PERSPECTIVES

Outside the Box

▸ by **Tom Field**, *University of Nebraska–Lincoln*

Trend analysis never more important

Dick Clark hosted American Bandstand *for 33 years and, in the process, built an epic production company and established himself as one of the greatest commentators and promoters of popular music in history. Consider that Clark's legacy spanned an amazing array of shifts in music preference, ranging from cruising Main Street with Wolfman Jack to hard-core rock and roll. He attributed his success to the knowledge that "I don't set the trends. I just find out what they are and exploit them."*

Recognizing changes

Can the same philosophy be applied to the business of raising cattle and beef? Study those who have built business success over the long term to discover that one of their commonalities is the ability to discern trends and to correctly respond. The correct response might involve shifting marketing strategy, swapping one input for another, implementing a new technology, or taking either a countercurrent strategy or no action at all.

Five trend categories are worth watching in 2014 — input prices, value of money, foundational resources, inventories and impact of seismic events.

The price of corn and energy influence every segment of the beef supply chain. Downward-trending costs of feed and fossil fuels create better margins throughout the industry. However, volatility is increasingly a fact of life arising from foreign competition for feedgrains and oil, governmental policy and regulation, global conflict, and changing technologies.

When trend analysis becomes part of business strategy, real value can be harvested.

Monetary trends are noteworthy, with specific attention given to the cost of money and value of the U.S. dollar. While most long-term real-estate notes have likely been inked into today's cheap rates for 15- to 30-year terms, operating capital is more prone to the risk that would accompany a shift toward higher interest rates. The stocker and feeding sectors would feel the immediate pinch of climbing interest rates and that pain would translate to downward pressure on feeder calves.

While nothing points to short-term shifts, interest rates have a major impact on the beef business. A weak dollar has been bullish to beef and beef byproduct exports and, as such, have been the silver lining in a weak U.S. economy. The net $2 billion beef-trade surplus has been fundamental to strong cattle prices.

The economy remains on uneven footing, but it will eventually strengthen and, when it does, the dollar will gain ground against competing currency, which may impact foreign trade.

Land and water

Land prices have been a major hurdle to herd expansion and a barrier to entry into beef production and even agriculture in general. Driven by the commodity boom, land prices have reached historic levels, but they are showing signs of moderating. The land business is the true storehouse of wealth for most cow-calf and stocker enterprises, and should be treated as a separate enterprise, complete with its own business strategy.

While access to land has been the deciding factor for major expansion of agricultural enterprises, water will be the deciding factor in the future. Water storage infrastructure and improvements in efficient use of the resources will become increasingly important. The wild card is governmental policy. The executive branch, which is backed by an activist judiciary branch, warrants careful scrutiny in regard to its decisions about water.

Inventories of cattle, replacement heifers, sows and poultry are central to businesses built on supply-and-demand relationships. Prices have been in place to drive herd expansion, but competing interests for land, aging producers, high input costs, and the high cost of buying replacement females coupled with drought have held rising cattle numbers at bay.

Relative to competing proteins, high grain prices have limited profitability in both the pork and poultry sectors, and sow numbers have been further reduced by the impact of porcine epidemic diarrhea (PED) virus that has affected hog herds in 11 states by causing a dramatic rise in pig mortality preweaning.

The resulting impacts on inventory will make it harder in the intermediate term for pork to attract consumers on a retail price basis. Meanwhile, the poultry industry continues to execute a marketing strategy primarily predicated on producing a low-cost, consistent protein source. A weak economy underpins poultry's competitive advantage, but what will be consumer response once disposable incomes begin to rise and economic worries pass into the background?

Unexpected events

Finally, unexpected events such as trade disruptions, military conflicts, economic disasters, animal disease outbreaks or social-media-driven crises can bring significant volatility to the beef business with both short- and long-term impacts. The historic responses of consumers, governmental agencies and producers to these events are worthy of study.

Certainly all of the aforementioned are factors beyond the control of any one beef enterprise. However, history clearly points to the impact of these trends. The trends by themselves are only data series and objects of curiosity. However, when trend analysis becomes part of business strategy, real value can be harvested.

Perhaps the best approach to determining how to take action is to ask a few questions:

- ▸Have we seen this before?
- ▸How did we respond, and what were the outcomes of the decisions?
- ▸What opportunities are emerging as a result of the trend? Are they short- or long-term?
- ▸What are the consequences of responding or of holding fast?

Trend analysis and "what if" discussions have never been more important.

Tom Field

EMAIL: tfield2@unl.edu

Editor's Note: *Tom Field is a rancher from Parlin, Colo., and the director of the Engler Agribusiness Entrepreneurship Program at the University of Nebraska–Lincoln.*