



Editor's Corner

In the last issue of the *AgriProfits\$* Newsletter for Alberta Cattlemen, you probably noted the sense of urgency I held for the need to think and manage strategically. Beef operations across Alberta have suffered the “one-two punch” of drought then BSE. To stay profitable over the long haul, producers will have to gain a thorough understanding of:

- Their productive and economic strengths,
- How they fit into the emerging market place, and
- How to best structure their operations to meet the “new business reality”

In this issue, Jeff Millang continues the strategic management theme with discussions on types of risks and strategies available to meet these risks.

Diane McCann-Hiltz will update us on the feeder calf market in the “Market Watch” section.

In the “So What ...?” column, Deidre Moen fills us in on an upcoming seminar series called “Raising Cows, Raising Profits”.

Dale A. Kaliel, Editor

Managing is Hard in an Uncertain World

Jeff Millang

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Managing is hard, but it is not impossible. When the world was much more predictable, managing was easier. Now the world seems to have much more uncertainty, and thus much more business risk. As well, the beef industry, like many other industries, has seen its margins on average erode over time. Managing your business now means managing for profit in uncertain times.

What Will The Future Bring?

Over the last several months I've talked to lots of cow/calf producers, industry experts and government staff ... there is definitely uncertainty out there. We've discussed several rumors, likely scenarios, and even hopeful scenarios that may come about. Little has helped in finding a “certain future” as a basis for plans to move forward. For instance, the recent announcement by the United States on the proposed rules to allow specific beef and beef products in their country has provided some clarity. However, we are still not sure on what the future holds for other products that are outside of the rule or even for the products included in the rule.

These discussions have been extremely frustrating for all the people involved. We never seem to reach a consensus on where we'll end up, but that is what strategic management is all about in a world of uncertainty ... define the risks and set a strategy to deal with them.

An Insightful Article

I recently read a Harvard Business Review (HBR) article about business strategies in uncertain times¹ and I thought how relevant the topic was to the beef sector these days. The article described four levels of uncertainty:

- clear enough future,
- alternate futures,
- a whole range of futures, and
- true ambiguity (not knowing anything for sure).

This was accompanied by three possible strategies to deal with uncertainty:

- shape the industry,
- adapt to the times, and
- “reserve the right to play”.

Although the article was written using large-scale business examples, farming is a business and the

¹ “Harvard Business Review on Managing Uncertainty”, Harvard Business School Press, Boston, MA, 1999, pg. 1 – 31.

same business management principles apply ... articles like this offer the opportunity to find creative solutions used in other industries.

Levels of Uncertainty

The *clear enough future* type of uncertainty tends to be more like the traditional market analysis and market planning we do. We can see supply and demand factors and form some pretty good estimates about what may happen. The general outcome can be reasonably predicted.

Next is the *alternate futures* type of uncertainty. With this concept, there may be more than one clear future, but likely limited to only one or two more. This is what market analysts talk about when they present a market outlook but put qualifiers such as “should there be a drought” or “should another country experience a trade disruption”. The future will likely follow one of a few different paths ... to distinctly different outcomes.

The third type, *range of futures*, refers to a series of events and/or conditions that could lead us down a path to an outcome we reasonably expect ... but the how far, when and other potential turning points is more at issue. Looking at the Canadian beef industry post BSE, we see a whole range of futures that could happen. We just don't know right now what is really going to happen but we have some ideas on what is likely to happen. For instance, we have boneless boxed beef export right now, and some time in the future we will have younger live cattle exported to the US but when and how much?

As the BSE investigation started on May 20 we really had no idea what was going to happen. We had an idea on how our trade partners would react but the “when” and “how fast” was unknown, followed by how fast would we “normalize” trade. At this stage we were experiencing the fourth type of uncertainty, being *truly ambiguous* as to what the future would be.

Managing Uncertainty in Perspective

But back to the cow/calf farm in Alberta today. How do we manage these levels of uncertainty? The HBR article addressed some strategies to deal with the uncertainty side ... but these are choices that run in tandem with your overall business

strategy ... for most Alberta producers, this is to be the “low cost” producer. Without defining this overall strategy, efforts to manage risk will not be effective.

So, one of the first steps is to take a step back and be sure why we're in the cow/calf business. Is it to capture value from this excess range land that's inside my crop land base, is it a way to diversify my income stream, is it a core business for me and my family operation? Your objectives here, *why you keep cows*, will lay the groundwork for your route to manage uncertainty.

Strategies to Deal with Uncertainty

The HBR article identified 3 generic strategies businesses can use to deal with the element of uncertainty. These vary in their applicability to primary agriculture ... but you can be the judge.

There are businesses that try to *shape the industry*. They are large enough in scale or have enough market power to influence what the marketplace will look like. Just look at the retail sector to see how Walmart has shaped the retail industry.

The second strategy is to *adapt*, if the marketplace moves, then adapt to it, adjusting to the changing market conditions. The fast food sector has many examples of adapters - changing menus, changing images and market positioning statements (most recently Burger king switched from “flame broiled” to “fire grilled” ... a change of image).

The third type of strategy is referred to as *reserve the right to play*. These businesses have made investments, or placed their business, to keep their foot in the door, making sure that if the marketplace moves, or demand for that product should be as good as anticipated, they can jump into that marketplace. For instance, a common application of this strategy is for one business to go out and buy another business well-positioned in a complementary market. For example, a company centered around auto parts supply buys an online auto parts store. They bought the online store just in case the auto parts world jumps into online parts sourcing.

From Big Business to the Beef Business

But what do all of these have to do with the primary beef business? When I read the article,

beef producers seemed to fit, more often, the adapters group. They see a market opportunity and move to adapt their businesses and products to that market place. I look at all the work the Beef Information Center has done to adapt traditional products to new products. I look at the cow/calf herds around Central Alberta and see more and more cattle with similar characteristics. I look at the feedlot sector and how they are doing a much better job of sorting and selecting the cattle to fit a particular market.

One can argue we have some cow/calf producers who are trying to shape the industry. As individuals, this is not possible. Even collectively, with as large as the cow/calf sector is, it's unlikely they'd be able to shape the diverse demands of a global marketplace.

Alternatively, the reserve the right to play strategy holds some promise for beef producers in managing uncertainty. We see more and more examples of this strategy all the time in the form of alternative business arrangements such as the establishment of cooperatives and use of formal and informal marketing relationships.

On-Farm Examples - Applied

With "alternate futures" we can build our planning tools and our investment choices around several scenarios ... assigning probabilities of these happening. Will these probabilities be right? ... not likely but it gives us a way to separate and manage the most likely vs. least likely types of events. Let's use weather forecasts and haying as an example. In July we normally have just a couple of futures available to us. We plan our haying operation based on the risk or percent chance of sun or rain. Alternate futures are more common with short-term situations like this as the near future seems clearer ... developing a strategy prepares you to take the right action.

The "range of futures" gets more complex. We've gone from a small set of possibilities to a whole range in the beef world today. With uncertainties of this type, we need to watch for *trigger events* that move us along the continuum of futures. This is like watching a curling rock come down the ice, what turn and weight was thrown? Was it "on the broom"? How do you deal with this type of uncertainty?

Seek to understand your product's role up the local and global market chain ... in context with "what you do best". What changes occurred since May 20th and what potential paths can you see? Anticipate trigger events that can significantly change pricing, market opportunities and product shifts. For example the proposed rules for exporting beef to the US give us an indication that we may get young cattle shipments, but that older stock will likely be under domestic pressure for some time. Set your strategy to enable you to respond, on your terms, when these events arise.

Home Stretch

So how do I manage my cow/calf business? Start with "why do you have cows" and what they bring to your operation. Think about what strategy you can use in the cow/calf world to manage uncertain "futures". Can you be a shaper, are you an adapter, or do you reserve the right to play?

In the uncertain world all of these three strategies can work. **BUT**, all have different risk aspects, all have different payoffs for being right, and all have different outcomes if unsuccessful. Take a step back and think about what happens "if"? Think and work through the operational and investment choices you are about to make.

- Do you really need to buy a baler and grow your own feed? ... maybe you can buy it year in - year out.
- How much can you afford to pay for a bred heifer or cow?
- What is the likelihood of decreasing prices in the next 3 years as we start the increase of inventory due to the cow cycle?
- What is my cost of production and is it competitive to my neighbour or even another country's beef production?

There are a number of tools and resources out there to help you. In January we're holding a "Raising Cows, Raising Profits" seminar series to provide strategic information for you and your cow/calf business. The focus will be to help you piece together a smaller range of "futures" and strategies to help you deal with them.

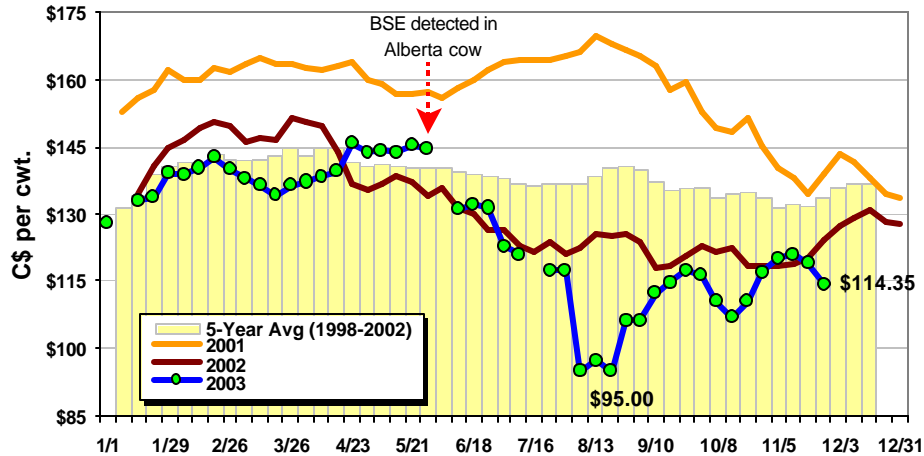
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Market Watch

Northern Alberta 5-600 lb. Feeders

Weekly Average Steer Price



Source: Canfax; Economics & Competitiveness Division, AAFRD

Since mid August, we've seen calf prices increase steadily to a point where they actually exceeded last year's. Prices have softened slightly in the past two weeks due to an increased volume of calves coming to town. I expect sales volume to continue to decrease because most producers have already made the decision to either retain calves or sell them.

Producers still planning to sell calves can expect to see prices continuing to drop and quite a price spread between poor and excellent quality calves. Producers who have decided to keep their calves are banking on better times by next spring and with declining cattle inventory in the US, large cow and heifer slaughter in the US and the optimistic possibility of live exports to the US early in the first quarter, the situation appears fairly rosy. However, appearances can be deceiving and as we've seen since May 20, anything is possible in the market.

We'd like your comments and questions about the articles featured in this newsletter. Suggestions for future issues are also welcome. Please contact me:

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If you'd like to learn more about and/or participate in our research and business analysis program, please contact me at the above.

CowProfit\$

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So What's ... "Raising Cows, Raising Profits"

Alberta Agriculture, Food and Rural Development (AAFRD) along with the Innovation in Agribusiness Management Fund and the Agriculture and Food Council are offering a seminar for beef producers called "**Raising Cows, Raising Profits**" (RCRP). The focus of this full day session is to analyze the long-term (3-5 year) risks in the cattle industry and highlight strategies for managing these risks.

To move past this last year will require knowledge of how to deal with uncertainty over the long-term. **Raising Cows, Raising Profits** will:

- show you how to employ strategic thinking and strategic management in your beef business,
- help you define and set strategies to protect your investment and position you at the leading-edge of the industry, and
- provide tools and information to improve the profitability of your cow/calf business.

Speaker **Nithi Govindasamy** from AAFRD will discuss the international trade scene. He will talk about who were/are our customers, who are our competitors, and what the future might look like regarding the resumption of international beef trade.

Since the announcement of BSE in Canada in May 2003, we've gone from a total ban of U.S. bound live cattle and beef movement at May 20th, to limited movements of beef products, to the prospects of limited live cattle trade. Nithi will put this into context for the future, as a basis for the development of producers' business strategies.

Kevin Grier from the George Morris Centre will be discussing US country of origin labeling (COOL) issue and the impact on the Canadian producer. You will learn about the latest regulations, the pro and con US perspectives, the willingness of consumers to pay for trace back/labeling, the Canadian interpretation, and implications of this program on Canadian cattle producers.

The country of origin labeling program is designed to allow American consumers to differentiate between US and foreign products, including beef.

It's currently a voluntary program, but may become mandatory as soon as September, 2004. Information requirements to meet the program's labeling and verification criteria, in order to be labeled 'product of the US', may cause additional costs and change trade flows to the US. Participants will "take home" valuable strategic information.

Another key topic that will be included in this session is "the cattle cycle and where we are at", with speaker **Anne Dunford** from Canfax. She will discuss the history and current view of the cattle cycle. The factors that drive beef demand and the impact of BSE on the cattle cycle will also be highlighted.

Ted Darling of AAFRD will cover the topic of managing uncertainty. Risk and uncertainty have been the name of the game for the Canadian beef industry over the past few years. Dealing with it is difficult, and often very stressful. The focus of Ted's session is to understand uncertainty, the effects it can have on your operation, and processes to account for uncertainty in your decision making.

We've all heard about the importance of knowing and using your unit costs of production as a key element in driving to long term profitability. However, uncertainty adds a new dimension to the decision making "mix". Ted will provide insight into risk management basics that you can fold into your business management strategies.

Plan on attending a session near you (Medicine Hat, High River, Red Deer, Vermilion, Valleyview or Fairview) and learn how to move beyond 2003. To register for the **Raising Cows, Raising Profits** seminar, please contact the Alberta Ag-Info Centre at **1-800-387-6030**. The registration fee is \$53.50 (GST included). The registration deadline is January 9, 2004.

Register early, as space is limited.

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