of trade in a number of Canada's primary export markets, outside of the U.S. As he flowed through markets in Mexico, Japan, South Korea, Taiwan, Macau, Hong Kong, China and Indonesia, the following themes came through:

- Canadian beef is often perceived as similar to U.S. beef
- some markets take only Canadian fed beef, not American
- much of the export activity in these markets is in products receiving a much higher value than if sold domestically
- the pace of trade "normalization" varies from country to country, but progress is being made
- there is tremendous potential to improve the value of cattle and beef shipments into these markets

Mr. Thorlakson's presentation ended with market-by-market examples of the products being demanded ... highlighting the notion that what other people demand need not be similar to the products we prefer domestically. This is the underpinnings of CBEF's activities to identify specific elements of the carcass and place them into valued-based markets – particularly for what we consider, here, as non-mainstream markets.

Commercial Beef Utilization Strategy

This presentation focused solely on the *doing the right things* area. Michael Young and Candice Stanoyev relayed the Beef Information Center's strategic plan for increasing the domestic use of Canadian manufacturing beef, which for cow/calf producers, is the primary outlet for cull cows.

Similar to CBEF's activities on the fed beef front, BIC's focus relates to "actions and events that create value and volume for cow beef ... which indirectly funnels back to producers as price signals and access/sales opportunities. On the "Over Thirty Month" (OTM) beef side, they noted

that long term solutions require a gate-to-plate strategy with the goals of:

- increased market share & volume
- reduced import dependency.

Part of the industry's past problems relate to the notion that commercial, or cow beef, has been viewed as a "commodity" business. By-&-large, cow beef has been put into a generic "box" which is of little value to processors.

Why is it of little value? Turning the raw product into a consumer ready product (eg. sausage, burger patties) requires processors use source beef with defined specifications and attributes to meet their final product specifications ... a step our industry has not in the past been willing to take. As such, imported commercial beef that comes with these specifications meets processors needs and is cost effective for them to use instead of local product.

The speakers outlined guidelines to be used, domestically and internationally, to describe and classify specific cuts from cow carcasses ... something that off-shore suppliers have been doing successfully for years. If local suppliers use this system, then opportunities to gain a greater foothold in local processing markets will follow.

Michael and Candice rounded out the presentation with details on BIC's activities in:

- innovative product development, and
- promotion and market development focused on utilizing domestic cow beef.

What's the Product / Beef Processing Industry

Mr. Hutchings second presentation of the day fit into the *doing the right things* category. He went over the movement of beef from final consumer back to the farm gate, identifying economic factors in play at each leg of the journey.

The first segment was an historical review of "supply and demand" as it relates to the Alberta beef sector. Daryl indicated how, in earlier decades, production settled roughly in synch with our capacity to slaughter, plus a nominal allowance for exports. As slaughter capacity grew, so did beef production ... as well as our dependence upon export markets.

Mr. Hutchings then described a "beef industry business model", tracing the linkage from cuts and processed goods demanded by consumers to

elements of a beef carcass and from there to a live animal. He translated the economics of turning a live animal into a carcass and its component parts. To complete the circle, he tied the business model and economics to the logic of pricing ... with retail price being based on consumer demand, then retailers driving wholesale prices, which are subsequently sent backwards down the supply chain to packers, feeders and cow/calf operations.

With this information in hand, Mr. Hutchings was able to construct a few pricing scenarios to demonstrate the impact of retail pricing and/or cattle bids on profitability for a packer. Based on this information and his knowledge of the industry, Daryl offered the following observations:

- beef packing is a volume-based, commodity business ... this is its strength, but opportunities do exist to add value through further processing
- beef packing/processing is a highly competitive business ... and these firms can lose money
- facility investment costs are very high requiring patient and stable equity and/or debt financing
- there are economies of scale in the packing/processing business ... small processors cannot compete with the larger firms in the commodity-oriented, volume-based business

Mr. Hutchings concluded with the question, “In light of the economic and pricing realities, do you really want to be in the beef packing business?”

Effect On Doing Things Right

Considering the direct and indirect messages in each of the presentations, once you’ve:

- assessed your business’ Strengths, Weaknesses, Opportunities & Threats
- defined the range of things you & your assets can do well
- determined the cash flow, profit & risk outlook for your business, under these scenarios

it’s time to set a business strategy for your operation. Given the nature of the primary beef industry, in order to *do things right*, for bulk of businesses the low unit production cost strategy is likely the most appropriate.

And how does this link to *doing the right things*? The examples given in all of the presentations were very clear ... people will pay to get what they want. Opportunities exist throughout the primary supply chain, for producers to create value in the eyes of their buyers, by packaging &/or positioning, and communicating about what

they’ve raised ... a simple process of turning a commodity into a product.

Create & Use Management Information & Skills

The ultimate goal is “better business management information, along with better management skills, resulting in better business management decisions”. The CFBAS consultations and the *AgriProfit\$* Business Analysis program were shown to be a positive first step down the path of “Taking Control of Your Business”.

Take Home Messages

Individual business success hinges on gaining a perspective on your “decision environment”:

- what can you control/influence?
- “doing things right” – use a low cost strategy
- “doing the right things” – use supply chain thinking to serve the needs of your immediate downstream industry partners.

The Canadian beef industry has changed, and will continue to change right down to the farm level over the coming months and years. Regardless, there is opportunity for profit in the primary beef business. The fundamentals exist for a long term, viable and growing industry.

Click on the “Raising Cows, Raising Profits” icon to see the detail of each speakers’ presentation on Alberta Agriculture’s “Ropin’ the Web¹” site.



Dale A. Kalieł

Sr. Economist: Production Economics
Economics & Competitiveness Division

¹<http://www.agric.gov.ab.ca/rcrp>