MARKETING

Dollars & Sense

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Benchmarking your beef business

"What highway do you take to get to Wichita?"

The purpose of this column is to help you develop a system to manage your farm with a CEO philosophy. Benchmarking is critical to this approach.

Benchmarking is very similar to what a response might be to a question like, "What highway do you take to get to Wichita?" The answer is, "It depends on where you are coming from." You need to know where you are to be able to get to where you are going.

Background

Benchmarking is about measurement. The process of setting goals and establishing a strategic business plan is rather uninteresting if we can't measure our progress toward a goal or plan. With benchmarking, goals become expectations rather than plans. The objective of benchmarking is to give managers a focus for cost-reduction, quality and marketing adjustments.

Benchmarks are used first to establish the scoring system on your operation to accomplish your written goals and then to begin keeping the stats, like you would in a basketball game. Armed with this measurement system, you can make decisions about why you are or are not moving in a certain direction.

The process of benchmarking can occur at several levels, but it all has to do with the quantifying efficiency in production, labor, price and finances.

Production

Production efficiency is measured in units of input per unit of output. This is later combined in measures to reflect costs. At this point, however, just think of traditional production measures.

The key to developing production-efficiency measures (benchmarks) for your farm is to first consider the limiting resources. This is why cow-calf producers often think of pounds of calves sold per mature cow exposed to a bull. Note the difference between this benchmark and another common production benchmark, calves weaned per cow. There are several basic differences:

- You are not paid based on the number of calves sold, but rather on how much they weigh.
- The first definition is a measure of the breeding program success (per cow exposed), while the second is much more vague (per cow). Does it mean per mature female, including the three in the sick pen that weren't bred? Or does it mean per mature cow? Does it include first-calf heifers and mature cows in the same measure?
- If you have a calf that is weaned and then dies before sale time, the dead calf would show up in the second measure but not in the first, and the benchmark would be misleading. Which measure puts the money in your pocket?

The issue here is that the benchmarks chosen need to be most reflective of the real contribution of an asset to production efficiency and, thus, profit. As you choose production benchmarks, write down an explanation of what conclusions you can make about efficiency based on a potential numeric result of the measure. Then go back and see if the benchmark really makes sense in drawing that conclusion.

For example, concluding that you have a poor conception rate may not be an appropriate conclusion from calves weaned per cow but would be more appropriate from calves alive more than three days per cow exposed.

Labor

The same issues are true for labor efficiency as for production efficiency. Here we want to be able to quantify the contribution to production and profitability from each worker on the operation. This can include both paid and family labor.

For example, you may have an employee who works the pens and treats the sick animals. This is his main job and the one which most affects your profitability compared to the other odd jobs that he does on the farm.

Imagine that you know that your yard has about a 20% pull rate as a matter of biology and history (of course your pull rate is a benchmark that you have established already). This means that the worker needs to find all of the sick animals.

If you were to base his performance on the pull rate of the farm, you might have a tendency to be happy if the pen pull rate is only 15% with this hand. But would this mean that you are encouraging him to be more efficient, or does it mean that he is missing 5% of the pulls?

A benchmark that comes from a measure such as calves vaccinated per day may make some sense if your help has that as a major function or does it repeatedly throughout the season. In this sense, time is the limiting factor.

If you benchmark and reward based on pull rate reductions, you may be encouraging the young man to "miss" some sick animals to make his pull rate appear lower. This benchmark would create problems, not measure success. What you may really want is that when this employee finds a sick animal, it is treated and sent to the appropriate pen in a timely manner, thus giving him more time to find others. In other words, if this young man's job is treatment time, don't benchmark his success with diagnosis rates.

Price

Despite its easy-sounding name, price benchmarking can be just as complicated as production benchmarking. In general, price benchmarking is the process of comparing the price you receive for your product to the price you historically received and to that of other producers.

The complication comes in the same manner as before — benchmarking definitions. Many have boasted of the time they got the high price at the sale. Unfortunately, this often becomes the benchmark by which future performance is judged.

Price benchmarks need to be based on comparisons of the same type, same weight same time, and same place. That is, the price for 500-pound (lb.), Continental-based cattle that sold in late November at the local livestock market is a price benchmark. The price of calves this fall is not a good benchmark. The key is to make sure the benchmark is reflective of the time, place and quality of the animal.

Financial

These benchmarks are fairly similar to production benchmarks. Think of money as just another input that needs to be purchased as cheaply as possible. Financial benchmarks are more than just the annual interest rate on each of your loans.

We buy money in many ways that don't always have to do with actual loans. Think about prepayment and late payment adjustments on products you buy, about how decisions on marketing time affect the length of time a loan is held before payment, etc.

For example, just having 10% interest listed as your cost-of-money benchmark is misleading. Dollars paid in interest per dollar of revenue is a much better measure of your cost of money. This measure takes into account the impact of cash flow from market timing on the amount of interest paid. It also accounts for non-loan interest payments and discounts as mentioned earlier.

External and internal benchmarks

The issue about external benchmarks has to do with standardization. Should you wish to compare your benchmarks to those of other producers, both versions of the benchmarking measure must be computed exactly the same to have any meaning for you in your decision-making.

Making comparisons between your benchmark and similar ones that you see summarized for your area or state has absolutely no meaning. If you want to compare your results to those of others, you need to either use a standardized method of benchmarking — which, incidentally, is very hard to find — or to find out how the other benchmark is calculated and recalculate your figures to match those. Remember, however, that you have set up your benchmarks to match your own farm needs and changing them will reduce the impact of your efforts.

Benchmarking is about setting up a measurement system that makes sense for your farm in implementing your strategic plan. You do have a strategic plan — don't you?

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