



Dollars & Sense

by Vern Pierce, beef economist, University of Missouri-Columbia

The new farm policy – yours!

The basis of our current production and marketing is a massive commodity system providing processors in every part of the country an animal supply that is cyclical and inconsistent in quality.

Against this background, former Secretary of Agriculture Dan Glickman said, “The days when most farmers could make ends meet by simply bringing bulk commodities to market are over. That’s why a new farm policy must highlight new and different ways for farmers to make money and capture a greater share of the consumer dollar.”

“It means providing greater opportunities for farmers in value-added, consumer-ready goods,” he continued. “It means not just ‘freedom to farm’ but ‘freedom to market.’”

Managing your farm operation requires you to establish your own set of farm policies. How will you respond to the government’s response? Have you formed a farm policy, or business plan, that will guide your operation toward finding the most money possible and setting a course to earn and to capture that money for your operation?

Relying on the government to provide farm-price stability never has been the mainstay of cattle production, and it doesn’t look like that is where we are headed. In fact, if Glickman is right (and I believe he is), all of production agriculture will enjoy less government intervention in the future.

There still is a strong connection in America between the rural community and the general population. As a country we are still interested in keeping the landscape of family farms intact. However, I wonder whether another decade of environmental issues, foreign-trade swings, increased consumer demand for convenience foods and Americans’ demand for a safe food system will send a message to the U.S. Department of Agriculture (USDA) that its farm policy, in continuing the advance of these issues, should not weaken just to save a few family lifestyles.

Set your own policy

It is time for your own farm policy. What will it take in your cattle operation to maintain your family and lifestyle 10 years from now? Economics say that, if you can’t maintain a profitable business, the business will find someone else who can.

The total proportion of the protein dollars consumers spend still can swing our way. The beef commodity system has not provided a consistent, convenient product like pork and poultry have. This has been improving, however. While the size and scope of the industry is substantial, the current production and marketing system could and will go a long way to help maintain beef’s share of the protein market.

Vertically coordinated value-added systems attempting to capitalize on a changing consumer demand are beginning to emerge. These are new entities separate from traditional markets, and they also include livestock markets that are adding value to their customer’s product by helping them develop vertical marketing relationships.

The concept of vertical-relationship marketing is not new. We have seen a substantial increase in the number of these groups in recent years. But they, like every other innovation, also require a new understanding of some part of the business.

How is it possible to choose the right alliance?

How will your returns and costs be different?

Will this change add to your bottom line or just to the top line?

The answers to these and other questions can come only from how you decide to fit into the new beef production and marketing system. These answers come from how you shape your new farm policy.

Easier to manage

Managing your farm with an objective in mind is easier than managing without one. Of course, most of us have the objective to

make more money. But how? Just waiting for it isn’t going to make it happen. The answer comes from identifying where you believe you best can serve the industry. The returns in a value-based marketing system come to those who provide the most value or service to the system.

To determine this, consider what you are or what you can do best in the beef system. I guarantee that if your answer is that you just like to be with the cows, there are problem days ahead. Think about what part of the business you can do better, cheaper and more efficiently than others. At the same time think about the areas in which you are weak.

The manager who will be able to thrive in the future beef system will be the one who can expand business in the first area and contract it in the second. Your farm policy, or business plan, can start by identifying those strengths and weaknesses.

The next step involves reading about how to develop and, more importantly, how to live by that farm policy. The basic components of the business plan are writing down your relative strengths and weaknesses, identifying the activities in the production system in which you wish to become more competent, and developing a mission statement, objectives and the tactics to execute them.

The USDA farm policy is always in transition, and the focus will change dramatically in the next decade. Visit your local Extension office, library or other information provider as soon as possible to learn about making your own farm policy.

If you think this column seemed to be aimed at a businessman with a lot at stake in our changing economy, you should know that I hit my target.

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