

## STRATEGY AND THE BEEF PRODUCTION CHAIN

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Crafting strategy is not a task in which managers can get by with, options, good instincts and creative thinking. Judgments about what strategy to pursue needs to flow from a thorough analysis of a company's external environment and internal situation. When developing a strategy managers need to pose a set of questions: What is our vision for the company? Where should the company be headed? What should its future technology –product-consumer focus be? What kind of enterprise do we want to become? What industry standing do we want to achieve in five years. Management's views and conclusions about the direction, consumer focus, technology, and future business scope constitute a strategic vision for the company. The strategic vision points a company in a particular direction and charts a strategic path.

The strategy making / strategy implementing process consists of five interrelated managerial tasks: (1) forming a strategic vision of where the organization is headed, (2) setting objectives, (3) crafting a strategy to achieve the desired outcomes, (4) implementing and executing the chosen strategy efficiently and effectively, (5) evaluating performance and initiating corrective adjustments in, vision, long term direction, stated objectives, current strategy and its execution in light of actual performance, changing conditions, new ideas, and new opportunities.

Some examples of strategy questions for beef producers are: What segment of the beef production chain do we wish to be involved with? Will or should we integrate different segments of the production chain? Are there financial incentives to be integrated? Do our resources match the chosen production segment? Will we need to add additional resources? What type of product do we wish to produce, calves straight off the cow, weaned calves, preconditioned calves, feeder cattle, grass fed, natural, organic. What technologies will we utilize, electronic ID, growth promotants, antibiotics, ionophores, artificial insemination (AI)? What scale of production do we wish to achieve?

The strategy making task is a continuous process for a business. It initially involves developing the intended strategy, and adapting it as events unfold. A manager's task is to link a company's competencies and abilities with the firm's business approaches and competitive initiatives. Strategies represent answers to how to achieve objectives and how to pursue the business's mission and strategic vision. A manager, again, includes the hows into a strategy: how to grow the business, how to satisfy customers, how to outcompete rivals, how to respond to changing market conditions, how to manage each segment of the business, how to develop organizational capabilities. The how for a company is specific to that company and are customized to a company's own situation and performance objectives. Strategy constitutes a managers business model for producing profitability and business success.

In the beef business producers answer the question of how to compete utilizing their strategy and fulfilling customer demands by providing, for example, grass fed, natural, organic, or conventionally produced fed cattle. Within these production strategies, producers answer the hows of their strategy with, unique ranch resources, labor, which technologies they will implement, and integration of the beef production chain. Beef producers have a wide degree of strategic freedom. They can diversify broadly or narrowly into related or unrelated industries. They can integrate different segments of the production chain; a cow calf producer retaining their calf crop through the stocker and or feeding phase. Producers can form a joint venture purchase a feedlot and feed their calves. Producers can form alliances with other producers; USPB, National Beef and cattle feeders marketing their fed cattle through the USPB grids which are processed at National beef. Producers can integrate into related industries through acquisition: JBS purchasing 5 rivers cattle feeding, Agri beef owning the both feedlot and the fed cattle, processing the finished cattle through their beef plants and then providing their branded beef products. Good strategy is inseparable from good business entrepreneurship and strategy making is an ongoing process not a onetime event. Managers and beef producers face an often unknown future. Planning a strategy in advance without the intent of changing the strategy as needed is folly.

Reacting to fresh developments in the surrounding environment is thus a normal and necessary part of the strategy making process. The business environment for beef production is varied and complicated. In beef production cost of production is continuing to increase for all segments of the industry. Calf, feeder and fed cattle prices are increasing but also fluctuating within a time period as short as one month. Environmental challenges are continuously present for cattle producers: drought and lack of grass necessitates culling animals, winter storms create hardships for fed cattle producers as well as cow calf producers. Food safety concerns significantly impact beef production; E Coli 0157:H7 contaminated ground beef, BSE identified in an animal intended for slaughter. Foreign animal diseases are a threat to beef production; if foot and mouth disease was diagnosed in the U.S. that event would have a significant impact on the beef industry and the beef

supply for the consuming public. The demands for corn have significantly increased while the supply has not. Corn is a significant input for food animal production; it is also in demand by the ethanol industry which creates an environment of intense competition for available corn. The beef industry's competitive position and overall attractiveness are strategy determining factors. A producer's strategy has to be tailored to the competitive factors involved within the beef industry some of which are; price of beef, price for beef substitutes, food safety, human health concerns, supply of cattle, demand for beef, corn price, land prices, labor prices, the price of poultry and pork, and many more. When competitive factors intensify within the industry, a producer must respond with strategic actions to protect their position.

There are three tests a producer can evaluate to determine if their chosen strategy is a winner. First is the goodness of fit. A good strategy has to be well matched to the industry, its competitive condition, market opportunities and threats. At the same time a strategy has to be tailored to the company's resource strengths, recognize the company's weaknesses and take advantage of the company's competitive capabilities. Second is the competitive advantage test. A good strategy leads to sustainable competitive advantage. The bigger the competitive edge that a strategy helps builds, the more powerful and effective the strategy becomes. Third the performance test. A good strategy boosts company performance. Two types of performance boosts are most obvious, gains in profitability, and gains in the company's competitive strength and long term position. Strategy options that come up short on one or more of these tests should be dropped. Strategy options that best meet all three tests can be regarded as the best and most attractive.

Beef producers also need to form a business strategy and a long term direction. In order to develop their strategy they need to have an understanding of the (ranch, feedlot, cow calf herd etc.) strategic situation and a keen understanding of the competitive forces they face and how those conditions match up with their resources and capabilities. In order to understand their business's competitive position a producer should conduct a competitive analysis of their segment of the beef industry and of the industry in general. The competitive analysis aims at developing insightful answers to seven questions.

1. What are the industry's dominant economic features?
2. What is competition like and how strong are each of the competitive forces?
3. What is causing the industry competitive structure and business environment to change?
4. Which companies are in the strongest and the weakest positions?
5. What strategic moves are rivals likely to make next?
6. What are the key factors for competitive success?
7. Is the industry attractive and what are the prospects for above average profitability?

In order for a producer to conduct a competitive analysis of the beef industry they need to understand an economic theory proposed by Dr. Michael Porter of the Harvard Business School that competition within an industry is a composite of five competitive forces.

1. The rivalry among competing sellers in the industry.
  - a. The rivalry intensifies as the number of competitors increase and as competitors become more equal in size.
  - b. Rivalry is usually stronger when demand for the product is growing slowly.
  - c. Rivalry is more intense when industry conditions tempt competitors to use price cuts or other competitive weapons to boost unit volume.
  - d. Rivalry is stronger when customers cost to switch brands are low.
  - e. Rivalry is stronger when one or more competitors are dissatisfied with their market position and launch moves to bolster their standing at the expense of rivals.
  - f. Rivalry increases in proportion to the size of the payoff from a successful strategic move.
  - g. Rivalry tends to be more vigorous when it costs more to get out of a business than to stay in and compete.
  - h. Rivalry becomes more volatile and unpredictable the more diverse competitors are in terms of their visions, strategic intents, objectives, strategies, resources and countries of origin.
  - i. Rivalry increases when strong companies outside the industry acquire weak firms in the industry and launch aggressive, well funded moves to transform their newly acquired competitors into major market contenders.
2. The potential of new competitors? (entry barriers)
  - a. Economies of scale.
  - b. Cost and resource disadvantages independent of size.
  - c. Learning and experience curve effects.
  - d. Inability to match the technology and specialized know how of firms already in the industry.
  - e. Brand preferences and customer loyalty.
  - f. Capital requirements.
  - g. Access to distribution channels.

- h. Regulatory policies.
  - i. Tariffs and international trade restrictions.
- 3. The market attempts of companies in other industries to win customers over to their substitute products.
  - a. Firms in one industry are quite often in open competition with firms in other industries because their respective products are good substitutes.
- 4. The competitive pressure from supplier –seller collaborations and bargaining.
  - a. Whether supplier seller relationships represent a weak or strong competitive force depends on; (1) whether suppliers can exercise sufficient bargaining power to influence the terms and conditions of supply in their favor and (2) the extent of supplier-seller collaboration in the industry.
- 5. The competitive pressures stemming from seller-buyer collaborations and bargaining.
  - a. If buyers costs of switching to competing brands or substitutes are relatively low.
  - b. If the number of buyers is small or if a customer is particularly important to a seller.
  - c. If buyers are well informed about sellers products, prices and costs.
  - d. If buyers pose a credible threat to integrating backward into the business of sellers.

Beef producers should utilize the five competitive forces to aid them in understanding of the segment(s) of the beef industry in which they are competing as well as the entire industry. Understanding the competitive forces within an industry will assist producers, managers and their veterinarians in crafting strategy. Understanding the industry and its competitive forces will also assist producers in deciding on what are the hows for the strategies they select. As a rule, the stronger the collective impact of competitive forces, the lower the combined profitability of the participant firms. The most brutally competitive situation occurs when the five forces create market conditions tough enough to impose prolonged subpar profitability or even losses. The competitive structure of an industry is clearly unattractive from a profit making standpoint if rivalry among sellers is very strong, low entry barriers are allowing new rivals to gain a market foothold, competition from substitutes is strong and both suppliers and customers are able to exercise considerable bargaining leverage. The competitive forces vary with different segments of the beef industries production chain. At the cow calf and feeder level there are a large number of producers offering their calves for sale, with many producers being price takers rather than price makers. In the cattle feeding industry consolidation continues to occur. There is intense competition in purchasing cattle to be fed and to attain cattle feeding customers. Corn a major input within the industry is also in demand by the ethanol producer which in turn increases the price for corn. When fed cattle are sold there are essentially only four buyers for the majority of the fed cattle. The ability of a cattle feeder to influence the fed cattle buyer is limited. Fed cattle buyers are knowledgeable about the cattle feeding industry. They know the number of cattle on feed, how current the industry is the costs of production for fed cattle and consumer demand for beef. While there is competition from the four large processors to acquire fed cattle at a price to maintain volume through the plant, the competitive forces for entry of a new processor is minimized because there are huge barriers to entry within the packing industry.

Agriculture is a competitive business with approximately 750,000 to 800,000 beef producers located across the United States. The scale of beef production extends from back yard or small cow calf herds to large commercial cattle feeding companies. Beef manufacturing includes both the local locker plant and capital intense packing plants located in the Midwest. Beef produced varies from grass fed to grain fed. With the diversity associated with beef production, there is no single strategy that is a best fit. Producers, assisted by their herd veterinarians need to strongly consider their position within the industry and how they will conduct business currently and into the future

## References

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