

Section 2.2

Business Planning for Niche Beef Production



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Section Summary

- 
- Preparing elements of a business plan
 - Analyzing your current operation
 - Developing a vision statement and goals
 - Understanding management & group processes
 - Compiling and organizing financial information
 - Establishing risk management & exit strategies



Questions Of Strategic Analysis



- What is your current position?
 - ◆ Firm structure
 - ◆ Financial position
- What is your goal?
 - ◆ Statement of vision/mission,
 - ◆ Goals and objectives
- How should we get there?
 - ◆ SWOT analysis
 - ◆ Porter's 5-forces model



Strengths And Weaknesses

Goal: objective assessment of your strengths and weaknesses to:

- ▶ identify, protect and deploy **resources**,
- ▶ understand **capabilities** and
- ▶ develop **core competencies**.

Assess strengths and weakness:

- ▶ Relative to your **competitors** and
- ▶ Important to your **customers**.



Strengths And Weaknesses



Evaluate your business performance in the following categories:

- ▶ Marketing – reputation, market share
- ▶ Finance – profitability, financial stability
- ▶ Operations/resources – facilities, equipment, cattle, technology
- ▶ Organizational structure – management, staff
- ▶ Product – known brand, reputation
- ▶ Distribution – transportation, customer service



Strengths And Weaknesses

- 
- Examples of strengths include:
 - ▶ Reputation for high quality product & service in the community (product & marketing)
 - ▶ Dedicated employees (organization)
 - ▶ New working facilities (operations)
 - ▶ Current, well-kept financial records (finance)
 - ▶ On-time delivery of product to customer (distribution)
 - Weaknesses will be in the same categories, but consider areas that need improvement



Opportunities And Threats



- Evaluate external conditions that may affect your business
- External conditions may occur through:
 - ▶ Your competition
 - ▶ New technology – processing, packaging, genetics, feeding
 - ▶ The industry – structural changes (mad cow)
 - ▶ The market place – economy, changes in tastes and preferences



Opportunities And Threats



Examples of opportunities and threats:

- ▶ Isolated case of “mad cow disease” (industry threat)
- ▶ More consumers on the Atkins diet (market place opportunity)
- ▶ Bull sire that improves marbling and reduces external fat (technological opportunity)
- ▶ Rival company selling similar product at a lower cost (competitive threat)



Porter's 5 Forces Model



- Factors that shape business strategy are:
 - ▶ Threat of entry to the market from other organizations
 - ▶ Supplier power – determined by number of input suppliers and their prices, i.e., feed suppliers
 - ▶ Buyer power – determined by price and consumer/buyer demand for your product
 - ▶ Availability of substitute products
 - ▶ Existing competitors



Why Differentiation Is Important To Your Future



“The share of food expenditures that pays for food processing, packaging and transportation is climbing, while the share that pays for raw farm commodities is falling...”



How Different Can You Afford To Be

- 
1. How will differentiation affect your cost of production and long-term profit potential?
 2. What marketing benefits do you gain through differentiation?
 3. What organizational changes will it require?



Where To Begin

- Responsibility increases with each step a producer takes towards the consumer
- A complete business plan is an essential first step



Where To Begin

- Evaluate additional costs:
 - ▶ Labor
 - ▶ Transportation
 - ▶ Infrastructure
 - ▶ Changes in management at the ranch
 - ▶ Cash flow
 - ▶ Advertising/marketing/merchandising
 - ▶ Membership fees



Why Do You Need A Business Plan?

- 
1. Provide a roadmap for business leadership
 2. Assist in securing financing
 3. Demonstrate how to finance the operation
 4. Facilitate evaluation of all aspects of the business being started or changed
 5. Establish a system of checks and balances



Why Do You Need A Business Plan?

- 
6. Establish benchmarks
 7. Protect against oversight; promote careful consideration of the entire business process
 8. Result in thorough analysis and understanding of competition
 9. Help reach “LAUNCH”, “HOLD”, or “CANCEL” business decisions objectively
 10. Determine exit strategy



Elements Of A Business Plan

- 
- Description of business
 - Mission or vision statement
 - Business goals
 - Location of business
 - Market analysis – see Section 3.2
 - Marketing plan – see Section 3.3
 - Management and key personnel
 - Financial data



Description Of The Business



- Describe the unique aspects of your operation that will help develop a new or expanded position in the marketplace
 - ▶ Emphasize special features and describe why targeted consumers will find them appealing
 - ▶ Realize that the unique aspects of your operation may be organization and management



Analyze Your Operation's Resources



1. Land

- ▶ Including feed

2. Labor

- ▶ Family and hired

3. Capital

- ▶ Technology
- ▶ Cattle
- ▶ Finances - see Section 2.3



Analyze Your Land

- 
- How are my land resources best used?
 - Will marketing change timing and/or stocking rates in relation to grazing?
 - What constraints may I face?
 - ▶ Acreage
 - ▶ Quality of forage available, i.e., grass-fed beef require a different level of forage quality
 - ▶ Ability to improve available forage, i.e., irrigation



Analyze Your Land Resources: Feed

- 
- Evaluate your feeding options
 - ▶ Retained ownership in stocker and feedlot phases
 - ▶ By-product feeds and/or local feed availability
 - ◆ Bakery by-products
 - ◆ Cottonseed hulls
 - Availability of water



Analyze Your Labor Resources



Labor requirements

- Will more be needed?
- Will it be seasonal or year-round?
- Where will you find it?
- Will it be dependent on timing of contracts?
- Will family labor be provided in-kind?
 - ▶ Remember to account for in-kind labor financially



Analyze Your Labor Resource

- 
- Determine who will handle
 - ▶ Marketing
 - ▶ Communication with packers and retailers
 - ▶ Supply coordination
 - ▶ Accounts receivable and payable
 - Can you rely on your own skills or will you need professional expertise?
 - Communication between different operations managers and all employees is vital



Analyze Your Technological Resources

- Utilize what you already have
- Buy only what you need and can operate
- How will your marketing plan affect the level of technology needed?
 - ▶ May need electronic identification system and computer equipment for quality assurance and identification programs, improved production records, etc.



Analyze Your Cattle



“If a producer is to prosper in the long run by marketing cattle under these types of premium and discount schedules, he must be able to fine tune the genetic makeup of the cow herd to ‘hit the specs’ with a degree of regularity while maintaining flexibility in the cow herd to adjust to changing trends.”



Analyze Your Cattle

- 
- Try the niche you desire first
 - Send a sample of calves through the feedlot to get information on feeding performance and carcass quality
 - ▶ Where do your cattle excel?
 - ▶ Where do they need improvement?
 - ▶ Look into Extension programs in your area
 - Determine how your cattle perform on the rail in terms of quality and yield grades before sending all your cattle through one program



Analyze Your Cattle



- Do your homework
 - ▶ What existing program(s) do your cattle best fit, based on carcass data?
 - ◆ Certified Angus Beef, Laura's Lean, Maverick Ranches, Coleman Natural, etc.
 - ▶ What specifications do you have, or would you need, in your own program?
 - ◆ Yield grade: USDA 2s and 3s
 - ◆ Quality grade: upper two-thirds choice



Vision/Mission Statement



- Define a desired future state of the business
- Summarize the reason the business exists
- Key elements may include:
 - ▶ Primary markets & geographic areas to be served
 - ▶ Philosophy and values of the company
 - ▶ Current and future products and/or services
- Your internal mission statement may differ from your marketing mission statement



Vision Statement Components



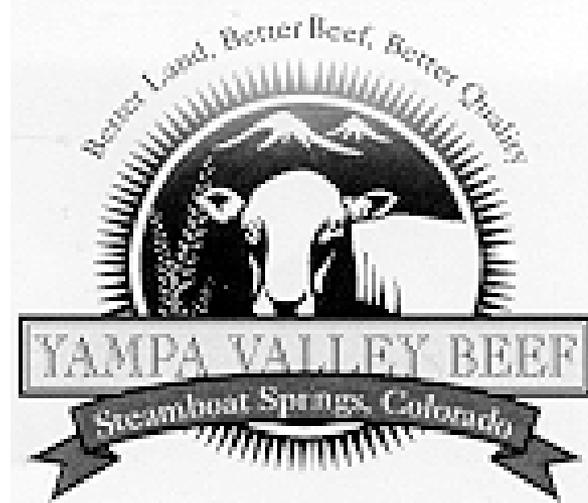
- Recognition of service to stakeholders
 - ▶ Owners/Creditors, employees, customers
 - ▶ I.e., generate higher return per head of cattle sold and produce a high quality product for consumer to enjoy
- Core ideology
 - ▶ Core values - timeless guiding principles
 - ▶ Core purpose - reason for being
- Envisioned future
 - ▶ Clearly articulated goal
 - ▶ Graphic description of success & the future



Yampa Valley Beef's Mission



“To develop an expanded market for locally produced brand name beef as a tool for improving the economic viability of ranching in the Yampa Valley while preserving agricultural lands and the natural communities they support.”





Oregon Country Beef's Mission



“To provide a simple, stable and profitable means for its members to produce for an OCB consumer market. Oregon Country Beef as an organization will excel at developing markets which best utilize practical ranch cattle and at translating cost and carcass data into information which assists members in making sound management decisions. By striving to market our livestock in a sustainable manner, the members of OCB will take care of and respect the customers, communities and lands which sustain us.”

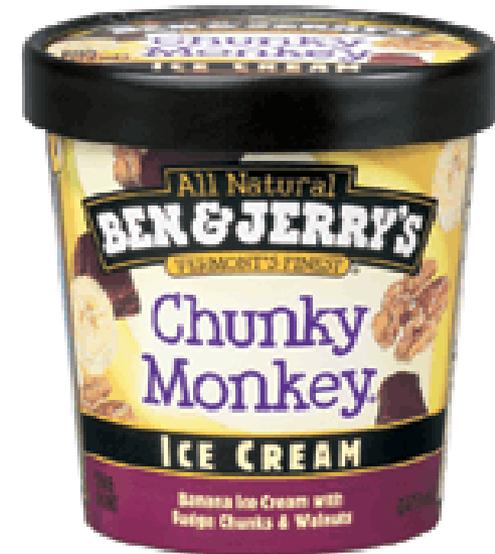




Ben and Jerry's Ice Cream Mission



“To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment.”



* Economic and social missions are separate.



Goals



“All companies have goals. But there is a difference between merely having a goal and becoming committed to a huge, daunting challenge...”



Thoughts On Goal Setting

- 
- Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world
 - A bold mission or goal, one that requires extraordinary effort and perhaps a little luck, will spur forward movement



Composition Of Goals

- Goals should be reviewed and revised as the mission evolves
 - ▶ Determine where the company is and will be
 - ▶ State goals quantitatively
 - ▶ Revisit goals annually or semi-annually
- Key elements of goals may include:
 - ▶ Return customers
 - ▶ Head processed through packing plant per week
 - ▶ Margin or profit



Your Location

- 
- Evaluate the advantages and disadvantages of the operation's location for:
 - ▶ Processing facilities – access and costs
 - ▶ Shipping – live cattle and final product distribution
 - ▶ Climate – forage availability and calving season
 - ▶ Labor – availability of help and wage rates
 - ▶ Customer base



Your Location



- Laws and regulations
 - ▶ Licenses or permits you may need and where you will obtain them
 - ▶ Federal inspection of product
 - ▶ Confined Animal Feeding Operation regulations
 - ▶ Tax laws
- Environmental considerations
 - ▶ Waterways
 - ▶ Condition of land
 - ▶ Wildlife



Management Of Key Personnel



“Management is being able to see the big picture without losing sight of the parts. Extending the ranching enterprise through value-added activities requires an enhanced level of management.”



Key Function

- 
- Marketing management - consumer focus
 - Financial management - capital focus
 - Operations/Logistics management - production/service, distribution focus
 - Human resources management - labor focus



What Is A Manager?

Four functions:

- Plan – decide goals and develop strategies to meet the goals
- Organize – establish responsibilities, delegate authority to employees to do particular tasks
- Direct/lead – communicate, encourage, and articulate goals to maintain progress on them
- Control – monitor and evaluate progress on goals and decide if changes need to be made



Who Is Going To Do What



- Develop job descriptions
- Determine who needs to be hired and what each position's responsibilities will be
- Decide who will fulfill key roles and be leaders
- Draw up a list of advisors and consultants



Assess Compatibility And Skills

- Determine your ability to work with others
 - ▶ Ask people to be candid
 - ▶ Get references
- Evaluate your skills
 - ▶ Knowledge base and eagerness
 - ◆ What have you learned about your business from outside sources?
 - ▶ Communication skills



Finances



“It is apparent that a producer must have a sound understanding of industry trends and directions.”



Why Keep Records?



You must keep good records to:

- Manage information and accounting
- Conduct financial planning for a new business or enterprise
- Manage finances internally
- Secure financing from lenders and investors



Manage Information And Accounting

- 
- Accounting system may be either cash or accrual
 - Cash accounting: no transaction is recorded unless cash is spent or received
 - ▶ Relatively simple and easy to use
 - ▶ May not accurately represent true profit/loss from the year's production activities



Manage Information And Accounting

- Accrual accounting: records revenue as the value of all products produced and all expenses incurred in producing that revenue during a year
 - ▶ Provides much more accurate estimate of annual profit/loss
 - ▶ Requires more entries into the accounting journal and more accounting knowledge



Manage Information And Accounting

- 
- General knowledge of basic accounting and accounting terminology is extremely useful
 - May need to hire an accountant depending on the size of your business venture, knowledge level, and available time of all involved
 - Alternative option is to train someone to fill the role of accountant



Manage Information And Accounting

- 
- Accounting for your new business venture may be handled by an outside cooperative or organization
 - This accounting system may be very beneficial
 - ▶ Track the venture as a new enterprise in your operation
 - ▶ Use a complementary financial accounting and measurement system



Financial Planning For A New Business or Venture

- 
- Beginning balance sheet
 - ▶ Evaluate all capital
 - ◆ Assets with useful lives greater than 1 year
 - machines, livestock, tack, computers
 - ▶ Current accounts show:
 - ◆ Distribution of company assets, liabilities and net worth at any one point in time
 - ◆ Affect of carrying inventory or trade accounts longer or paying higher labor costs



Financial Planning For A New Business or Venture



- Financing new assets or costs
 - ▶ Need debt strategy
 - ▶ Consider trade credit
 - ▶ Grant programs
- Income and expense planning
 - ▶ Use case studies from other ventures to estimate income and expense changes
 - ▶ Track all costs for better management decisions, i.e., in-kind labor



Manage Finances

Internally: Budgeting



- Enterprise budgets: track profitability of operation's individual segments
- Partial budgets: complement enterprise budgets by showing impact of specific line item changes
 - ▶ Use for decisions about changes in current production practices
 - ▶ Study subtle impacts on revenues and costs
 - ◆ Value of management's time and effort
 - ◆ Shrinkage



Manage Finances Internally



- Income statement:
 - ▶ Use to look for changes in income and expenses from year to year
 - ▶ Directly linked to investment and financing activities
- Balance sheet:
 - ▶ Measures business size
 - ▶ More comprehensive than income statement



Manage Finances Internally



Ratios can direct you to key issues

- Liquidity Ratio: current assets divided by current liabilities

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- ▶ Demonstrates extent to which current liabilities would be covered by assets, if you must liquidate today
- ▶ Better to have a liquidity ratio greater than one
- ▶ Can suffer if inventory and accounts payable grow beyond increases in revenue



Manage Finances Internally

- Rate of Return: track profitability of production enterprise against new marketing enterprise
- Leverage Ratio: total liabilities divided by total equity

Total Liabilities

Owner's Equity

- ▶ Better to have a leverage ratio less than one to show that you own more of your assets than you owe debt on



Securing Financing From Lenders And Investors



- Use partial budgets and your financial ratios to show progress, or the potential for progress of new activities
- Show lender that new capital resources will be used productively
 - ▶ Example: expectation of new revenue as a result of money lent to hire additional labor



Securing Financing From Lenders And Investors



- Be comfortable defending any perceived weak spots in your financial statements
 - ▶ Example: profits seem to grow slowly due to significant reinvestment in internal growth
 - ◆ Explanation: Minimizing short term profits to grow inventories and improve product selection is a very valid strategy



Securing Financing From Lenders And Investors



- Be comfortable defending any perceived weak spots in your financial statements
 - ▶ Example: Taking on more debt turns profitable over time
 - ◆ Explanation: If undertaken effectively, debt allows a business to expand. For example, to grow sales by employing new sales people or to lower costs by internalizing a project that was previously contracted out.



Impact Of Marketing Plan On Current Debt Status

- 
- Discuss new venture investment with your lender, whether it is self-financed or debt-financed
 - New ventures will typically result in changes in your financial condition
 - Lenders will want to know:
 - ▶ How possible losses from venture will be distributed
 - ▶ Liquidity of the stock or the company – how easily the stock can be transferred



Remember To...

- 
- Be honest with yourself
 - Measure the full cost of production, including opportunity costs
 - ▶ May carry cost of animal or inventory longer without paying producer member
 - Account for your time – all of it – even if unpaid
 - ▶ Labor and management tax
 - ▶ Volunteer time



Risk And Uncertainty



- Consider risks when developing your business plan
- Major farming/ranching risks include:
 - ▶ Production and yield risk (lighter weight calves, seasonality)
 - ▶ Market and price risk (price drop, “mad cow disease”)
 - ▶ Business and financial risk (high interest rate)
 - ▶ Social and legal risk (environmental regulations)
 - ▶ Human risk (unpredictable health and behavior, possible to lose key employee)



Manage Risk And Uncertainty

- See Section 2.8 for more detail
- Diversify your production
 - ▶ Spring and Fall calf crops
 - ▶ Sell other complementary products (marinades, sauces, seasoning)
 - ▶ Rent out facilities to others, i.e., USDA kitchen, processing facilities, process wild game during hunting season
 - ▶ Make other products from cuts that do not sell, i.e., jerky, sausage, soups, stews



Manage Risk And Uncertainty

- 
- Transfer risk onto others:
 - ▶ Get insurance if possible/affordable
 - ▶ Contract your cattle to another alliance for specific prices

 - As far as business and financial risk:
 - ▶ Maintain adequate liquidity
 - ▶ Lease land to others, i.e., feed horses during winter for nearby dude ranches



Manage Risk And Uncertainty

- 
- Manage social and legal risks
 - ▶ Have liability insurance
 - ▶ Keep informed on new laws and regulations
 - Manage human risks
 - ▶ Plan back-up management – don't depend on one key person for success
 - ▶ Be prepared for possible loss of an employee



Exit Strategies

- Consider exit strategies from the beginning:
 - ▶ Involve your lender
 - ▶ Consult an attorney familiar with business structures
- Determine program's liability structure
 - ▶ What is your responsibility to the packer and retailer if the program is liquidated?



Production Implications

- Determine if there is an alternative market for your cattle
 - ▶ Another branded program
 - ▶ Commodity market



Financial Implications

- Legal issues
 - ▶ Contractual agreements
- Shares in your business by others
 - ▶ Liquidation options
- Be sure to consult with your lender



Marketing Implications

- Flexibility in marketing
 - ▶ Determine if you have the option to market your cattle elsewhere while you are still involved in the program
- Reputation
 - ▶ Be careful of switching teams
 - ▶ Be careful of confusing your customers



How Long Will It Take?

- 
- Important to remember that developing a complete business plan is a lengthy process
 - May be expedited by experience:
 - ▶ Hire a consultant if funds are available
 - ▶ Consult small business administration
 - ▶ Consult your local university or Extension service