



By C.O. Emrich

Eight Steps Toward Livestock Profitability

This article is excerpted from a series which appeared in Marketline, a weekly newsletter published by Livestock Merchandising Institute. The author, C.O. "Ces" Emrich is president of COE Cattle Co. and C.O. Emrich Enterprises in Norfolk, Neb. He has long been associated with Norfolk Livestock Market Inc., and the livestock marketing industry. A founder and former chairman of Livestock Merchandising Institute, for several years he has served as market commentator for Marketline. He is a former president of Livestock Marketing Assn. and a former chairman of the National Live Stock and Meat Board.

Most participants in the livestock industry look back on the past few years as a period that was somewhat lacking in profit for all sectors. After having experienced such a period, it only follows that we should expect better times ahead. However, if we are to experience economic improvement in the years ahead, it's going to take some doing.

To cure this nation's economic ills, its citizens voted to accept a new political philosophy aimed at bringing down inflation and stabilizing the dollar. But even though we all knew that this change in direction could not be made without accepting some painful economic consequences, the severity of these consequences has given many of us second thoughts.

Well, it's not the time for those of us in the livestock industry to cry over spilled milk. We need to accept the painful economic results and turn the corner as quickly as we can. It's now time to assume a positive posture—to face the music and "produce" ourselves out of this dilemma. It's no longer a case of whether or not we should do it—it's a case of how we do it. And to determine what needs to be done in the future, we need only look back to see those things which we have not done in the past.

We present here "Eight Steps Toward Livestock Profitability:"

Eight Steps Toward Livestock Profitability

1 *Improve Livestock Production Efficiency*

When talking with livestock people about production efficiency, you are apt to find many who consider it a futile effort—they point out that production efficiency leads to more product on the market, which will only further lower the product's price in our "supply-demand" system. While I agree with this in one sense, I do not think it rules out the possibility of improving our level of "cost efficiency" or of expanding the demand side of the market equation.

To consider production cost efficiency, we are thinking of the animal with the best conversion factor: the animal that provides the most pounds of edible meat from the least pounds of feed, and one that provides the kind of meat consumers prefer. Some cattle producers and feeders operate with this focus, but certainly not all.

In the past, many producers or feeders have done business according to the old adage that time means nothing to an animal—meaning that time is not costly. With today's high interest rates and labor costs, this is no longer true.

Years ago, feeders paid little attention to the kind of feed that was fed to an animal, or to that feed's moisture content. Many still don't. They produce on the premise that the growth factor of the animal can make up for any other shortcomings. True, the growth factor is important, but it can no longer make up for the many poor management practices that are still with us.

In one sense, these inefficient operators have economically injured no one but themselves. But if they produce animals which have no consumer appeal, then not only has red meat's image suffered in the eyes of the consumer, but meat's price structure has also been lowered.

Even today there is room for greater production efficiency.

2 *Expand Efficiency in Livestock Marketing*

There is an old adage that "Necessity is the mother of invention." We all know about the times when ranchers, in order to get a fair price for their cattle, found it necessary to move their stock to concentrated marketing points. This, of course, provided the opportunity for ambitious people to set up market agencies from the Texas panhandle to the Missouri River and points east.

Because of the necessity of their existence, these market operators never became aware of ranchers' problems. Markets were so badly needed that no advancement in marketing services seemed necessary.

The following generations of market personnel held onto this provincial attitude, with the result that livestock producers began to look for other ways to satisfy their marketing needs. It was, then, because of necessity that "buying stations" and "sale barns" came into existence. But since it was usually the farmer/livestock trader who filled this marketing gap, there seemed to be little compelling need for them to advance the services they offered.

As a result, "livestock marketing" has suffered under a stigma—one that even many service-oriented market personnel find difficult to shed. Of course, those who have the inclination will emerge as adequate merchandisers: providing ways for producers to get high dollar for their livestock; offering all kinds of marketing information, and shouldering the tremendous financial risk inherent in marketing transactions, so producers can and will focus their efforts on producing the kind of product that warrants the best price.

However, there is another important responsibility for market personnel to assume—to make producers and potential customers realize that the marketing services they offer are of such value that they can ill afford *not* to take advantage of them.

3 *Establish a More Workable Relationship Between Livestock Production and Marketing Segments of the Industry*

Until now, the average producer has seemed to take marketing for granted . . . on the premise that the appeal of his product, and the consumer's need for it is all that it takes to make it sell. In the past, this complacent attitude seemed to be good enough.

More recently, however, people in all facets of the livestock industry have come to realize that more emphasis is needed on marketing and promotion if beef is to maintain its market share. But there remains an apparent lack of rapport between those involved in production and those involved in marketing—particularly concerning marketing.

There seems to be no inclination among producers to want to solve their marketing problems with the aid of marketing personnel. Producers tend to view market personnel as being in the business for their own profit, with little concern for producers' problems.

It is, of course, true that the profit motive is always predominant in any business; however, it is also true that there is a need for a good rapport between those doing a service and those being served. That same rapport is needed between producer and marketing organizations as they approach the entire issue of marketing, including the need to fund product promotion.

Since product promotion should be considered a part of the marketing process, the entire problem of livestock marketing and promotion could be better solved if participants in both segments of the industry would demand that a combined approach be taken by production and marketing associations.

4 *Enhance the Final Meat Product to Improve Consumer Acceptance*

Cattle producers and feeders think too much of what has proven profitable for them in the past, and probably not enough about changes in consumer eating habits.

The producer's responsibility lies in an attempt to improve the animals genetically. The cattle feeder's responsibility lies in the area of feed conversion.

Too many feeders feed cattle only to market their crops, and think only of the pounds that can be added while the cattle are in their possession. Too many of them have become slaves to habit, following the feeder cattle buying practices of the generations before them, and paying little attention for the need for change, not considering it their responsibility.

It is unfortunate that those people who feed cattle only to sell their crops are, in general, geographically located near the public fed cattle markets—the markets that seem to automatically establish the nation's prices for beef cattle. That means prices are being established in areas where many overfat cattle are being produced.

The producer and the finisher must take the necessary steps to enhance the end product, regardless of whether or not they think the consumer is right or wrong. After all, the consumer is the one who buys our end product.

5 *Research the Final Product in the Interest of Nutrition*

Red meat's prime problem is that too many times the medical field has accepted theories contrary to findings concerning the *nutritional* value of red meat. Many times, due to reasons of bias, competing protein interests have been able to play upon what they call the "disadvantages" found in a complete red meat diet, and have publicized things that diminish consumer demand for red meat products.

Discussing this topic, John Huston, president of the National Live Stock and Meat Board, said that only a part of the problem is the need for more research. The principle part of the problem lies in the need to dispense favorable findings on meat to the public.

More effort is also needed to get that research out to the nation's thought leaders—including the medical/health field—to convince them that there are more pluses than minuses to the American red meat diet, Huston said, and to remind them that it is possible to find disadvantages in any type of diet.

In today's society, when so many people are influenced by media propaganda, lack of support and funding for research and promotion is hurting the livestock and red meat industry. Any advantage or disadvantage found concerning any product can be so widely publicized as to sway public opinion in any direction desired. The difference seems to lie in the degree of persuasion used—and, of course, in the amount of money spent.

For almost 60 years, the NLS&MB has provided grants to universities for nutritional research, though there is always the problem of raising enough funds to cover the total cost of research projects. But now, through its new Beef Industry Council promotion campaign, the Meat Board has provided the industry with the mechanics to increase this funding. So the problem is simply the lack of support by too many individuals in the industry.

6 *Demand "Future" Marketing Techniques, Guidelines and Criteria That Will Allow a More Acceptable Relationship Between "Futures" Marketing and Current "Cash" Marketing*

The Chicago Mercantile Exchange has seen fit to offer the services of "futures" marketing on cattle and hogs. No one, in our free marketing system, is required to use this service or be guided by it, yet we hear much discussion among livestock producers that the CME should cease to provide its services because they are hurting our livestock markets.

It is true that this marketing process has hurt some producers, but generally only because those individuals may have been using the futures market as a guide rather than as a tool, or they may have read the market wrong.

To be sure, others have lost money in futures marketing in spite of the fact that they comprehend the process well. But there are equally as many who have gained, just as in any free market process.

Having said this, it is not my intent to exonerate the management of the CME. They must face the reality that their "futures services" are not looked upon with favor by a great percentage of the producing and marketing public.

I believe that the prime shortcoming of the CME is a lack of recognition of the many different production and marketing situations across our land. For example, the CME criteria for a "choice" animal would not mean the same all across the country. Therefore,

there is a chance for misuse and misjudgment of the "futures pricing service," particularly among those who have livestock which do not fit that specific CME criteria, or where regional demand does not coincide with that criteria. This issue can and should be thoroughly reviewed by CME—that is, if they want the moral and financial support of the industry.

7 *Declare a Political Position Favorable to Free Competition*

It's too bad that so many people do not realize that most of the problems in our present marketing system arose because of government's attempts to sometimes improve it by imposing guides or controls on production and marketing.

In Canada, for instance, the government and the cattle industry are considering "supply-management" as an attempt to help cattle producers get a fair price for their cattle. The idea looks attractive at first reading, but in the end it would impair or perhaps destroy incentive.

In the U.S., we see problems within our beef grading system, but it's impossible to establish government standards that will continue to reflect changing consumer demand. That's a change that can be better made by allowing the demand factors within a "supply-demand" marketing environment to work.

Originally, government meat grading helped the smaller and less influential companies in the trade to compete. But it has also created new problems—today's grading dilemma being one of them.

One can cite many similar situations where the "disadvantaged" within our capitalistic system have asked for special help from government—help that gives everyone a fair chance regardless of individual effort—but which eventually only impairs the "incentive" aspect of our economic system.

I believe that everyone in the industry should make a more concerted effort to declare opposition to any form of government aid or control that would infringe on the free, competitive aspect of our livestock business.

8 *Assume a Positive Posture—Collectively and Individually*

To maintain a positive posture is to be consistent with whatever marketing pattern you have chosen, and to follow that pattern regardless of price. To do this, of course, requires consistency in production as well as marketing.

One of the greatest errors committed by livestock producers today is "fighting the market"—holding back stock that would lose money if sold at current prices. This almost always proves to be a mistake and eventually creates an even greater loss for the producer.

One must recognize that, in a free market society, prices are not always consistent. This means that at times one must accept a loss. That loss must be considered as a production cost item, or as the cost of market information.

Someone once said that in a free market society we must make money off the over-reactions of others. By being consistent ourselves, we avoid over-reacting and becoming victims of the system. Many would call this a difficult way to produce and market—but isn't it exciting? And consequently, it makes our system the most productive in the world. **AJ**