

# MERCHANDISING

by Keith Evans, Director of Communications and Public Relations

## Sonny, Buy Low and Sell High

A few years ago, after attending our youngest son's college graduation ceremonies, we celebrated over dinner at a restaurant in Columbia, Mo.

In the same dining room with us was another family celebrating a similar occasion. In their party was the graduate's grandmother, a spritely lady in her mid 70's. As we left, they were right behind us, and our son, gentleman that he is, held the door for them. Always looking to kid someone, he smiled and said to the family as they thanked him for his courtesy, "All tips accepted."

As the grandmother passed she stopped, looked up at our fresh faced, new college graduate, and said, "I'll give you a tip sonny, buy low and sell high!"

I tell this story because I have just read the first of what is sure to be a series of articles forecasting the price peak for the current beef cattle cycle.

The prognosticators pointed out that in the last cycle, cattle numbers peaked in 1983 and fed cattle prices bottomed out in 1985. They figure these cycles repeat every 10 years or so and that the current cycle started in 1990. Since then, beef replacement heifer numbers have increased 4 percent in 1991, 3 percent in 1992 and 7 percent in 1993. This is tempered by the fact that the nation's cow herd is growing more slowly, at only one to two percent a year.

Still, they are undoubtedly right, a price break will hit in the not too distant future.

The authors, as is the habit of some economists, also pointed out the obvious. Which is, when beef heifers are added to the cow herd at or near the peak of the price cycle these new, higher priced cows will produce lower priced calves over the next few years. Conversely, heifers put into the herd at or near the price bottom of the cattle cycle are low cost cows that later produce higher priced calves.

I am no economist, nor do I ever attempt to predict cattle cycles or prices. I do know, however, that many in agriculture seem to be able to convince themselves that whatever conditions are today, they will likely continue that way well into the future. Consequently, many fail to adjust their business strategies to cope with future change.

Marketing, as Buck Rogers, the former chairman of IBM told a National Cattlemen's Association audience a few years ago, involves producing what people want to buy, not convincing them

to buy what you produce. That's why skilled managers in all businesses watch for changes that could affect the prices of and demand for their product, and factor them into their planning.

Successful producers want to make sure their production costs will be in line with future prices. They also know that most mistakes in planning for the future cannot be overcome with advertising and marketing.

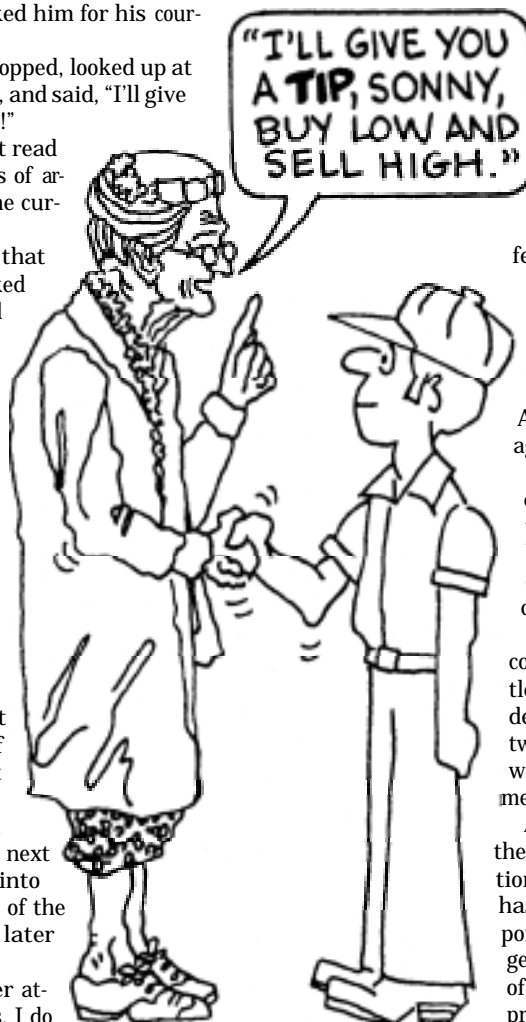
Difficult as it may be for some to accept, the average price of bulls sold at auction may not average \$2,500 a few years from now. The market simply may not absorb as many total bulls at the end of this century if beef cow numbers decline. It is a fact that when cattle numbers peak, producers stop saving back as many heifers, and begin to cull cows more heavily. This increase in feeder cattle numbers and in beef tonnage causes prices to drop further. As fed cattle prices decline, some feedlot operators have actually been known to hold back cattle in hopes of a price recovery, and end up further increasing the beef supply. And all this will almost surely happen again.

I feel confident that Angus, during the contracting phase of the next cattle cycle will fare better than other breeds. Angus breeders have done a better job than any other group of breeders of producing efficient, predictable, high quality seedstock.

Furthermore the industry needs, and will continue to need, a higher percentage of cattle that grade USDA Choice. So when prices decline, it seems likely that the spread between Angus and many other breeds of cattle will increase. This could result in more commercial producers switching to Angus bulls.

And finally, the Angus breed has supported the strongest national advertising and promotion program in the beef industry. Research has shown that good advertising helps support the market for a brand when demand in general begins to decline for that product. All of this will benefit Angus breeders when the price bottom of the cattle cycle arrives.

Still, we have not found a way to avoid this unwelcome part of the cattle business. So, regardless of how you read current market conditions, as you make your plans for next year and the year after that, remember the advice the market-wise grandmother gave to my son, "Sonny ... buy low and sell high."



*Keith Evans*