MARKETING

Dollars & Sense

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

Who is running your business?

What does it cost to produce your product? How many times have you been asked if you know your cost of production? Most producers know their yield per acre or pounds of calf produced per cow, but this information is absolutely useless without knowing how much it cost to produce that product.

The bottom line is: If you can't measure it, you can't manage it.

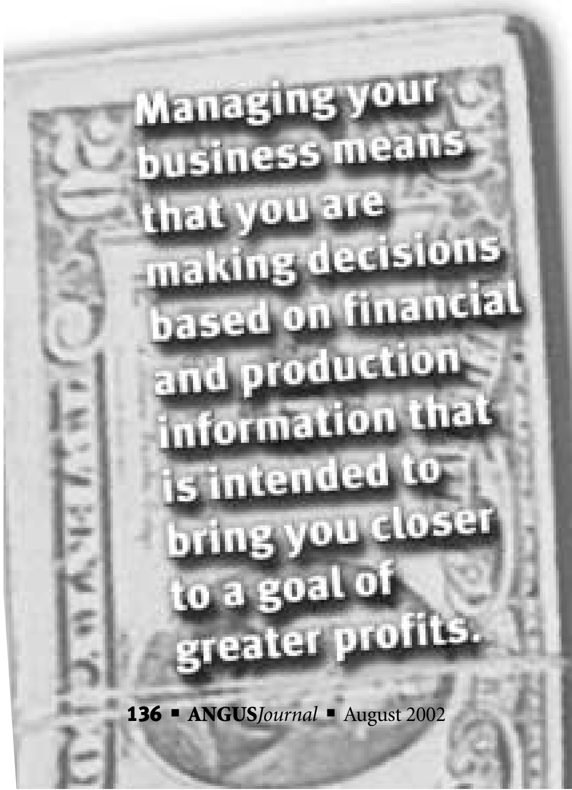
Cash flow ≠ profit

A positive balance in your checkbook each month means only that your farm has a positive cash flow. We often call that "cash-flowing." Cash flow is simply the difference between cash income and cash expenses for a given time period, usually a month or a year. Avoid confusing cash flow with profit.

Positive cash flow means one thing — there is money left in your checkbook. This could be the case whether your business is profitable or not. In other words, the fact that your business is "cash-flowing" means nothing more than you are still in business. It does not mean that you are getting any closer to your business goals or to greater profitability.

Suppose you start up your tractor for spring planting and let the tractor idle overnight in the field. In the morning your tractor may still be idling, but the field will not be planted. Cash flow is a similar measure, indicating only that your business is still running.

Managing your business means that you are making decisions based on financial and production information that is intended to bring you closer to a goal of greater profits. Your tractor has a gas gauge to tell you when you have put in enough gas. Your cost of production is your business's gas gauge, letting you know the impact of changing production practices, increasing or decreasing input levels.



Making changes

Your next job as CEO of your farm is to determine what you need to change about the way you do business to reduce your cost of production while still maintaining a product quality consistent with the marketing system that you are using. I have been to many industry banquets in which I have seen a producer receive an award for the highest yield per acre. However, I have never been to a banquet that gave an award to the producer who made the most money that year.

We even carry this philosophy over to cattle shows, which honor no more than physical beauty. These contests are about as important to the future of the beef industry as a tractor pull is to the future of the corn industry, yet they often are the focus of our attention, and their champions are often the winners of our admiration.

The beef system is changing in response to a clear signal from consumers that they are ready, willing and able to pay a premium for consistent-quality branded beef items that fit their needs and wants.

Companies developing these products, many of which began with research from checkoff dollars, will need partners to deliver consistent-quality products. They will form partnerships with producers who have a positive attitude about change and who consider their beef cattle operations as businesses and not just showcases for the county fair.

The reason for this is simple: These companies are in the branding business to make money, and they want to work with like-minded input suppliers — you!

Understand your objective

Differentiating profitability and cash flow is a basic, yet often misunderstood, business principle. There is absolutely nothing wrong with running your beef operation for the other benefits of being a farmer or rancher. The fresh air, country lifestyle and family issues are all very important, but let's be honest about our objectives.

If you want to run your operation as a business, then you must develop a sense of business financial management as good as or better than any other business in town.

If you don't want to run your operation like a business, that's fine. Enjoy it. Have fun. But be honest about your objective for your operation. If you are running it as a hobby, things like packer concentration, captive supplies and beef prices at the grocery store are not things that should worry you.

Think about yourself as a consumer. You likely have a favorite make of truck. You will buy that truck until hell freezes over. You prefer that make for many reasons — some justifiable and some not.

I doubt you'll go to Congress every time that company raises the price of your favorite truck — incidentally, by the same amount as the other two of the big three automakers raised their prices. It's the best truck on the market, and it's worth every cent, right? Your reason for buying that truck is loyalty and product quality, not price.

In the same way, if you run your operation for other than business reasons, then you won't spend time on all these issues of how others and the marketplace affect your ability to make a profit.

However, if you are interested in issues of packer concentration because you are running your operation as a business, then you need to pay as much attention to the business antics of the person who affects your internal finances — you!

Vern Pierce

E-MAIL: piercev@missouri.edu