



Farm to Fork

A Direct-to-the-Consumer Beef Marketing Handbook, *2nd Edition*

How to Use This Handbook

This handbook is designed to be a self-directed guide to developing a business plan for marketing beef directly to the consumer. It contains basic explanatory material related to each part of a business plan, with a corresponding worksheet. You may choose to work on the sections in any order, although we recommend that you work on all the sections of the Financials chapter together. The business plan that you develop by completing all of the worksheets in the handbook will help you make more informed decisions about starting and growing a direct-to-the-consumer beef marketing business. You may complete the forms in this PDF handbook or via the online version at www.ncmarketready.org.

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Getting Started

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1. Completing a SWOT Analysis

Getting Started

What is a SWOT?

SWOT is an acronym for:

- Strengths
- Weaknesses
- Opportunities
- Threats

Analyzing the strengths, weaknesses and opportunities of your business, and recognizing any threats to its success, are key steps in creating a business plan. A SWOT analysis is a tool that you can use to strategically plan for the future of your farm.

Strengths are the *internal* characteristics of your business that you control, including your personal abilities, that contribute to success and positive results in your beef business. Weaknesses are the internal factors that may limit your success, or even cause your business to fail.

Opportunities are the *external* factors outside of your control that encourage you to start and grow a beef business, such as the market environment or customer demand. Threats are the external factors that can negatively affect your business, such as unexpected competition or a drop in customer demand.

A SWOT analysis offers you an objective look at your business and your business environment. The SWOT analysis and a list of your goals together are a good foundation for developing a successful business plan.

How to Complete a SWOT Analysis

Take a look at your personal and business strengths:

- Your advantages over your competition
- Your current production and management capabilities
- Your location
- Your personal philosophy
- Your access to or ability to secure capital
- Your knowledge and skills
- Your product's value to consumers
- Your customer's perception of your products' quality

1. Completing a SWOT Analysis

Getting Started

A SWOT analysis is a tool you can use to strategically plan for the future of your farm.

Be honest about your weaknesses:

- Lack of experience
- Lack of knowledge
- Unknown or poor reputation
- Lack of financing
- Current production schedule
- Access to processing facilities
- Production timelines
- Marketing challenges
- Limited, or no, farm help
- Distribution
- Pricing

Find the opportunities you can take advantage of:

- Market trends
- Consumer preferences
- Unfilled niches
- New or emerging markets
- International potential
- Competitors' susceptibilities
- Innovations and developments
- Partnerships

Recognize the threats to your business:

- Market instability
- Competitors with lower production costs
- Negative health claims about beef
- Legal considerations that may affect your operation
- Weather
- Lack of market awareness
- High market-entry costs



1. Completing a SWOT Analysis

Getting Started

A SWOT analysis offers you an objective look at your business and your business environment.

Your SWOT Analysis Worksheet

Consider the items in each of the sections below and how they apply to your business. As you consider each item, write down your observations about your business.

Strengths

- Your advantages over your competition
- Your current production and management capabilities
- Your location
- Your personal philosophy
- Your access to or ability to secure capital
- Your knowledge and skills
- Your value or quality

Other strengths: _____

Opportunities

- Market trends
- Consumer preferences
- Unfilled niches
- New or emerging markets
- International potential
- Competitors' susceptibilities
- Innovations and developments
- Partnerships

Other opportunities: _____

Weaknesses

- Lack of experience
- Lack of knowledge
- Unknown or poor reputation
- Lack of financing
- Current production schedule
- Access to processing facilities
- Production timelines
- Marketing challenges
- Limited, or no, farm help
- Distribution
- Pricing

Other weaknesses: _____

Threats

- Market instability
- Competitors with lower costs of production
- Negative health claims about beef
- Legal considerations
- Weather
- Lack of market awareness
- High market-entry costs

Other threats: _____

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

2. Knowing Your Customers

Getting Started

Understand the demographics of your market area.

Understanding Customer Wants and Needs

A successful business starts with knowing your customers. You may already know them as friends, neighbors and family. But to grow your business, you really need to know what your customers *want* or *need*.

For some customers, the “wants” are simple: they want to know you personally, develop a trust relationship with you and depend on you to provide them with a quality beef product.

Other customers may be more specific in their wants. They may want to know the breed of the animal, how you have fed the animal, the slaughter practices and whether or not the animal has been treated humanely throughout its life.

Be prepared to answer many different types of questions as you grow your beef business. Over time, you will begin to understand what your particular group of customers wants and why they keep returning to you to purchase beef. As a picture of your customer develops, you will then be able to clearly identify your *market niche*.

Who Are Your Customers?

One of the easiest ways to start to know your customers is to understand the demographics of your market area. Using U.S. census data can help you understand the age, income, family size and education level of your target market area. You also need to understand the size of your customer base.

Talking with other beef producers at cattlemen’s association meetings, or visiting other beef producers’ Web sites, is another good way to begin to understand what people expect when they purchase beef directly from the producer.

If you have started your business in a small way, with just a handful of customers, ask them why they buy beef from you. Find out what it is that they like and what they may be telling others about you.

Remember that each customer may have a different reason for buying from you. One may buy because of your price. Another may buy because they know you. Someone may buy because they like the taste of your meat. Each of these reasons becomes an important part of your developing business and marketing plan.

2. Knowing Your Customers

Getting Started

For some customers, the “wants” are simple:

- They want to know you personally.
- They want to develop a trusting relationship with you.
- They want to depend on you to provide a quality beef product.

Developing Your Customer Profile Worksheet

Will you be selling primarily to:

- Families
 Individuals

If to families, what is the average size? _____

Do your customers prefer to purchase meat sold:

- By the piece
 By the side
 In family packs

What comments have customers made about prices? (Do they appear to be price sensitive?)

What have your customers indicated about their delivery preferences?

- Prefer to purchase at a retail location (farmers market)
 Prefer to have home delivery
 Prefer to come to your farm

What is your optimal geographic coverage area? Your geographic coverage area may be limited to the licensing of your abattoir. See the section, “Federal vs. State Inspected Processors” on page 14 for more details.)

What qualities are customers looking for in their beef?

- Tenderness
 Flavor
 No added hormones
 Locally raised
 Humanely handled and slaughtered
 Grass fed
 Certified organic
 Other

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3. Assessing the Competition

Getting Started

What Does Your Market Look Like?

Your decision to market your beef directly to consumers means that you will face a different set of opportunities and challenges than those who sell their products wholesale. Selling directly to consumers requires a large time commitment and a love for interacting with people. You may find this adjustment difficult if you have not dealt directly with the public before. It is an important consideration as you plan your beef business.

If you decide that you want to deal directly with customers, then your choice of sales outlet is an important part of your marketing plan. The term “direct-to-the-consumer” can take on different meanings, depending on how you define your consumer. Part of understanding your market is knowing what works best for your location, personal preferences and type of business. You may prefer to sell all or part of a carcass and ask the customer to pick up product at the abattoir (slaughter facility). Or, you may enjoy the give-and-take of direct sales at the local farmers market. Internet sales make up another growing market segment, but remember that e-mail will take the place of face-to-face and telephone communication with your customers.

Events in the large-scale retail market can have both a positive and a negative effect on small beef producers. For example, reports of diseases or *E. coli* outbreaks within commercially produced herds may lead consumers to look for a local beef provider. On the other hand, a report about the negative health effects of beef on certain segments of the population may cause a cutback in overall beef purchases.

Keep in mind that markets are ever-changing. Staying up on these changes is just as important as keeping track of customer orders!

Adding Value to Your Market

As a marketer of direct-to-the-consumer beef, your most important task is to decide how to distinguish yourself from both the commercial market and from others who also market to consumers. Most producers start by looking at the more obvious differences:

- Production methods
- Feeding methods
- Flavor
- Quality



3. Assessing the Competition

Getting Started

Ask yourself one important question as you think about your business: **How can I be a price maker and not a price taker?**

Staying one step ahead of the market is important for small-scale producers. Your understanding of market demand and market trends will help you grow your business and successfully compete with others offering a similar product.

Ask yourself one important question as you think about your business: *How can I be a price maker and not a price taker?*

This is an important question because most commodity producers understand that they are price takers and that their profits lie in controlling costs and managing their herds efficiently. As a value-added producer, your understanding of the market and of what appeals to consumers enables you to have more control over your price. Remember, too, that choosing to be a price maker also requires that you have the management resources to add the value that gives you a competitive edge.

Take time to learn as much as you can about your market before investing too much money and energy into building your business. The goal is to reduce the “steepness” of your learning curve, and reduce the surprise, expense and frustration that typically occur as new businesses develop and grow.

Assessing Your Market and Your Competition Worksheet

Who are your primary retail store competitors?

1. _____
2. _____
3. _____

Who are your primary direct-to-the-consumer competitors?

1. _____
2. _____
3. _____

What are the trends in your market (growing, static, declining)?



3. Assessing the Competition

Getting Started

Staying one step ahead of the market is important for small-scale producers.

Based on this information, what do you see as your market niche?

What do you see as your key market characteristics?

What is the public's perception of beef as something safe and healthy to eat?

Have there been any recent food safety incidents related to beef (recalls, E. coli contamination, herd diseases)?

If so, how has this event affected your market?

How could a future recall affect your market?

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

4. Making Market Claims

Regulatory Considerations

What Is a Market Claim?

A “market claim” is a phrase that you use to tell consumers something about how your beef has been raised or slaughtered. Over the last 15 years, as consumer demand for specific types of products has increased, the U.S. Department of Agriculture (USDA) has increased its regulation of the use of certain market claims.

Label claims must be approved by your state’s Meat and Poultry Inspection office for state-inspected plants, or by the USDA office in Washington, D.C., for federally inspected plants. The label approval is granted to your abattoir—not to you—even though it will only be used on your beef. This is because your approved label is assigned a unique inspection legend number, and your processor is responsible for all labels with that inspection legend number.

The USDA only accepts certain phrases when making claims.

Label claims that are typically approved are:

- Raised without added hormones
- Raised without antibiotics
- Not fed animal byproducts
- Free range
- Free roaming
- Grass fed
- Corn fed
- Grain fed
- Certified organic (see paragraph below)

Claims that are not approved are:

- Antibiotic free
- Hormone free
- Residue free
- Residue tested
- Naturally raised
- Naturally grown
- Drug free
- Chemical free
- Organic
- Organically raised

Organic certification may be claimed only if you have complied with the organic regulations, received a certificate from an approved certifier and take your animals for slaughter to an abattoir that is also certified organic.

4. Making Market Claims

Regulatory Considerations

Remember, if you choose to obtain organic certification, you must renew your certification annually, and you must use an abattoir that is certified organic. If you should decide that you no longer want to participate in the certification process, you must notify the USDA of your decision. If you do not tell the USDA of your intentions, its certifiers will assume that you had intended to renew, but are out of compliance, and you can be subjected to a stiff penalty. You are responsible for confirming that your abattoir has maintained its certification.

Regulations and Product Labels

Every piece of meat you sell, whether you are selling by the piece, in family packs or by the side, must be labeled with the following information:

- The contents of the package (name of the product, for example “stew beef,” “ground beef” or “chuck roast”).
- If the contents have other ingredients (like spices in beef jerky), those ingredients must be listed (for example “beef, salt, red pepper, chili pepper and black pepper”). There are specific rules about the order in which ingredients must be listed and their names.
- Safe handling instructions, including “Keep refrigerated or frozen.”
- The mark of inspection with processing plant number.
- The net weight of the package.
- The name and address of the processing plant. If the name and address are other than the producer (such as the name and address of a farm), it must be qualified by a statement identifying the person or firm associated with the product (such as “Packed for _____” or “Distributed by _____”).

If you wish to apply for a label with specific marketing claims, you will need to talk with your processor and get your processor’s agreement to move forward with the application. Your state or the federal Meat and Poultry Inspection office will have paperwork for the processor to fill out to get your claims and label approved.

You may wish to avoid the time and effort associated with applying for a label, but you still must use care in your marketing and promotional materials, including your Web site. Any claims that you make in your printed materials (such as pamphlets, brochures, posters and graphics) that accompany, or are applied to, your products or any of their containers or wrappers at the point of purchase, can be considered a form of labeling. While these point-of-purchase materials are not subject to specific prior approval, they are expected to be in accordance with state and federal regulations and all current labeling policies so that you do not mislead your customer or misrepresent your meat products.

What Is a Market Claim?

A “market claim” is a phrase that you use to tell consumers something about how your beef has been raised or slaughtered.



4. Making Market Claims

Regulatory Considerations

For example, in North Carolina, any meat or meat food product is considered misbranded, (per N.C. General Statute 106-549.15 (15)) "if its labeling is false or misleading in any particular." This means that not only the immediate wrapper of a meat product must be properly labeled, but also any other printed material at the point of sale must be truthful and not misleading to the consumer.

You must make any claims related to nutrition and diet in accordance with all current nutrition labeling regulations. Claims are expected to be within the compliance parameters identified in the nutrition labeling regulations. Animal husbandry claims (such as the nonuse of antibiotics or growth stimulants) may be made only for products shipped in containers or wrappers labeled with the same production claims.

Defining Your Market Claims Worksheet

Identify your market claims together with an assessment of your product and competitor characteristics:

Desired Market Claim	Needs State or USDA Approval	Processor Able to Comply	Other Considerations

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

5. Choosing Your Abattoir

Regulatory Considerations

Federal vs. State Inspected: What's the Difference?

State and federally inspected processing plants follow similar guidelines to ensure that the meats they process are wholesome and safe for human consumption. The main difference between state and federal plants is that, by law, state inspected meats can only be sold within the state. In other words, meat products processed at state plants cannot enter commerce across state lines, which includes online sales, mail orders and other sales methods wherein meats are shipped out of state. Meat products processed at federal plants, on the other hand, may be sold across state lines, on the Internet and via mail order. State-inspected meat products bear a state inspection legend whereas federally inspected meat bears a USDA inspection legend.

Talmadge-Aiken (TA) plants operate under the authority of the Talmadge-Aiken Act of 1962, a law passed to help coordinate state and federal food safety guidelines. This law allows trained inspectors who are state employees to staff meat packing plants with USDA inspection privileges. A "TA plant" is a "federally inspected" plant, which means that meats from TA facilities bear the USDA inspection legend and can enter interstate commerce.

If your customers inquire about the differences between state and federally inspected meats, you can confidently tell them that both types of facilities follow the same safety standards and that the meats they purchase from either type of plant are safe to eat. The kind of plant you use only affects where you can sell or ship your meats.

In addition to state and federally inspected processing plants, there are custom slaughter facilities. Custom plants are facilities that slaughter or process (or both) that do not have a state or federal inspector on duty at all times. Custom plants are regularly inspected for overall sanitation, but neither the live animals nor the carcasses are inspected for disease. Therefore, the meat from these facilities is marked "Not for Sale" and cannot enter commerce. Custom slaughter operations are appropriate for the processing of meats from animals that are individually owned for personal use, and they often process exotic species (deer, for example, for hunters).

Things to Consider When Choosing a Processor

In theory, you should exercise the same care in selecting a processor for your beef that you would use in choosing a veterinarian for your animal during its life. The growing demand for locally raised beef is insufficient to offset the problems that affect the profitability of small processors, such as difficulty finding reliable labor and regulatory restrictions. What this means for you, the producer, is that you may be required to work closely with your nearest processor to help him understand your market needs. If your processor is state-inspected, and you want to sell your meat across state lines, then you may find yourself taking your animals several hours away to a federally inspected slaughter/process facility.

5. Choosing Your Abattoir

Regulatory Considerations

You should exercise the same care in selecting a processor for your beef that you would use in choosing a veterinarian for your animal during its life.

The type of facility is just the starting point to consider when choosing a processor. Several other critical factors must be considered when you evaluate the suitability of a processor for your market objectives. These factors include:

- Slaughter method and animal handling practices.
- Types of packaging.
- Labeling capabilities and willingness of the processor to work with individual labels.
- Length of time the processor will allow the carcasses to hang.
- Primal and retail cuts with which the processors are familiar.
- Ability and/or willingness of a processor to work with fresh versus frozen product.
- Applicable fees and processing prices.
- Animal drop-off/product pick-up times.

Remember that animal handling practices (including the slaughter method), cuts, hanging times and types of packaging can affect consumer willingness to buy your product.

Slaughter Method and Animal Handling Practices

Ask your processor for a tour of the facility so that you can observe how animals are handled from unloading off the trailer to the slaughter floor to the processing tables. Recent research has determined that animals that are calm until the point of slaughter do not release stress hormones that can alter the taste and quality of the beef. The distance you travel to take your animal to the abattoir is another factor to consider. If you are traveling more than 40 to 50 miles, ask yourself what impact this may have on your animals. Does the processor allow the animal to calm down overnight before slaughtering it in the morning? Does the slaughter process allow the animal to stay calm and feel unthreatened until the point of death? How quickly is the carcass prepared and hung in the freezer? These are all important questions when evaluating the suitability of a processor for your needs.

Packaging

Vacuum packaging in air-tight, heavy plastic bags is a preferred method because it helps to maintain the quality of your meats by preventing the product's exposure to moisture and oxygen and allows it to be stored in a cooler or freezer for an extended period of time. The transparent packaging material is also an excellent marketing tool, because customers can see the quality of the meat rather than having to guess what lies beneath traditional white freezer paper. Care must be exercised when handling meat packaged this way, as the tiniest pinprick can create an air hole in the package that will dry out the meat in a short period of time. You can reduce the chances of inadvertently creating these small air holes by placing meat in coolers and freezers (instead of "throwing" the packages in), stacking meat neatly and reminding your customers about the importance of careful handling.

5. Choosing Your Abattoir

Regulatory Considerations

Hanging Time, Cuts and Yield

Some of the cuts that are available in supermarkets are not the same types of cuts that a traditional processor provides. Your customers often do not understand where different cuts come from on the carcass. For example, don't be surprised if your beef customer wants a tenderloin roast as well as T-bone steaks. Be patient with your customers and be willing to provide resources and educational materials for them to make well-informed decisions. Also, your processor may cut a "round tip roast," but your customer expected a "sirloin tip center roast." As the person in the middle, you will need to be fluent in both the language of your customers (whose knowledge of retail cuts will vary) and the language of your processor. Provide new customers with a "default" set of written cutting instructions that they can use as a basis for their unique preferences. You should also provide your processor with a detailed set of cutting instructions for each carcass, and perhaps even each side, that is clear and brief. In short, be prepared to work with both your customers and processor to keep everyone satisfied.

Hanging time is an important part of producing a quality meat product. Hanging time, or dry aging, varies from facility to facility, and most meat is allowed to hang 10 to 14 days, a period of time thought by most people to be adequate. However, some processors allow meat with sufficient back fat to hang as long as six weeks. You should be sure that your processor will accommodate the length of hanging time you need.

Finally, take careful note of the live weight and yield of your animal. Most beef types generally dress between 50 and 55 percent of their live weight. Based on this percentage, and allowing for moisture loss, you should be able to calculate a reasonable weight for your finished beef. Also count pieces to ensure that you have received all of your processed beef. Inspect the meat for consistency and quality. All of the beef from one animal should have similar color, marbling and appearance characteristics. If you have questions or concerns about the consistency of the meat, contact your processor and let them know what you "inspect" and "expect" in the way of quality and handling. If you think you haven't gotten back the right amount of product, check with the processor to see if the inspector discarded anything or if there was some other problem.

References

It is quite appropriate to ask the management of the facility you are interested in working with for names of other producers that use the facility. Contact those producers. This will give you more information with which to make a decision, allow you to learn from others who have already been through the process of working with a particular slaughter/process plant, and prevent "reinventing the wheel."



5. Choosing Your Abattoir

Slaughter/Processor Facility Worksheet

Use the following checklist to assess the services of the abattoir(s) available to you:
Notes from tour of facility and interview:

	Abattoir 1:	Abattoir 2:
	Contact Information:	Contact Information:
	Key Personnel:	Key Personnel:
Miles from farm		
Slaughter/Process days/times		
Drop off days/times		
Slaughter fee per head		
Packaging fee per pound		
Fee basis – live weight, hanging weight, packaged product?		
Delivery available? If so, delivery fee for packaged meats		
Ability to process beef as requested		
Lead time for slaughter dates		
Hanging time		
Cut list details – Is facility willing/able to package the primal/retail cuts that I want? If so, how does processor want to receive my cutting instructions to insure accuracy?		
Type of inspection (federal/state)		
Packaging type – price differences for respective packaging material?		
Will work to obtain custom and approved label(s)? Will customize labels for my products?		

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Regulatory Considerations

Ask the management of the facility you are interested in working with for names of other producers who use the facility.

6. Developing a Production System

(based on cow/calf operations for N.C.)

Production Practices

While this effort is based on North Carolina cattle production systems, the same concepts apply to cow/calf systems in other areas of the country. The base forages, patterns of forage growth and weather conditions may vary, but growing calves will still require higher quality forages than traditionally supplied to cows, and increased management will be required to result in a desirable finished product.

Thinking About Developing a Birth-to-Slaughter Production System

You may be familiar with traditional cow/calf operations that typically sell calves off the cow at an age of about 7 months at a weight of about 550 pounds (assuming a 1,200 pound cow). Traditional stocking rates have assumed that the calf will start consuming forages at about 2 months of age at a very low level, and as the calf grows and cow milk production declines, the calf consumes more forage to the point where forage demand is highest when the calf is weaned and removed from the system, at which time the forage demand drops dramatically.

If you decide to keep your calves until they reach a desired slaughter weight, then it is important for you to understand that after weaning, forage demand continues to increase. If the total land area devoted to your production system is the same, then keeping calves to heavier weights will necessarily displace some of the cows your farm could carry when you had a strictly cow/calf operation.

In addition to the increased dry matter required per mature cow maintained, the quality of the forage produced needs to be higher. This is because post-weaning calves require higher quality forages than mature cows to achieve acceptable growth rates.

To successfully transition from a traditional cow/calf operation to a system where calves are grown to heavier weights, you will have to learn how to produce higher quality forages and how to properly allocate them to keep calves growing at the rate needed for marketing at a reasonable weight and age. This is especially true if you plan to develop all-forage growing and finishing systems.

Understanding Your Forage Options

Typical forages used in southern U.S. beef production systems including Bermuda grass and infected fescue, may not be able to support the gains necessary for a growing and finishing system. Producers will have to develop a system including forages that will support higher rates of gain and extend the grazing season (including nontoxic fescue,

6. Developing a Production System

(based on cow/calf operations for N.C.)

Production Practices

Forage demands increase after weaning.

orchardgrass, winter annuals, summer annuals and native warm-season perennials) and allocate them to the growing calves. Harvested forage fed to the growing animals during times when grazable forage is not available will also need to be higher in quality than is typically used for cow/calf production. Cows in these systems can be supported on pastures with the traditional forages, and on lower quality harvested forages.

Regardless of the forage base and the finishing system chosen, producers will have to work diligently to maintain good animal health, use good feeding management (including using good quality mineral supplements) and improve their grazing management abilities. The examples that follow are based on typical medium frame cattle with mature cow weights of approximately 1,200 pounds, and average finished weights of the animals of approximately 1,200 pounds. Producers with smaller or larger frame cattle will require slightly less or more acreage and feed per animal finished, but the concepts are the same.

Three Examples of Production Systems for On-Farm Finishing

System 1.

The first system is a forage only system that would take calves from weaning weight of 542 pounds at 7 months of age to a final weight of 1,226 pounds at 22 months of age. This example system assumes a rate of gain of 1.5 pounds/day over the 15 months following weaning. Because no concentrate is used, there will be a need for very high quality harvested forage or pasture during the weaning period to keep calves performing. There will be inherent variation in the rate of gain calves will make depending on the time of year, with gains exceeding 1.5 pounds/day during times when high quality forages are in abundance, and less than 1.5 pounds/day during times when high quality forages are not available. While this variation is expected, producers should make every effort to maintain gains over 1 pound/day. Allowing gains to fall below 1 pound/day is thought to reduce final consumer acceptance of beef. Choice of forage for the final stages of this all-forage finishing system may influence flavor and consumer acceptance of the beef, but this is a poorly understood area that needs additional research.

System 2.

The second system is the same as the all-forage system, except that during the last 60 days the cattle are fed 2 percent of body weight (dry matter basis) as a concentrate feed. After weaning, calves will gain an average of 1.5 pounds/day on an all-forage diet. At 17 months of age they will be started on concentrate and will achieve an average daily gain of 3.5 pounds/day and a final weight of 1,211 pounds at 19 months of age.

6. Developing a Production System

(based on cow/calf operations for N.C.)

Production Practices

This system will require about 1,475 pounds of concentrate (on an as-fed basis) for each animal. The reason for feeding the concentrate is to put some added fat on the animals (which some consumers prefer) and to make the flavor of the beef more consistent and acceptable to certain consumers who prefer the flavor of grain-finished beef. The concentrate does not necessarily need to be a traditional corn-based concentrate, but can include some level of locally available sources of high-fiber concentrates.

As indicated for the first system, this system will require producers to put more emphasis on growing improved forages, and to be better managers of the forage they do produce. Small finishing pastures would be used for the final 60 days, with the cattle fed either a high quality harvested forage, or pasture forage when available.

System 3.

The third system involves supplementing calves after weaning with a high-fiber concentrate feed for 120 days, and then finishing on a higher level of concentrate for an additional 120 days. Calves would be started at weaning at a level of 1 percent of body weight, resulting in an average daily gain of 2.25 pounds/day. At 11 months of age (and 827 pounds body weight) the cattle would be placed on a high concentrate ration fed at 2 percent of body weight, resulting in an average daily gain of 3.5 pounds/day. Final harvest weight would be 1,252 pounds at 15 months of age. This system would require about 915 pounds/head of the growing supplement, and about 2,770 pounds per head of the finishing concentrate. This system would be easier to achieve with a system including mostly traditional southern forages, but the growing cattle would still need to be provided higher quality forage and a higher level of management than is typically used on traditional cow/calf operations. Because the “finishing” period is extended for an additional 60 days compared to the second system, additional feeding pastures would be needed, and these would expect to take heavier animal impact. With either system involving finishing with concentrate on pasture, be aware that rotating forage pastures and allowing for rest periods will be important to maintain vegetative cover and keep in compliance with environmental regulations.

Natural variability of calf age and growth rate will result in calves that are not all finished at the same time. This will actually be desirable for most producers as harvest capacity, transportation ability and market dates will, in many cases, make it undesirable for all animals to be finished at the same time. Systems 1 and 2 will potentially allow for a more continuous supply because animals are unlikely to become overly fat if the harvest age is extended. Cattle in System 3 are more likely to be finished nearly at the same time, and are more likely to become overly fat if feeding continues after they reach finished weights. To spread out the supply of finished cattle in System 3, a producer may consider selecting animals based on body condition to put into the finishing phase periodically instead of managing them all as one batch.



6. Developing a Production System

(based on cow/calf operations for N.C.)

Preferred Production Practices

Desired herd size:

Desired breed type(s):

Weaning age:

Disposition of weaned heifers:

Bull on site or use of AI for breeding?

Desired length of production cycle:

Provisions for animals older than 24 months if unable to market as beef production system selection:

Production Practices

Regardless of the forage base and the finishing system chosen, producers will have to work diligently to maintain good animal health.



6. Developing a Production System

(based on cow/calf operations for N.C.)

Production Practices

	System 1	System 2	System 3
# Head of cattle to finish			
Pasture size			
Forages/amounts			
Grain/amounts			
Costs to produce pasture (from financial data)			
Costs of grain purchases			

Other Considerations:

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

7. Planning for Profit

Financials

We recommend that you read or download all of the chapters within the Financials section of this handbook and review all of the material before starting work on the financial aspects of your beef enterprise.

Starting and growing a new farm enterprise can be exciting and daunting at the same time. Profitability is not guaranteed. Anyone considering a finishing and marketing operation should evaluate the expected profits and cash flow requirements for their proposed venture. Similarly, once you are in business, monitoring financial performance can help you identify opportunities or problems quickly. The chapters in this section discuss some tools you can use to effectively manage the financial aspects of a beef finishing and direct marketing business. You will receive both short- and long-term rewards if you (1) take the time to develop financial projections before you start a new enterprise and (2) keep good records and use them to monitor your progress once you are in business.

The chapters within the Financials section of this handbook are designed to complement each other. We encourage you to work through each of them. Additional online tools, with Excel spreadsheets that you can complete, are accessible through the links provided.

If you are the boss, your job involves three key tasks:

1. Planning;
2. Implementing the plan effectively; and
3. Monitoring and evaluating the results of the plan and using what you learn to control the business more effectively.

Effective problem-solving is a necessary skill common to all three functions.

We think it is helpful to divide planning into two types:

1. **Strategic Planning** — the big picture or “Doing the right thing.” This means setting business and family goals and developing a long-term plan to achieve these.
2. **Tactical Planning** — the short-term planning of seasonal and day-to-day activities, or “Doing things right.”

Both types of planning are important, and both require good information about the farm business. Many farm business managers give too little thought to goal setting and strategic planning, in part because these activities can be difficult and uncomfortable. Controlling—which involves monitoring and evaluating performance—is another often neglected area of management. Each farm manager or farm family needs to know where they stand relative to their goals, relative to their plans and relative to other farms.

7. Planning for Profit

Financials

A budget puts financial numbers to your farm production and marketing plan.

How Can an Enterprise Budget Help?

A budget puts financial numbers to your farm production and marketing plan. Chapter 6, Developing a Production System, provides three example systems, each with a different cost structure and production timeline. These examples have been developed based on the climate and forages available in North Carolina's piedmont, which has a grass-growing season that typically runs from late spring (end of April) to early fall (early to mid-October). Each system has different types of forages, and there are differences in the amounts of forages and supplementary feeds fed. These differences affect the carrying capacity of the farm, cattle growth rates and production costs.

Table 7-1 illustrates some of the operating and economic differences for alternative farm plans and reinforces the need to develop detailed plans for a new finishing and direct marketing enterprise. It shows four farm scenarios based on the practices described in Chapter 6. All the scenarios are based on a fall-calving herd on a farm with 125 acres of pasture land: (1) a cow-calf operation selling weaned feeder calves, (2) raising and finishing cattle on forages only, (3) raising and finishing cattle with limited amounts of supplement during the last 60 days, and (4) raising and finishing cattle on forage plus large amounts of supplement after weaning. The costs and returns are based on the 2008 versions of the N.C. State University enterprise budgets and reflect full economic costs. The weaned calves and finished cattle are valued at the prices listed in these budgets, and the net returns for the finishing scenarios reflect the estimated sale value of finished live animals without considering the added revenue from and costs of processing and marketing. The revenue from and costs of processing and marketing a specialty product like pasture-finished beef will be farm specific, and it is beyond the scope of this article to evaluate these. An Excel spreadsheet for figuring cut-out values is available online: <http://www.ag-econ.ncsu.edu/faculty/benson/PubsBenson.htm>

Table 7-1. Operating and Economic Differences for Alternative Farm Plans

Item	Cow-Calf Only	100% Forage Fed	Limited Supplement	High Supplement
Number of Cows	50	33	36	46
Number of Calves or Cattle	44	29	31	41
Target Sale Month	May	July	April	December
Age at Sale	7 Months	22 Months	19 Months	15 Months
Total Enterprise Net Returns	Base	+\$2,815	+\$2,866	-\$4,246
Net Returns Per Head	Base	+\$64	+65	-\$97

7. Planning for Profit

Financials

If the initial budgets do not show the desired profit, then revisit the underlying production systems and practices to see if changes can be made that will improve profitability.

We encourage you to develop an enterprise budget that is specific to your enterprise and your location. The costs and returns in your budget should reflect the type of operation you plan to have and the production practices you plan to use. The agricultural agent at your county Cooperative Extension center can assist you in locating production data for your location. When planning, consider how you will cope with drought or other adverse weather conditions (such as excessive rains, hurricanes or snow). In addition, consider alternative ways to directly market your beef. Each alternative will have different opportunities and costs.

You can gain some useful insights by evaluating the various parts of your production system by developing a separate budget for each. This allows you to see how each part contributes to overall profitability. The separate parts might include a cow-calf budget, a finishing budget, and a processing and marketing budget. The value of the feeder calves can be credited as revenue to the cow-calf budget at market prices and charged as a cost to the finishing budget. The processing and marketing budget can “buy” the finished cattle from the finishing operation. In this manner, each activity stands on its own feet and its contribution to profits is plain to see.

If the initial budgets do not show the desired profit, then revisit the underlying production systems and practices to see if changes can be made that will improve profitability. If this sounds like a lot of work, it probably is. But it can save you from finding out the hard way that your plans were not as profitable as you wanted or expected. For existing operations, using actual revenue and expenses in a budget framework is one way to measure and evaluate profitability.

N.C. State University’s cattle enterprise budgets provide examples of costs and returns by stage of production, including cow-calf, growing and finishing. These budgets are available in print or spreadsheet versions online: www.ag-econ.ncsu.edu/extension/Ag_budgets.html. Forage costs in the beef budgets are based on N.C. State forage enterprise budgets from the same source. Many land-grant universities prepare enterprise budgets, and one source is a national searchable database: www.agrisk.umn.edu/Budgets/Default.aspx.

Enterprise budgets, by definition, consider only costs and returns attributable to that specific enterprise and omit costs attributable to the farm as a whole, such as farm overhead costs. Most budgets are designed to represent a certain type of operation, but wide variations exist among the sizes and types of cattle enterprises and the production practices they employ. The worksheets were designed as templates and should be modified to fit your specific farm situation.

7. Planning for Profit

Financials

Production budgets develop cost and revenue estimates for producing live animals. Budgets are required also for the processing and marketing aspects of the operation. These budgets would include estimates of the sales revenue from the carcasses or meat cuts, processing costs and marketing costs. Formal budgets for these activities are hard to find but can be developed on spreadsheets from carcass cut-out worksheets and cost estimates for the various marketing activities. The final budget would have the following categories:

- Transportation from farm to processing facility and back (time and vehicle expense)
- Processing fees
- Cutting, wrapping and labeling
- Product storage
- Sales cost (fees, time and vehicle expense)
- Advertising and promotion
- Regulatory compliance, including obtaining any required licenses, facility construction and maintenance requirements, record-keeping, and staying abreast of regulatory changes.

You can also use the production cost estimates developed in budgets as one component in setting sale prices for your meat.

Cash Flow

Cash flow is a second consideration, both for a new enterprise and for an existing one. An enterprise budget (or set of budgets) estimates the profit potential of a new enterprise. If the estimated returns look acceptable, then consider the cash flow needs during the start-up phase to ensure adequate funds will be available when needed and to make prudent arrangements for repayment of any loans or credit.

As the name suggests, cash flow projections consider only the amounts and timing of cash inflows and outflows for the farm. There are four types of cash flow:

- Income and expenses from the day-to-day operations, including cattle sales and the expense items described as operating expenses in the enterprise budget section.
- Capital asset purchases and sales. These are the long-lived assets used in the enterprise and include equipment, breeding stock purchases and investments in new facilities.
- Financing activities, including new loans or credit and principal payments made to retire debt.
- Family farmers quite often include nonfarm income and family expenses to complete the picture.

7. Planning for Profit

Financials

An existing cow-calf producer who is considering a new farm-raised, direct-marketed beef enterprise also should consider the effects of the transition on the farm's cash flow. If a substantial portion of the calf crop is retained for finishing, a decrease in farm revenue will occur in the short run. Additional expenses will be incurred to grow and finish these cattle. New investments may be needed in farm infrastructure—for example, to improve pastures or provide new fences and watering systems. Marketing and distributing meat also might require some upfront investments. Where these changes in revenue, costs and new investments will be large, making cash flow projections through the start-up period will help identify any cash flow problems, their size and when they will occur. New loans or credit may be needed, and the cash flow projections will help determine a reasonable repayment schedule. To reduce the work load, many cash flow projections are made on a quarterly basis through the start-up period (rather than monthly), which might last three to five years. Projections should start from the date the first financial commitments to the new enterprise will be made. Include the activities for each quarter plus the accumulated effects of the previous quarter. Large but infrequent investments in equipment and facilities will be captured, as well as seasonal changes in operating expenses and sales. Cash flow spreadsheets for a farm and for a value-added enterprise are available online in Excel: <http://www.ag-econ.ncsu.edu/faculty/benson/PubsBenson.htm>

Record-Keeping

Most people find record-keeping a chore, but it is a necessary chore. There is an old saying: "If you don't measure it, you can't manage it." This applies to both farming activities and farm finances. Many producers keep financial records purely for tax purposes and file taxes on a cash basis. However, cash basis tax records do not provide reliable information for management purposes, particularly for a cattle operation—with its long production timeline from birth to sale. With a little more effort, you can create a more useful set of records.

Keeping a useful set of records requires the following activities:

- Taking an inventory on the first day of the fiscal year, usually January 1, and creating a net worth statement showing assets, liabilities and equity.
- Preparing a cash flow summary for each year to see where money came from and where it went. This summary should be organized using the four categories of cash flow listed above.
- Using the inventory information to adjust the cash records to more accurately reflect the value created by the farm during the year, the expenses incurred and the net income generated (profit).
- Keeping farm and financial records that can be used to generate a set of performance measures that highlight the strong and weak points in the farm's performance.



7. Planning for Profit

Financials

These statements and performance measures provide the farmer with the information necessary to monitor what is happening on the farm, to identify problems promptly and to make any needed changes in a timely manner. Monitoring and analyzing your financial progress is discussed in Chapters 8 and 9, and record-keeping is discussed in Chapter 10. Risk and risk management are discussed in Chapter 11.

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

8. Monitoring Financial Performance and Health

Financials

An assessment of past performance can uncover problems and help to define realistic goals and priorities.

Is Your Operation Financially Healthy?

A finishing and direct-marketing beef enterprise may be one of several farm enterprises or the only one. Either way, begin by assessing the performance and health of the entire farming operation. An assessment of past performance can uncover problems and help to define realistic goals and priorities. Any plans for the future must recognize the realities of the present.

The Three-legged Stool

The overall financial performance and health of any farm business is described by the following financial statements:

- A cash flow summary, including for a family farming operation non-farm income and withdrawals
- A net worth statement or balance sheet with assets valued both at cost and at market value
- An income or earnings statement

A statement of owner equity ties all three together.

In a healthy business, cash flows should be adequate to pay routine operating expenses, meet scheduled loan payments and meet family living needs in a timely manner. Asset values and net worth (equity) should increase over time. The farm's debt load normally should decrease. (An exception may occur when large new investments have been made with debt financing.) Cash flows and earnings should be capable of maintaining the asset base of the business because future earnings and cash flow depend on maintaining needed farm equipment and facilities in good working order. A business can be strong in one area and weak in another, but a healthy business is strong in all three areas.

A **cash flow** summary, as the name suggests, summarizes cash flows during the course of the financial year. A summary should categorize cash flows under four headings: Operating, Capital or Investing, Financing and Non-farm. A summary report should include gross inflows and outflows and the net amount in each of the four categories. Because farming assets wear out and need to be replaced, debts need to be retired and the farm needs to contribute to family living expenses, the net cash flows in these three categories (capital, financing, non-farm) usually are negative (net outflows). The farming operation must generate a positive net cash flow that is large enough to provide for the negative net cash flows in the other three categories.

8. Monitoring Financial Performance and Health

Financials

A cash flow summary, a net worth statement or balance sheet and an income statement are needed to adequately describe the overall financial performance and health of any farm business.

Any farmer who has borrowed money is familiar with a **net worth statement** or **balance sheet** because a lender requires it. However, this information is also essential for management purposes. A net worth statement is a detailed listing of farm assets and liabilities on one particular day. The difference between the two is the owner's equity or net worth. Assets should be valued both at cost and at fair market value. For some purposes, such as tax planning, a cost basis is more useful. For other purposes, such as estimating the collateral available when applying for a new loan, fair market value is more appropriate.

To be most useful for management purposes, a balance sheet should be prepared on the first day of every financial (fiscal) year, most commonly January 1 every year. There are three reasons for this. First, the amounts and value of some items fluctuate through the year because of farming activities. Preparing this financial statement at the same time each year minimizes potential distortions. Second, although one net worth statement is useful, a series of them provides trend information on the value of farm assets, the farm's debt load and net worth. Third, some of the items on the net worth statement are useful in calculating profit measures accurately, so the net worth statement needs to match the start (and end) of the accounting period.

Measures of **profitability** are generated in the earnings statement. Profitability is a much used and abused term. It is important that we understand what it is because, more than any other measure, profitability is the key to the long-term success of a farm operation. Profit is what you **EARNED** on what you had to work with: your investment in land, livestock, facilities and equipment; the unpaid labor the family contributed; and your management skill and willingness to take risks. Profit is **NOT** measured by what you have in the bank or what you report on your tax return. Profit is best measured as returns on investment (assets) or returns to management. There are other useful measures as well.

On the revenue side of the profit equation, we need to recognize that during the course of a year a farm can generate more production than is actually sold. It may also generate less. This often occurs in a cattle operation, where the number of cattle on the farm, their weight and their value can vary considerably from year to year. To calculate profits accurately, we must adjust the cash sales of farm products for such non-cash items as changes in livestock and feed inventories, crops on hand, changes in accounts receivable and government program payments that might be due.

Similarly, on the expense side, not all expenses may be paid for and not all purchases may be for this year's farming operation. Cash purchases must be adjusted for unpaid bills and prepaid expenses, and for items used from or added to inventories. We usually calculate an annual depreciation expense for farm (capital) assets, which spreads out the cost over an asset's useful life. Some of these non-cash adjustments must be calculated from information found on the balance sheet, which is why a balance sheet must be



8. Monitoring Financial Performance and Health

Financials

prepared on the first day of each financial year and on the first day of the next year. The non-cash adjustments to cash transactions are called *accrual adjustments* because they allow you to generate revenue and expense figures that truly reflect the operation of the farm that year.

These three financial statements are useful in and of themselves, both for the current year and when compared over a period of years. However, they also form the basis for more in-depth assessments of various aspects of the farm enterprise. These are discussed in Chapter 9.

Creating Your Financial Statements

We encourage you to visit the Ag Decision Maker Web site at Iowa State University: <http://www.extension.iastate.edu/agdm/wdfinancial.html>. This Web site includes a comprehensive inventory of fact sheets that explain financial terms and reports. It also has downloadable Excel spreadsheets you can use to prepare the financial reports described in this chapter.

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

9. Tracking Financial and Farm Performance

Financials

Profitability is the foundation of a successful business.

Financial Performance

A broad picture of the financial performance and health of any farm business is provided by three different financial statements, each looking at a different aspect of the farm. These were discussed in Chapter 8:

- A cash flow summary
- A net worth statement or balance sheet
- An income or earnings statement calculated on an accrual or accrual adjusted basis.

These three financial statements provide the basic information for calculating key measures of financial performance. The Farm Financial Standards Council recommends 21 performance measures. These measures cover five important areas: profitability, solvency, liquidity or cash flow, debt repayment capacity and financial efficiency. Most farm families require assistance with calculating and interpreting these measures. In addition, the actual values for many of these performance measures vary with the type of farm and will change year-to-year along with changes in the farm economy. For this reason, specific benchmarks for a similar type of farm for a particular year are very helpful in judging whether the farm performed well or poorly that same year.

*There are five **profit** measures:*

1. Rate of Return on Farm Assets
2. Rate of Return on Farm Equity
3. Operating Profit Margin Ratio
4. Net Farm Income
5. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

Profitability is the foundation of a successful business. It is a measure of how effectively a farm owner or a farm family uses the resources at its disposal—in other words, what did the business really earn from these resources? *Rates of return* on the investment in assets and on equity are traditional measures of profitability for all types of businesses. A useful goal is a rate of return that is greater than the interest rate charged by lenders. *Operating profit margin ratio* shows how many cents on each dollar of revenue you received you managed to keep. *Net farm income* measures the combined returns to the unpaid contributions made by the family—labor, equity capital invested and management skill. For a beef enterprise, these measures will vary year to year because of changes in costs, such as cattle prices, feed costs and fertilizer costs.

9. Tracking Financial and Farm Performance

Financials

It simply is not possible to gauge financial performance and health from farm production records alone.

There are three measures of **solvency**:

6. Farm Debt to Asset Ratio
7. Farm Equity to Asset Ratio
8. Farm Debt to Equity Ratio

Solvency looks at the relationship between business assets and liabilities. Unlike profitability and liquidity measures, which measure performance over a period of time, usually one year, solvency is measured on one particular day. Solvency measures the relationship between the farm assets and borrowed capital and related obligations and the family contribution (equity). These ratios indicate the farm's ability to repay debts from the sale of assets, if needed. They also help to gauge the business's ability to withstand financial difficulties, if difficulties arise, by borrowing against equity. All three solvency measures get at the same idea: namely, the higher the debts relative to asset values or equity, the greater the risk of business failure. Most lenders prefer to see a debt-to-asset ratio of less than 0.5:1 (that is, farm debts that are less than 50 percent of the farm's asset values) as a condition for making a new loan.

There are three measures of **liquidity**:

9. Current Ratio
10. Working Capital
11. Working Capital to Gross Income Ratio

Cash flow or liquidity measures the ability of a business to meet its various financial obligations when they become due, such as feed bills, loan payments and family withdrawals. Profitability and liquidity are not the same. For example, not all profits are in the form of cash, so the farm earnings may not provide the necessary cash when needed. Conversely, some cash flow items are not considered in calculations of profitability. Liquidity measures are important when farms do not have regular income from cattle sales. A *current ratio* greater than 1:1 (that is, more than \$1 of current assets for each \$1 of current liabilities) means a farm has the necessary liquidity to meet short-term obligations. A larger ratio indicates greater short-term liquidity. Similarly, a greater amount of *working capital* and a larger amount of working capital relative to farm revenue indicates greater liquidity.

9. Tracking Financial and Farm Performance

Financials

There are five measures of **repayment capacity**:

12. Capital Debt Repayment Capacity
13. Capital Debt Repayment Margin
14. Replacement Margin
15. Term Debt Coverage Ratio
16. Replacement Coverage Ratio

Debt repayment capacity and margins measure the ability of the business to repay loans. Capacity measures show the dollar amounts available for debt service and the replacement of capital assets. Margin measures show the differences between cash available and debt repayment and asset replacement needs. These measures consider non-farm income and family living needs in addition to the business contributions. Both measures are important. These measures are important because many farms borrow from different sources or have several different loans with one lender. In these situations, it can be difficult to keep track of overall loan repayment activity. The *coverage ratios* show the relationship between cash available and scheduled debt payments, and a high ratio is desirable. These measures also can be used to gauge the impact of changes in cattle or meat prices or costs of production on the ability of the business to repay additional debt. The replacement margin and coverage ratio also shows the ability of the farm to replace farm assets.

There are five different measures of **financial efficiency**:

17. Asset Turnover Rate
18. Operating Expense Ratio
19. Depreciation Expense Ratio
20. Interest Expense Ratio
21. Net Farm Income Ratio

Financial efficiency measures, as the name suggests, look at performance in broad financial terms. Farmers are accustomed to efficiency measures such as average daily gain and tons of hay per acre. Financial efficiency measures look at how well farm investments produce revenue (*asset turnover rate*) and the relationships between different types of expenses and revenue (for example, *operating expense ratio*). Low expense ratios are desirable. However, when these ratios are too high, you cannot tell whether it is because revenue is too low, expenses are too high or both. Similarly, a high net farm income ratio is desirable. What is considered a desirable ratio for the purposes of comparison will vary from year to year with economic conditions, so annual benchmarks are very beneficial.

9. Tracking Financial and Farm Performance

Financials

Farm Performance

The “Big 3” financial statements and the 21 measures of financial performance provide a comprehensive view of farm financial performance and point to potential problem areas.

Any problems require us to dig deeper by using farm production performance data, either alone or in combination with financial data. Examples of additional information include feed costs per pound of gain or veterinary costs per cow. Because financial performance is a consequence of the farming operation, we need to measure what was going on in the herd and in the field. This includes livestock performance, such as calf crop percentage and weaning weights, and yields per acre for each crop. Farm records are needed to provide this information. However, it is important to recognize that farm performance measures taken alone are poor indicators of financial performance and financial health. They should be used to help diagnose the cause of any financial problems identified by the financial analysis.

Also, financial records need to be supplemented with physical data, such as pounds of meat sold, number of head bought or sold, or tons of livestock feed purchased. These data allow us to monitor finances by calculating performance indicators, such as average revenue per pound of meat sold, cost per head of animals purchased or cost per ton of feed purchased. These indicators help us to identify high costs and to assess more profitable alternatives. Usually it isn't too difficult to incorporate this information into the financial record-keeping system.

Benchmarks and Trends

Some of these financial measures are useful in an absolute sense as, for example, debt-to-asset ratio. Some benchmarks or yardsticks might be set by the family—for example, a target rate of return on assets. However, most are much more useful if we have standards or benchmarks from other farms of a similar type for comparison. For example, what operating ratio is considered appropriate for a cow-calf producer? Because financial performance numbers change every year in response to changing conditions (such as changes in the farm economy and weather), it is very helpful to have comparable data for similar types of farms each year. Unlike farm production targets that don't change much from year-to-year, such as calf crop percentage, many financial benchmarks do change from year-to-year. Most of this benchmarking information comes from university record-keeping program summaries or similar research.

9. Tracking Financial and Farm Performance

Financials

Trend analysis is another financial management tool for monitoring the farm's progress in achieving the family's financial goals.

What Next

If the performance measures described above indicate problems, the next step is to diagnose the specific cause(s). This diagnosis should be followed by efforts to identify alternative solutions. The most promising solutions should be evaluated by developing budgets to determine the impacts on profitability and on cash flow. For major changes, develop an implementation plan to guide you through these changes. Continue monitoring farm performance to see if these changes are working as intended.

A Final Point

Many studies have shown that there is a weak relationship between **farm** performance and **financial** performance. It simply is not possible to gauge financial performance and health from farm production records alone. Financial performance must be measured directly using the statements and measures described here.

Creating Your Financial Statements

We encourage you to visit the 'Ag Decision Maker' Web site at Iowa State University: <http://www.extension.iastate.edu/agdm/wdfinancial.html>

This Web site includes a comprehensive inventory of fact sheets that explain financial terms and reports. It also has downloadable Excel spreadsheets you can use to prepare financial reports.

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

10. Keeping Useful Business Records

Financials

Managing the business, including making plans and solving problems, is much easier if records of past performance are available.

Record-keeping is a chore that most people would rather avoid. Some record-keeping, however, is required for taxes. With relatively little extra effort, some additional information can be collected that is very useful for management purposes. Decide just what reports or other outputs you want from your records, and develop a system accordingly. For example, the kind of information needed for monitoring and analyzing financial performance and health described in Chapters 8 and 9 can come only from a record-keeping system that has been designed appropriately.

1. Why Keep Financial and Business Records?

There are several very good reasons for keeping different types of business and financial records:

- Records are required for tax preparation and filing and, if needed, for any audits. These include farm and personal records for filing income taxes and payroll records for employees. The farm may be liable for sales taxes on meat and other product sales.
- Lenders require certain financial information about the farm before making new loans or extending new credit.
- Managing the business, including making plans and solving problems, is much easier if records of past performance are available.
- Monitoring and evaluating business performance cannot be done without the necessary information. Without record-keeping and analysis, problems may go undetected and opportunities may be missed.
- Records are needed to provide a paper trail or documentation for legal matters, such as proof of ownership, law suits or estate settlements.
- Records provide a sound basis for developing business agreements, both with family members and with others.

2. What Records to Keep?

- For taxes and for financial management purposes, itemized records of sales, cash received and cash paid out are needed.
- Records of accounts payable and receivable are needed to ensure timely payment and for cash flow management.
- Physical records on farm activities, such as cattle and meat sales, livestock production and herd health events, are needed to develop measures for monitoring farm performance.
- Farm and field production needs to be documented with records of inputs, such as fertilizer used in crop production.
- Inventories on the first day of the fiscal year are needed for net worth statements and to make the accrual adjustments necessary for accurate earnings statements.

10. Keeping Useful Business Records

Financials

No single approach to record keeping is best for all businesses.

- The Internal Revenue Service requires that tax and related records be kept for at least three years (seven years is preferred because an audit can go back more than three years). This would include documents to support the tax form entries, such as bank statements and canceled checks.
- Insurance documents and records are needed in the event of an insurance claim.
- Legal documents—including deeds, titles, wills, contracts, business organization agreements and regulatory compliance records—should be maintained in a secure place.

3. Using Records for Business Management

Effective business planning and performance evaluation require that records be adequate to monitor cash flow on a regular basis, measure profitability once a year, prepare a net worth statement (balance sheet) at least once a year, and to calculate measures of financial and farm efficiency. An adequate record-keeping system will allow you to do the following:

- Monitor sales income, purchases and cash flow and compare these with plans or targets to identify problems and new opportunities promptly.
- Measure and evaluate production costs and profit margins
- Make well-informed and timely decisions about what to produce, including the product mix
- Evaluate business performance. This includes several types of comparisons: (1) with farm targets set by you and your family; (2) trends for the farm, such as debt trends and production costs per unit of sales; (3) against benchmarks for similar farms; and (4) against national benchmarks. Benchmarking requires common definitions and calculation procedures. Check with your local Cooperative Extension Service center or land-grant university to see what is available.

The chart of accounts (income and expense categories) should be consistent with income tax preparation, but additional detail is helpful for management purposes. Breaking some of the tax categories into subcategories is helpful, for example, to identify different types of farm sales or costs—such as separating out bought forages from grain supplements. As discussed in other chapters, being able to allocate income and costs to different cost and profit centers can be beneficial, particularly for larger operations.

4. Record-keeping Methods

No single approach to record-keeping is best for all businesses. The decision depends on the purposes for keeping specific records, the size of the business, the skill and interests of the primary record-keeper, and cost.

10. Keeping Useful Business Records

Financials

There are two basic financial accounting methods: cash-based and accrual. *Accrual* methods are more accurate for management purposes, but most farm families file taxes on a cash basis and keep records the same way. However, *cash-based* records can be modified with information from the inventories taken when the year begins to achieve most of the benefits of accrual accounting. Bookkeeping systems may be single-entry or double-entry. Most farm families use single-entry bookkeeping because it is simpler.

Financial and other records may be kept by hand (written down), by using a farm computer and accounting software, or by using an accounting service. Many farms use a combination of these methods because no single record-keeping system will meet all the record-keeping needs of a farm and the family. Likewise, there are many types of farm production record-keeping systems for livestock and crops.

5. Record-keeping Principles

Because there are so many choices when it comes to farm record-keeping, families should use the following principles to guide their decision: Is the system or method serviceable and usable, complete, and accurate? Is it capable of generating consistent results. Does it have support and training available from a trusted source in the event of difficulties or problems?

6. Computers for Record-keeping and Analysis

Computers are increasingly being used for keeping on-farm records, preparing reports and analyzing farm performance. Advantages include quick access to information and the ability to file taxes and do tax planning in a timely manner. Compared to keeping records by hand, computers make it easier to analyze farm performance and develop plans. They can help lower the fees paid to professional accounting and tax preparation services.

Disadvantages of computers include their cost, complexity and time requirements. Also, there is no comprehensive system that accommodates all record-keeping needs. Most farm families, however, already have computers for other purposes. And the cost of record-keeping software, such as QuickBooks (Intuit) or Peachtree (Sage Accounting), is quite modest. Some software packages are very inexpensive but have limited power. Spending a little more money for a more powerful program (for example, Intuit's QuickBooks instead of Quicken) likely will pay off in the longer run.

10. Keeping Useful Business Records

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7. Performance Measures

All farms benefit from having the three main financial statements and the various financial performance measures discussed in the previous chapters. In addition, some specific performance measures are particularly useful to producers of finished beef that is directly marketed:

- Calf crop percentage
- Birth weight on calves
- Weaning weight
- Weaning age in days
- Average daily gain on calves—birth to weaning
- Cost per head and per pound at weaning
- Average daily gain—weaning to slaughter
- Live weight at slaughter
- Cost per head and per pound at slaughter
- Carcass yield in pounds
- Dressing percentage
- Yield of various cuts of meat (if sold as cuts)
- Average cost per pound of marketable meat (if sold as cuts)

Many farm families can benefit from assistance with developing an effective record-keeping system and developing and using reports and analyses. Contact your county Cooperative Extension center for sources of assistance in your state or location.

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

11. Managing Risk

Financials

Managing the marketing risk for farm-raised beef involves keeping a close eye on (1) your customers and their needs and (2) changes in market conditions.

As a producer and business owner, you face some additional risks when you raise beef to be sold directly to consumers. Risks refer to events that *might* occur and harm the farming operation. It is helpful to think of specific risks in terms of the likelihood of an event occurring and the risk exposure (financial loss) if that event should occur. Events that are most likely to occur and events that would cause severe losses should be considered first. Many business risks are outside of your control, but they still can be managed.

Identifying the major risks is the first step in managing them. Farm-related risks are often classified under five categories:

- Production
- Marketing
- Financial
- Legal, social, governmental and institutional
- Human

Sources of Business Risks

Production risk exists because of the variability inherent in farm production. Weather, diseases and pest infestations, and other factors can affect the productivity of your forage crops and animals. Fire, wind, theft and other hazards are also sources of production risk. Changes in technology and farming practices can challenge the profitability of current production methods.

Market risk occurs if the cost of your inputs increases unexpectedly or the price received or volume of your sales drops. As a direct-to-the-consumer marketer, you are more of a price maker (as opposed to a price taker), but you may not be able to maintain your prices or your sales volume in the face of new competitors or changes in the local economy. Changes in consumer preferences may affect sales, for example, as a result of new research about the health benefits—or dangers—of eating beef, or because people's attitudes about cattle raising practices change in a way that causes a drop in your sales.

Financial risk refers to the ability of the farm to meet financial obligations in a timely manner, including unexpected financial demands. This could include the farm's ability to pay bills, make loan payments and meet family living needs. The availability of savings or collateral for new loans, creditworthiness and changes in the cost of borrowing affect this category of risk.

11. Managing Risk

Financials

It is helpful to think of specific risks in terms of the likelihood of an event occurring and the risk exposure (financial loss) if that event should occur.

Legal, social, governmental and institutional risks result from such things as changes in government regulations and programs that affect production costs or your ability to use certain farm or marketing practices. Examples include new environmental policies and regulations; changes in regulations regarding slaughter, labeling and meat handling; new taxes or zoning rules; changes in trade rules that affect your competitiveness; or policies affecting the availability of credit. Changes in social attitudes often affect government policies and regulations. Legal actions may be brought against your farming operation.

Human risks include damage caused by employees (intentionally or otherwise); injury to key individuals that affects the ability of the farm to operate (including the main operator or family members); medical emergencies or accidents affecting family members, employees or customers; and personal misfortunes such as illness or divorce.

Your view of each risk and its importance as a potential threat to your business will be influenced by your long-term goals, your experience, the health of your operation and your attitude towards risk. These factors will likely affect your decisions about managing risk.

Risk Management Strategies

Risk management strategies have two components:

- Can you reduce the chance of an event happening? In many cases, reducing the chance of a potentially harmful event depends on a producer's knowledge and management skill in applying preventive measures.
- If an event happens, how large will the effect be and how will you cope with the effects? Coping strategies include buying insurance, if it is available and affordable, and self-insurance. There are several ways producers can self-insure. Some of these are discussed below.

Production risk management may include activities and practices to reduce the chances of an event occurring, such as vaccinating cattle against locally prevalent diseases to reduce the incidence of health problems. Abnormally dry weather is a common risk. Management strategies to cope with the effects include diversifying your types of pasture and forage crops to reduce the effects of dry weather, carrying additional stocks of hay or having a plan for buying feeds to replace home-grown forages. Recommended grazing management practices also affect the ability of pastures to withstand drought by limiting damage and helping to speed recovery. Insurance is carried to offset the losses from extreme events, including lightning, hurricanes and cattle theft. Meat quality and consistency is important to the success of a direct marketing operation. A

11. Managing Risk

Financials

thorough knowledge of all aspects of cattle genetics, nutrition, health care and animal management helps to reduce the risk of producing an unacceptable product.

Marketing. Agricultural prices are notoriously volatile and unpredictable. Many producers of beef also sell live cattle. Hedging with futures or options are tools for managing price risk in live cattle purchases and sales and for feed costs. But these tools are better suited to larger operations. Newer instruments are being developed and are available in certain states, including revenue insurance. Managing the marketing risk for farm-raised beef involves keeping a close eye on (1) your customers and their needs *and* (2) changes in market conditions. Working hard on customer relations and addressing complaints can be viewed as a form of risk management.

Financial risk management means paying attention to your financial health and your capacity to bear risk that you are unable to insure against. “Going broke” may be expressed as a risk, but it is really the consequence of a farm’s inability to withstand the financial effects of risks the farmer has chosen to bear.

Legal, social, governmental and institutional risks change continually. Many of these changes evolve slowly over time. Membership in producer organizations and staying current with industry events and trends are ways to reduce the risk of being caught unaware of changes that could affect profitability. Retaining the services of advisers, for example, on legal and insurance issues can help ensure that you are well informed and your farm is appropriately protected.

Human risks come in many forms. For example, in some matters involving employees, a farm manager can help to reduce potential risks by developing appropriate procedures for selecting and training employees, monitoring performance and communicating effectively. Many accidents can be avoided by evaluating potential hazards and taking prompt corrective actions. Insurance is available to protect against many human risks, including theft, customer claims for damages due to accident or defective products and health problems. Well-designed business agreements help protect against your or a partner’s failure to perform.

Insurance is available to protect against many types of loss, damage or legal actions. One benefit of many insurance policies is the legal assistance that is provided in the event of a claim or legal action.

11. Managing Risk

Financials

Will any strategy completely eliminate risk? No. Nor is risk management “free.” Risk management comes at a cost in terms of insurance premiums or the time and costs associated with “self-insurance.” Self-insurance may incur the cost of maintaining a savings account for unexpected events instead of using that money for other business purposes. Or the cost may be the value of the time involved in taking protective measures or the expense of keeping extra feed inventories. You can manage risk appropriately by carefully (1) identifying the various sources and types of risk and the likelihood of these adverse events, (2) estimating the risk exposure for each one, (3) setting priorities based on the likelihood of occurrence and risk exposure, and (4) choosing among the options available to manage the highest priority risks or their effects.

Information Useful for Decision-Making

The most useful asset you can have to help with risk management is reliable information on probabilities and risk exposure. Many sources of information are available to producers. The most appropriate place to look for information depends on the type of risk.

The best source of historical production and marketing information is (or should be) your farm records. Your records may be supplemented and complemented by off-farm information, forecasts and predictions. But there is no substitute for accurate farm record data. For established enterprises, farm records show the actual production and price variability experienced in prior years. Use your historical information, together with your level of tolerance for risk, to decide what risk management strategies are most appropriate. Self-insurance often involves budgeting out the costs of alternative strategies.

Your farm records can provide information about past events and decisions, but they will provide little information about what is going to happen in the future. Off-farm sources are required for this information. Consult your state’s Cooperative Extension Service, as well as federal Web sites, such as those maintained by the USDA. Production information, market situation and outlook are available from these sources. Private suppliers of information also may offer useful analyses that will help you determine the next steps for your business. Some resources are available online from the National Ag Risk Management Library: <http://www.agrisk.umn.edu/Library/Topics.aspx?LIB=AR>



11. Managing Risk

As with most decisions, it takes time and money to obtain and evaluate the information needed to make sound management decisions. The worksheet below can help you organize this information.

Financials

Risk Management Strategy Worksheet

Within each category below, identify your potential risks, set priorities, and evaluate strategies to offset or reduce these risks, including estimates of cost.

Risk	Probability	Exposure	Priority	Management Strategy and Cost
Production				
Marketing				
Financial				
Legal, Governmental, Social, Institutional				
Human				

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

12. Choosing a Pricing Strategy

How Much Should You Charge?

What to charge for your beef is one of your most important decisions. Several factors must be considered, with your cost of production serving as the base point. These include your decisions about how you will sell your meat, your target market and how you want to define yourself relative to your competition. No one single piece of advice can tell you how to set a price for your product. Keep in mind that there are ways in which you can discount a price under the guise of offering a “special” or a “sale,” but the converse is not true. Once your customers become familiar with your pricing strategy, you can only increase your price in small and infrequent increments. To do otherwise is to risk losing your hard-won clientele to the competition.

Your cost analysis includes all of your expenses incurred in raising an animal to the point of harvest, plus your expenses for transportation to and from the slaughter facility, processing, packaging, storage, labor and marketing. Keeping records is the best way to know your true costs, and these benchmarks determine the mark-up needed to attain your desired profit margin. If you are selling your beef by the side, you may be able to pass along some of these expenses, such as the appropriate portion of the slaughter fee, directly to the customer. If you sell in family packs or by the piece, you must determine what percentage of your “indirect” costs apply to each pack or piece. The budgets available in the Financials section of this handbook on page 23 can help you with these decisions.

Keep in mind that your price is as much of a marketing tool as any market claims, branding or promotional materials you use. For many customers, price is as much a psychological factor as a financial one. If your goal is to market your beef as a premium product, then mark up your meat to reinforce that image. If your target is middle-income families, let your pricing strategy fit with your promotional message, and look for ways to keep down your overall costs so that your prices and your message are consistent — and you still make a profit.

Developing a Workable Pricing Strategy

Reasonable expectations about what will work in the marketplace will benefit you in the long-run. This philosophy holds true not only for your pricing strategy, but for every part of your direct-marketing plan.

Direct-to-the-consumer producers often assume in their early business years that they will benefit most from a premium pricing strategy. Before deciding on a strategy,

12. Choosing a Pricing Strategy

Marketing Tools

What to charge for your beef is one of your most important decisions.

consider this: Customers expect that a higher price means a higher quality product. If your product is indeed of consistently exceptional flavor and quality, then you may be able to capture these higher prices. However, remember that your decision to pursue a premium pricing strategy often comes with higher customer expectations, such as a greater adaptability to customer requests or providing recipes and cooking advice.

A more flexible approach is to develop a *price segmentation strategy*. With this approach, you establish different price levels for different cuts of meat. Volume discounts may be given for generally less-desirable cuts, such as shoulder roasts. Another potential segmentation strategy that is used successfully by some direct-to-the-consumer producers is product bundling. With bundling, you offer “family packs” that combine cuts of meat that are considered more and less attractive to the customer, with a net lower per-pound price than if you sold each cut individually. The attraction of this approach is that customers perceive that they are getting a fair value.

If you sell by the piece, you can use your price strategy to control demand. If you sell out of ribeye steaks long before you sell the first roast or pound of hamburger, chances are your steak prices are too low relative to consumer perception of prices for that product. In a by-the-piece marketing approach, use your price strategy as a tool to distinguish among the highest quality cuts and the average cuts.

For those selling by the side, an effective sales tool is the *price comparison sheet*. Since all your meat, regardless of the type of cut, is sold at the same price per pound, consider developing a sales sheet that compares an assortment of your cuts of meat with comparable cuts at a targeted supermarket. Show what your weight and price are per cut, and compare with a similar weight and price from the store. Your total costs to the consumer should net out at an overall lower price for your meat than it does for comparable purchases at a store. (It may also be worth mentioning to customers that they will be getting higher end cuts from you that they might not typically buy at the store!)

Like every other aspect of your business, the prices you set are a part of the overall message you communicate to your customer. The key is for each aspect of your marketing program to be consistent and interrelate with every other aspect.



12. Choosing a Pricing Strategy

Marketing Tools

Like every other aspect of your business, the prices you set are a part of the overall message you communicate to your customer.

Pricing Strategy Worksheet

Your total cost of production (from spreadsheets):

Your total marketing cost (from spreadsheets):

Total costs: _____

Your desired profit margin: _____

Price per pound: _____

By the side: _____

By the piece: _____

By the family pack (describe cuts in the family pack):

Price Comparisons

Cut of Meat/Weight	Store #1	Store #2	Your Price

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

13. Managing Logistics

Marketing Tools

Logistics deals with the distribution of products.

How Can I Manage the Details?

Logistics deals with the distribution of products. For a marketer of beef directly to consumers, logistics typically means having an adequate supply of beef at the appropriate time and location to meet consumer demand. Managing the flow of your beef supply requires effort and attention to ensure that everything runs smoothly.

Beef production does not occur on a regular schedule like a factory assembly line. You have to find markets that have seasonal flexibility, particularly if you choose to enter the fresh beef (not frozen) market. If you are selling “freezer beef,” remember that freezer storage adds costs to your operation. Some producers develop a year-round production schedule to better adapt to their customers.

Another logistical challenge is that even frozen beef does not have an indefinite shelf life. Lay out clear goals and guidelines for how long you will maintain your product in inventory before getting rid of it (such as to a wholesaler, by drastically lowering the price, or by some other method).

As with the other factors of marketing, logistical demands will ultimately tie back to the expectations of your consumers. The decisions you make will affect your production practices and financial outlook.

Developing a Logistics System that Works for You

Transportation

Your logistics strategy develops from your sales strategy. If you are selling your beef by the side, you may find it easiest to arrange for your customers to pick up their beef directly from the abattoir. To ensure that you receive payment, it is a good idea to work out an arrangement with your processor so that the beef is released after you have received your money from the customer. You may have the customer pay the processor directly for the slaughter fees.

If you are delivering the beef to customers’ homes, taking it back to freezers at your farm, transporting via a shipping method or taking your beef to your retail location, you will need to comply with all appropriate regulations. In general, meat must be stored in clean coolers or refrigerated storage. Frozen temperatures must be maintained. Your freezers on location must be clean, in good working condition, dedicated only to storing your beef and in a clean area.



13. Managing Logistics

Marketing Tools

Transport across state lines requires that the meat be processed at a federally inspected plant. This regulation may have implications for the abattoir that you choose (see Chapter 5, page 14). Transportation costs will increase with distance traveled, so it may benefit your business to coordinate pickup with other producers in your area. Also, whereas coolers and a pickup truck may be sufficient for transporting short distances, longer distances may require some sort of refrigerated transportation.

Product Delivery

Picking up beef at a farmers market or drop-off point will allow your customers to meet you at a location that is relatively convenient for them and will save you the trouble of making multiple delivery stops. You will need to take steps to ensure that your customers show up as scheduled. Consider having your customers pay a nonrefundable deposit on the beef as a commitment to the purchase.

Delivering the beef to your customers' homes will most likely be the option that is most attractive to them. The question then becomes whether you can afford to provide this service. It will require a time commitment and a delivery schedule to be effective, or you might consider using some sort of mail service for deliveries of smaller quantities.

Location

The location that you target may be a part of your marketing strategy. The distance that customers must travel to pick up their product will have some influence on their purchasing decisions. If your farm is located near a heavily populated area, customers may appreciate a scenic drive through the countryside to your farm. But most individuals would not be willing to travel two hours to purchase beef for their evening meal. These are factors to consider in planning your distribution system. The ease of access, parking facilities and overall appearance of the location should be considered no matter where you decide to distribute your product.



13. Managing Logistics

Logistics Strategy Worksheet

Compare the requirements, including licenses, equipment and operating costs, of each distribution method.

Distribution Method	Licenses/Permits Required	Equipment Needed	Additional Set-Up/ Operating Costs
On-farm sales			
Farmers market sales			
Other retail			
Home delivery			
Customer picks up at processor			

Other considerations:

Marketing Tools

Your logistics strategy develops from your sales strategy.

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

14. Developing a Promotional Strategy

Marketing Tools

How Will You Promote Your Beef?

When you think about marketing your beef, your first idea may be about the best way to advertise to attract customers. Most people equate marketing and advertising. As we have discussed in other sections of this handbook, marketing is a complete package of strategic activities focused on meeting your customers' needs and wants. Promotion is one tool in your marketing package, and although it is not the only tool, it is an important one.

You should design your promotional strategies to support your overall marketing program. A successful promotional strategy includes two key elements: What do you want customers and prospects to think about your beef? What is the most cost-effective way to get your message to your target market?

"Positioning" is the term that marketers use to describe the strategy for getting people to think a certain way about your beef. Think about positioning this way: When you think about your favorite fast food restaurant or big box store, what is the first word or phrase that comes to mind? Chances are the thoughts you have reflect the promotional work the company has done to hold that "position" in your thoughts. Positioning strategy is the same whether you are a large corporation or a local provider of beef. You want your targeted customer to have a specific image of you and your product. You can distinguish yourself by your production practices, geographic location or an acceptable market claim. (Check out the Market Claims section on page 11 to ensure that your claims are legal.)

Cost-effectiveness is another important consideration. Business cards, attractive and affordable brochures, signs and a Web site are all valuable and reasonable approaches to marketing a product that is sold in a limited geographic region. Be consistent with your logo, colors and contact information across all of the promotional tools that you use.

Never underestimate the value of word-of-mouth promotion. Your best advertising is a satisfied customer.

Effective Use of Your Promotional Tools

Promotion is effective over a sustained period of time. Don't be frustrated if you don't get the response that you initially hoped for. Remember that every one of us hears hundreds of messages a day, and we typically only recall the ones that speak to an immediate need that we have. As a beef marketer, you want to reach people interested in locally raised beef, but customers are often at different stages of awareness about what they want. Some may just be getting interested, some may be in the middle of researching people who provide local beef and some may be ready to purchase.

14. Developing a Promotional Strategy

Marketing Tools

Promotion is effective over a sustained period of time.

It may take several points of contact before your promotional activities cause the consumer to act. Consistency is essential. If you decide to develop a newsletter, write and distribute it according to a defined timetable. If you use e-mail as a communication tool, check your e-mail and respond regularly. You can use e-mail to send out your newsletter, answer questions, provide recipes and cooking tips or remind people that you have beef available for sale. E-mail is a great way to maintain continual contact with your customers and build loyalty to you as their beef provider.

If you sell your product at a local farmers market, make sure that you have someone at your stand every time the market operates. If, for some reason, you are unable to attend on a given day, get the market manager or another vendor to put a visible and readable sign at your spot indicating that you are unable to be present—and when you expect to return.

Create print materials that are eye-catching and easy-to-read. Most of us like to get our information in short, easy-to-scan “chunks.” Avoid long, wordy explanations in your brochure about your production practices or the history of your operation. Use key words and bulleted phrases as “teasers” that invite the reader to ask you for more details. This approach encourages your prospect to engage you in conversation, which then allows you to sell the prospect on the benefits of your beef. You can direct people to your Web site for more detailed information about your operation.

Use both sides of your business card—it can be an effective, low-cost “brochure.” One side of the card may contain the traditional information (your farm name and contact information), and you can use the other side for your slogan, positioning statement or even a map to your location (if you sell on-site).

If you have people come to your farm, or if you rent space at a farmers market, then invest in professionally printed signage. An attractive and readable sign conveys quality and professionalism—an image that you want to promote to prospects and customers.

You may be able to take advantage of free publicity through various media. Reporters are always looking for new story ideas, and they also look to develop relationships with reliable and knowledgeable people. Contact local reporters to suggest a story, or to let them know of your willingness to be contacted and quoted on topics related to beef farming and marketing. Not every idea will get coverage, but generally this tactic pays off.



14. Developing a Promotional Strategy

Marketing Tools

Your goal is to have an effective message that generates prospect interest and reassures your current customers.

Promotional events such as farm tours or “Dinner at the Farm” can be a great way to interact with your repeat customers. It will also increase the personal connection that they feel to your farm. Whether you make these free events or charge a nominal amount to cover costs, customers will get satisfaction from joining you and your family where their food is grown.

A presence on the Internet is becoming a must in this day and age. Some producers prefer to provide only information on their Web site, while others will use the World Wide Web as a tool for selling their beef. Look around on other Web sites and pick out the features that you would like to include on your farm’s site.

Have some of your close customers review your promotional materials before you print them. Encourage their feedback. Your goal is to have an effective message that generates prospect interest and reassures your current customers.

Promotional Plan Worksheet

Promotional tools:

- Business Cards _____
- Brochures _____
- Web site _____
- Signs _____
- Other _____

Promotional strategy:

Use of public relations/media:

Use of paid advertising:

15. Managing Customer Relationships

Marketing Tools

As a picture of your customer develops, you will then be able to clearly identify your *market niche*.

How Do I Keep My Customers Happy?

Once you decide to market your beef directly to your customers, you will soon discover that interacting with them will take more time than tending to your cattle. Some producers decide that they do not want the additional work that customer relationship building requires. These producers may become potential suppliers for you as your business grows and demand exceeds your ability to produce all of your own beef.

If you enjoy the give-and-take of working directly with customers, then you most likely will find this the most rewarding part of selling beef. Face-to-face contact with consumers is a valuable learning tool. While there are opportunities, you can also expect challenges on the road to positive customer relationships. These relationships can be established not only in person, but through telephone calls and e-mails. You may have worked hard to establish a relationship with a new customer. You will also find that you must continue to work to maintain that relationship. As discussed in Developing a Promotional Strategy, Chapter 14, you will find that a variety of tools, such as newsletters, cooking tips and recipes, are important ways to stay in contact with customers and strong prospects.

Tips for Working with Your Customers

Expect the unexpected when it comes to working with your customers. In the early stages of building a relationship, your customer will ask questions about beef. Keep in mind that most of your consumers have been raised in an urban environment, and their only knowledge of cuts of meat comes from what they have purchased in a store or ordered in a restaurant. Now that you are asking them to buy meat from you, and especially if you are selling by the side, your customers will generally want to know what part of the animal certain cuts come from and the differences among cuts, including tenderness and suitability for grilling. If you sell by the piece, customers may ask why you charge more or less for one cut than another, especially if a particular cut is generally cheaper in the supermarket. Consider these questions as opportunities to correct misconceptions that consumers have about the beef industry as a whole and about beef products, in particular.

While interest in locally raised beef has increased in recent years, knowledge of cooking and meat preparation appears to be declining. You may find customers who do not know how to cook certain types of cuts, such as a chuck or shoulder roast. Provide recipes, preparation tips and other information to answer your customers' questions. Discuss general meat preparation practices. For example, customers who are not familiar with



15. Managing Customer Relationships

Marketing Tools

Remember that each customer may have a different reason for buying from you.

frozen beef may not realize that it needs to be fully thawed before cooking for the best flavor and eating quality. You may also recommend a preferred method for thawing meat.

Complaints will come with the territory, and they are useful tools that can help you learn better ways to work with your customers. If you receive complaints about the meat being tough, dig deeper by asking your customer how the meat was defrosted and prepared. Chances are the customer cooked the beef on a high temperature, even though the meat had a lower fat content than typical store-bought beef. Over 90 percent of consumer complaints are easily handled, and they are sometimes great tools for helping you improve your own marketing materials. For the 10 percent that you cannot fix, do your best to reduce the customer's anger so that he or she does not speak negatively about you to others.

Customer Relationship Management Worksheet

Outline the activities that will best help you build customer relationships (you may wish to complete this in conjunction with your Promotional Plan outline):

What is your policy on giving refunds?

What is your approach to handling customer complaints?

What other tools and opportunities allow you to build relationships and loyalty with your customers?

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

16. Setting Goals

Moving
Forward

The acronym
SMART is a
good tool for
developing
meaningful
and
achievable
goals.

Why Set Goals?

Goals are benchmarks that will help you track your business performance. They help you decide whether or not your business is growing the way you planned.

When you find an undesirable gap between your actual performance and your projected performance, pay close attention to what may be causing the gap. Differences between your actual and planned income typically indicate that some of your assumptions may not fit your marketing and business environment and need to be reconsidered. On the positive side, if your performance exceeds your plans, you should review your business plans to ensure that you are making decisions that will help you continue to grow and manage your herd and your customers.

In general, it is a good idea to develop both short-range and long-range goals. The difference is merely one of time. Short-range goals typically apply to the immediate year of operation, whereas long-range goals are developed with a three-to-five-year time frame in mind.

Make Your Goals SMART

The acronym SMART is a good tool for developing meaningful and achievable goals. As you begin to develop your goals, keep the following criteria in mind:

- Specific – The goal is well-defined and clearly understood.
- Measurable – The goal can be evaluated in concrete terms.
- Appropriate – The resources and skills are available to achieve your goals.
- Realistic – The goals are based on your available resources.
- Timebound – You have a target completion date.

In looking at developing goals for a direct-to-the-consumer beef business, keep these things in mind:

- Desired herd size
- Desired herd composition
- Desired feeding program
- Target income
- Desired operating cost reductions
- Expansion plans
- Steps to acquire and keep customers (marketing)



16. Setting Goals

Moving Forward

Goals are benchmarks that will help you track your business performance.

Goals

Consider the above aspects of your business and develop goals for the next year, three years and five years. Establish a deadline for each goal and decide how you will measure its success.

Short-Term Goals (One Year):

Goals	Deadline	Measurement

Medium-Term Goals (One to Three Years):

Goals	Deadline	Measurement

Long-Term Goals (Three to Five Years):

Goals	Deadline	Measurement

For more information contact your local Cooperative Extension Center. In North Carolina, look for county listings at www.ces.ncsu.edu.

17. Learning More

Beef Production

(with emphasis on local production)

How to Direct Market Your Beef (SARE Publication)

<http://www.sare.org/publications/beef/beef.pdf>

Marketing Alabama-grown Forage Fed Beef (Auburn University)

http://www.aes.auburn.edu/comm/pubs/specialreports/sr_no4_marketing.pdf

Sustainable Agriculture Reference Library (Kansas State)

<http://www.kansassustainableag.org/Library/B.htm>

Cornell Small Farms Program

<http://www.smallfarms.cornell.edu/pages/resources/production/Livestock/beef.cfm>

Growing Small Farms (Beef Production)

<http://www.ces.ncsu.edu/chatham/ag/SustAg/animallinks.html#beef>

AgMRC Beef Direct Marketing

http://www.agmrc.org/commodities__products/livestock/beef/beef_direct_marketing.cfm

Market Claims (NCDA&CS)

<http://www.agr.state.nc.us/MeatPoultry/pdf/10-09%20Labeling%20and%20Point%20of%20Purchase.pdf>

Meat Sales at Farmers Markets (Kentucky Department of Agriculture)

www.kyagr.com/marketing/farmmarket/documents/MeatSalesatFarmers.doc

Production Claims Process (USDA)

<http://www.fsis.usda.gov/OPPDE/larc/Claims/RaisingClaims.pdf>

Labeling Compliance (USDA)

<http://www.fsis.usda.gov/oppde/op/iim/p2s2enclosure1.pdf>

Food and Nutrition Information Center (USDA)

http://fnic.nal.usda.gov/nal_display/index.php?info_center=4&tax_level=1&tax_subject=242

Moving
Forward

17. Learning More

Contact your state's Department of Agriculture for specific information related to market claims, labeling, approved abattoirs and other regulatory issues.

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Moving
Forward

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