



# Dollars & Sense

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

## Marketing managers in the new beef system

*“Manage your farm with a CEO philosophy.”*

*“Think outside the box.”*

*“If you like what you have, keep doing what you’re doing.”*

*“Improve your management style.”*

*These are all words of advice you hear concerning your need to develop a system of management that allows you to reach your full income potential.*

### Future of marketing

In addition, there is plenty of information that suggests our beef marketing system, indeed the entire food system, is changing. Source identification, price discovery, captive supply, mergers and product branding are now the buzzwords of the food sector.

You can point to the major efforts in recent years that have failed to coordinate the beef system and suggest that all the excitement about change was unjustified. I guarantee you it wasn't. Perhaps some of the first innovators did not succeed; however, that does not mean the idea wasn't good.

The changes of the next few years will dwarf what we have seen in their ability to speed change in our food marketing and production system.

One thing is certain, the new beef system will not reward cattle producers who come empty-handed into the marketing system. Cattle without information about source, process, genetics and health will be increasingly discounted in this new arena.

We have “sold” our products for too long to whoever would buy them at the price they offered. If you wish to begin, or to continue, your transition to becoming a business marketer, take a few steps backward and first decide what your product is and who the potential buyers are. The following steps may be useful.

#### Step 1:

Evaluate the market options. As part of this process, review what products (and the range in quality and quantity) are being sold and at what price. In terms of beef production, this might mean looking at various types of weaned cattle and what price people are paying for them. Is there a

premium to be earned by supplying potential buyers with production, health and genetic information on your calves? Perhaps in some markets there may be a premium.

I would suggest that in five years, animals sold without this information will receive a discount. This type of information will be expected in order to obtain the “market price” for your cattle.

On the other hand, perhaps there is a market for selling cattle in a non-source-identified sale in which the way to maximize profits is to provide average calves with no information and attempt to produce those animals as cheaply as possible.

Convert your enterprise to produce cattle for the market you have chosen. Keep in mind that you are either trying to produce average calves for a generic market at minimum cost or premium calves to a market that can and will pay for the quality of calves and information that you provide. It would make little sense to produce animals of added value if that market channel would not be willing to reward your efforts.

#### Step 2:

Inform potential buyers, months before your calves are ready for market, of what you will have available. This will provide you with information about how many potential buyers you might have. Also, watch their markets and ask people who have marketed to your target buyers if they think they

received an appropriate price for the quality of animals and information they provided.

If you have chosen a market that rewards quality, work with those buyers to find a way to get feedback on how well (or how poorly) your cattle do in the feedlot and packing plant. While this information may not be positive the first time you get it back, it will provide you with the information and tools you need to prepare your farm for a system that will demand higher quality in a few years.

#### Step 3:

Develop a relationship with buyers so you both, over time, benefit from the information loop. This can only work to your advantage in increasing profits on your operation in the long run.

The beef production and marketing system will reward those in the future who understand and react to basic price

signals. Think about when you sold a set of calves that brought a good price. Maybe the high price was from some buyer who knew the quality of your animals and was willing to pay a premium for them. However, maybe it was because that buyer needed 10 more head to fill a potload of animals to be sent to a feedyard. In many cases, we don't know for sure why the price was good, and therefore we don't know what to repeat next year to get the high price again. This is especially true if the high price was for reasons other than quality.

Now, think about a time you received a lower price. Perhaps it was because those animals were a little fleshy or even a little gaunt. However, it may have been that your cattle were of good quality but the buyers already had full loads by the time your cattle came into the ring, or the buyer was interrupted right when your calves came out. In many cases, we don't know for sure why the price was poor and therefore don't know what to change next year to get a



CONTINUED ON PAGE 154

higher price. We may even change the wrong thing and hurt ourselves next year.

What this boils down to is that if you are improving your management through better marketing and are providing quality cattle with production information that's helpful to the buyer, and getting helpful information back, you might not want to leave the actual buyer of your cattle up to chance. Improving your marketing savvy by thinking about the type of buyer you are

targeting and the type of buyer he or she will have for your cattle up the chain might just help prepare you for the beef industry of tomorrow and give you a competitive edge today.

**Step 4:**

We also need to think about producing a product for the final consumer. Consider a restaurant manager. When you go to a restaurant, does the waiter simply bring you a tray that has food that *he* chose for you to eat? Of course not. The waiter asks you for your order at prices listed on the menu. Only then does he produce the product,

knowing it will be sold at his price before he puts the steak on the grill. As beef producers thinking outside the box on marketing, can we offer our customers, who incidentally are willing to pay more money for quality and consistency, the same type of made-to-order service at some level?



**E-MAIL:** piercev@missouri.edu