



FUNDAMENTALS OF PASTURE BASED LIVESTOCK SYSTEMS

Economics of Raising Livestock on Pasture

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OUTLINE

Market Analysis

- 5 Ps of Marketing
- The Customer & You
- Wholesale vs Retail

Planning

- Capital Investment
- Business Planning
- Financial Skills

Record Keeping

- 3 Financial Statements
- Gross Margin
- Cash vs Accrual

Next Steps

- Breakout & Case Study

MARKET ANALYSIS – BEGIN WITH THE END IN MIND

Product

USP – Unique Selling Proposition
Better, Cheaper, Different → Which one are you?

Price

Commodities = Market Price = Price Taker
OR
Unique → Competitive, Reasonable, Determined by consumer

Place

Where, When, How
Ex. Supermarket, Farmers' market, Wholesale, Direct
When: Seasonality

Promotion

How does the customer know you exist?
Packaging
Merchandizing
Display
Wholesale relationships

People

Who is your customer?
Need and/or Desire
What are their values?

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MARKETING: A NEW WAY OF THINKING

- **Production mindset:** Make a product, and try to sell it
 - “Build it and they will come”
- **Marketing mindset:** Start with the consumer.
 - “Find a need and fill it”
 - Think about what the consumer needs or wants
 - What qualities are valued by the consumer?
 - What products/features earn a premium
 - Design a product to fill that need
 - Work backwards from the consumer’s need to the production system



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MARKETING – THE CUSTOMER & YOU

THE CUSTOMER

- Primary & Secondary
- Demographics
- Values
- Needs
- Price Sensitivity

- Product Trends
- Competition

YOUR PRODUCT

- Attributes & Claims
- Shelf-life & Life-cycle
- Where will you sell?
- How will you price?
- Promotion strategy

- Visit other similar businesses



MARKET CHANNELS

WHOLESALE

- Goals:
 - Lean production at scale
 - Year-round supply / income
 - Consistency
- Product – 1,000 Lambs / year
- Market: Grocery Stores

RETAIL

- Goals:
 - Maximize gross margin
 - Have winters off
 - Operate at smaller scale
- Product – Grass fed/finished calves
- Market – Retail direct to consumer





CAPITAL INVESTMENT PLAN

- Investment in processing infrastructure, storage, transportation
- Facility improvements, waste management
- Sources of Capital:
 1. Debt – Commercial, Private, Non-Profit (Econ Dev)
 2. Investment – Funding for a % Equity or Profit
 3. Other sources – CSA / Membership, Vendors, Grants
- Structure over multiple years
 - Needed upgrades, replacement, growth



BUSINESS PLAN

1. Mission, Vision, Goals
2. Marketing & Promotion
3. Processing Plan
 - # Head
 - # Lbs produced
 - # Lbs processed
 - # units of product produced
 - # units sold through each channel
4. Monthly & Annual Income & Expense Projections
 - With a sensitivity analysis – decreased revenue / increases costs
5. Management and Staff Organization Chart





BUSINESS PLANNING: FINANCIAL SKILLS

- Business Skills
 1. Production
 2. Marketing
 3. Financial

- Identify your strengths and limitations.

- Partner or hire the skill(s) you don't have



BUSINESS PLANNING: FINANCIAL SKILLS

- Define metrics of success
 - Financial Goals
 - Non-Financial (Lifestyle, Family, Personal) Goals

Profitability is a requirement to achieving non-financial goals





WHY KEEP RECORDS

- Types of Records
 - Production, Financial, Marketing, Safety, Employee
- Data shows most farms keep production records
 - Growth, yield, carcass weights via apps, Google Docs, Excel



THREE MAIN FINANCIAL STATEMENTS

Balance Sheet

A snapshot of the business's financial health

Income Statement

Tracks income and expenses over time

Cash Flow Statement

Shows flow of money coming in and going out of the business

BREAKING DOWN THE INCOME STATEMENT



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Variable Costs

Variable costs that increase or decrease as the production of your commodity/service increases or decreases.



Direct Costs

Often also called direct costs – these are the costs that are directly associated with the product or service produced.



Cost of Goods Sold (COGS)

Also referred to as COGS: Any consumable expense that helps produce one or more unit of output



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WHY COST OF GOODS (COGS) MATTERS

- COGS = any expense that helps produce one or more units of output
 - Production labor
 - Seed
 - Fertilizer
 - Feed
 - Fuel
 - Supplies



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FIXED COSTS AKA OVERHEADS

- Generally, remain the same regardless of productivity
 - Property taxes
 - Insurance
 - Depreciation
 - Office staff & supplies



A 5-LINE INCOME STATEMENT

Income Statement (Annual)	Farm 1		Farm 2	
	% of Sales	Dollars (\$)	% of Sales	Dollars
Gross Sales (Total Sales or Income)	100%	\$2,000,000	100%	\$600,000
- Cost of Goods Sold (COGS)	55%	\$1,104,500	45%	\$270,000
= Gross Margin	45%	\$895,550	55%	\$330,000
- Overhead Costs (Fixed Costs)*	30%	\$590,000	67%	\$400,000
= Net Margin (Net Profit)	15%	\$305,500	(12%)	(\$70,000)

*Owner Draw not included. Paid from Profit.



REASONS FOR LOW GROSS MARGIN

- Price is too low
- COGS too high
- Shrink too high
 - Any product grown/made that cannot be sold due to:
 - Lack of demand
 - Poor quality
 - Spoilage
 - Theft



CASH VS ACCRUAL

CASH STATEMENTS

- Records when an item is paid for
 - Or when payment for an item sold is received
- Includes principal and interest debt payments
- Most farm taxes – Sch. F
 - Ex: Grain produced in Fall 2023 but sold in February 2024– Income is recognized in 2024 when payment is received.

ACCRUAL STATEMENTS

- Record when an item is produced, delivered, sold, regardless of when payment is made/received
- Accounts for inventory changes
- Includes depreciation and interest NOT principal payments
 - Ex: Grain produced in Fall 2023 but sold in February 2024– Income is recognized in 2023

BREAKOUTS & NEXT STEPS



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Case Study

Review the case study:
FC Turkey Farm



Goals

Identify the goals of this operation



Planning

How does this farm ensure they meet their income goals?



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CASE STUDY: FC TURKEY FARM, INC



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Objective:

Review financial statements to determine where this farm can improve its profitability.



Process:

Identify accrual expenses that must be adjusted to present true farm performance.



Result:

What recommendations do you have to improve gross margin?

What other questions do you have for this farm?



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CASE STUDY: ACCRUAL ADJUSTMENTS - INCOME -

Meat Sales

\$7,800

Accounts receivable for meat sold but not farm has not yet received payment

CSA Winter Share

(\$1,000)

Value of CSA shares sold that the farm owes product to its members

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CASE STUDY: ACCRUAL ADJUSTMENTS - EXPENSES -

Feed

\$10,000

Invoice for feed delivered during the year that has not yet been paid.

Labor

\$2,100

Accrued payroll expenses for the last pay period of the year

Packaging

(\$1,500)

Value of packaging that was purchased in the previous year, but not paid for until this year.

Poults

\$3,000

Account payable to breeder for birds on the farm

Supplies

(\$5,000)

An invoice for supplies that were used last year but paid this year.

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CASE STUDY: FIXED OR VARIABLE

Expense	Fixed or Variable	Expense	Fixed or Variable
Advertising	Fixed	Office Supplies	Fixed
Bedding	Variable	Other Expenses	Fixed
Depreciation	Fixed	Owner Salary	Fixed
Dues and Fees	Fixed	Packaging	Variable
Feed	Variable	Poults	Variable
Fuel	Fixed	Professional Fees	Fixed
Insurance	Fixed	Repairs & maintenance	Fixed
Interest	Fixed	Supplies	Variable
Labels	Variable	Taxes	Fixed
Labor	Variable	Utilities	Fixed

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CASE STUDY: GROSS MARGIN

Income Statement (Annual)	FC Turkey Farm, LLC	
	% of Sales	Dollars (\$)
Gross Sales (Total Sales or Income)	100%	\$80,059
- Cost of Goods Sold (COGS)	73%	\$58,334
= Gross Margin	27%	\$27,725
- Overhead Costs (Fixed Costs)	115%	\$92,285
= Net Margin (Net Profit)	(88%)	(\$70,560)

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THANK YOU!

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