Value Doesn't Guarantee Price

Adding value to your product won't necessarily earn you a higher dollar return.

BY KATIE MARTIN

The outdoors, the love for cattle, the people involved in the industry — these are the reasons most cattle producers are raising cattle today. Their passion lies in the rides in the truck, walks through the pasture to check the herd, the sight of calves kicking up their heels, and the shows, sales and other gatherings of producers and their families.

Most producers dread maintaining farm records, sitting solitaire at a desk and business management. There are cattle to breed, fences to fix, calves to vaccinate and feeding to be done. Many producers often don't have time to worry about consumers and what they want.

However, with today's changing society, producers must make time to consider the consumer's preferences. Ultimately, it is the consumer who allows producers to stay in the business.

"Producers must learn to compete," says Vern Pierce, beef economist for the University of Missouri Extension Commercial Agriculture Program. "Individual producers need to rethink their operation in order to compete with changes in agriculture."

Most beef producers are aware of the changes in the industry; however, they often have difficulty deciding what these changes really mean for their operations.

Producers can learn to compete and begin the rethinking process by understanding the difference between cost of production, price and value, says Pierce.

Cost of production, the cost incurred producing a product, is a dollar figure that varies from farm to farm. Price is a figure that the market is willing to pay for a product. Value is an economic term; the value of a commodity has to do with the contribution to profits that it makes to the business that owns it next.

"Adding value" to a product does not necessarily mean the product will get a higher price in the marketplace. At a recent value-added bred-heifer sale, the average selling price was $790/heifer. That week feeder heifers the same size brought about the same price. Pierce estimates the "value" of the bred heifers at these sales was more than $1,000 each. The buyers did not have to and were not willing to pay for the heifers' full "value."

That is the market system producers must understand, says Pierce.

What do producers need to do to make the "price" closer to the "value" and greater than the "cost of production"?

SHAUNA HERMEL PHOTO

To enable producers to enjoy their passion for agriculture, they need to tend to the not-so-fun details that affect their bottom lines.

In the corporate world, 15% return on investment is standard. Unfortunately that is not the case for the beef industry or any sector of the agriculture industry.

"Beef producers need to think like a CEO," says Pierce. "CEOs not only worry about the company's profitability but the management aspect as well."

To help you begin the process of thinking like a CEO, Pierce offers the following points.

Customer-driven quality. Quality is judged by consumers. Producers must be able to supply that quality in order to survive in the industry. They must start responding to consumer demand today. It is important for producers to obtain information on the performance of their cattle from the time the animals are born until they are consumed.

Farm and family goals. Goals can range from personal and family goals to financial and production goals. Producers need to determine their strengths and weaknesses.

Once the weaknesses have been assessed, producers need to participate in educational workshops and seek advice to correct them. Weaknesses can include financial management, marketing or understanding genetics.

Employee participation and development. A cattle operation's success in improving performance depends on the skills and motivation of its workforce. Whether the workforce includes you, hired

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help, your spouse or your children, you must invest in ongoing education, training and opportunities for continuing growth.

The team's strengths and weaknesses need to be individually addressed. The strengths of your hired help, spouse or children need to be further enhanced to contribute to the success of the operation.

Fast response. Fast response simply involves acquiring information about your herd, consumers and the industry in general and responding to the information so you, as an individual producer, can raise a better beef product. Of course, you must have a management system established to obtain, analyze and respond to information.

Design quality and prevention. There are many different types of consumers in today's society. Some individuals prefer quick and convenient lean meals, while others don't mind waiting for a thick, juicy steak with a little fat cover to cook to perfection.

Each producer needs to identify one type of consumer to target and develop a strategy to cater to that particular consumer, says Pierce. Producers need to gather all the possible information about their target and make the necessary changes in their operations to satisfy those consumers.

Long-range outlook. "Think about the time line it would take in order to make the necessary changes on your farm and see the effects of your decisions," says Pierce.

If a producer decides in January to change the genetics in the herd, it will be approximately seven years before the effects of that decision can be seen, Pierce explains. If a producer purchases a bull in September or October and uses him in the fall, the calf crop would be born early next fall. Those calves would be sold one and a half years later. The producer would then be able to analyze the carcass information and decide if this bull was the right choice.

All good research is built on replication. Using this bull again would help the producer obtain a better understanding of the bull's effect on the herd at the completion of another three and one-half years.

When planning for the future, each producer needs to anticipate many types of changes, including those that may affect the targeted customers' expectations of the product, technological developments, evolving regulatory requirements and societal expectations.

Partnership development. Each producer needs to develop a partnership with the targeted consumer to ensure a long-term relationship. It is also important for producers to seek a working relationship with employees, spouse and children, as well as other beef producers and educational organizations. There is no simple answer to help you compete successfully in the beef industry. Ask yourself, "What can I do as an individual producer to rethink my operation in order to compete with the changes in agriculture and to supply consumers with the product they are satisfied with and willing to buy?" Then make the changes.