Winter 2017
NEWSLETTER

PHARO CATTLE COMPANY

CHEYENNE WELLS, COLORADO PHONE: 800-311-0995

Helping you is our business — and we take it very seriously.

Do You Have a Competitive Advantage?

Although most farmers and ranchers rarely if ever think about having a competitive advantage, they should. Anyone who has a business should strive to have a competitive advantage. Like it or not, your business is competing with other businesses for its share of the consumer's disposable income.

When a business is able to sustain profits that exceed the average for its industry, that business is said to have a competitive advantage over its rivals. Michael Porter wrote a book entitled *Competitive Advantage* in 1985. In it, he identifies two basic types of competitive advantage. The first is cost advantage. The second is differential advantage.

A cost advantage exists when a business is able to deliver the same product as competitors but at a lower cost. This requires a lower cost of production. Low-input cow-calf producers, for example, have a big competitive advantage over status quo producers. Many PCC customers have a cost of production that is less than half what the national average is. If need be, they could sell their calves for half what their neighbors sell their calves for — and make the same profit. Low-input producers have built their business around free solar energy instead of fossil-fuel energy. They let a cow be a cow. There is a reason cows have four legs and a mouth.

Some cow-calf producers have created a huge cost advantage simply by focusing on production per acre, instead of production per cow. I personally know several producers who have increased pounds and profit per acre by 50 to well over 200 percent. These producers have implemented proper grazing management to make the most of every ray of sunshine and drop of rain that falls on the land they control. They also produce smaller, more efficient cattle that fit their environment — instead of artificially changing the environment to fit their cattle.

A differential advantage is created when a product differs from competing products and is perceived to be superior to competing products. Many PCC customers, for example, produce and market grass-finished beef. While the demand for conventional beef has been struggling, the demand for grass-finished beef has been increasing by leaps and bounds. While the price of grain-fed animals is about half what it was just over two years ago, the price of grass-finished animals has increased during the same time period. There are several niche-market opportunities.

A competitive advantage can also be gained by businesses that seek strategic alliances with other businesses in related industries or within the same industry. Small cow-calf operations, for example, can join forces to create the same economy of scale that large operations enjoy. My observations, however, tell me this is easier said than done. Strategic alliances require more time, compromise and management than most cow-calf producers are willing to provide.

I'm sure many cow-calf producers are thinking it would be very difficult, if not impossible, for them to acquire a competitive advantage. Ironically, that is precisely why competitive advantages are so readily available. Most producers are unable to see the possibilities. You MUST have an open mind to recognize the opportunities that are out there. The reason most producers will never have a competitive advantage is because they are afraid to leave the so-called "comfort" of the status quo herd. They are content with being average. They fail to realize they must be different to truly excel. The first step to becoming extraordinary is to *stop* being ordinary.

~ Kit Pharo

> *"If all you're trying to do is essentially the same thing as your rivals, then it's unlikely you'll be very successful."*
>
> ~ Michael Porter ~

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THE

PHARO CATTLE COMPANY

NEWSLETTER

Published four times per year by:

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Our Mission: Help ranchers put more fun and profit into their business.

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Holding On To Your Advantage…

You have a competitive advantage because you were willing to step out of the status quo herd and do a better job of running your business. You will only have a competitive advantage until the majority discover they can do what you are doing.

Eventually yesterday's Herd Quitters become the new status quo. If you want to maintain your competitive edge, you must change with the times. You must recognize when you are becoming the new status quo, and start looking for new advantages.

Henry Ford is an excellent example of a leader who fell behind. It has been said that Henry Ford was 20 years ahead of his competition for the first 20 years of his business, and 20 years behind the next 20 years. During the boom years of the Model T, two-thirds of the cars in the US were Fords.

Henry did what he had to do to become the leader in the early car business — but he failed to adapt and change with the times. He allowed his business to stagnate under its previous success. The same thing can happen to us if we're not careful. Nothing stays the same. The key to staying ahead is to adapt to change as it takes place.

The Rearview Mirror…

As we begin a new year, let's take a quick look through the rearview mirror at 2016.

This past year had a humbling effect on many cow-calf producers. Calf prices steadily declined until a 500-pound steer was worth \$500 less than it was worth just one year earlier, and \$750 less than it was worth just two years earlier. In this business, that is a HUGE change — in the wrong direction! The 2016 income for most cow-calf producers was less than half what it was in 2014.

Thankfully… 2016 ended on a positive note. Cattle prices trended upward for the last two months. We didn't come close to gaining back what we lost, but we are headed in the right direction. When the most bizarre and entertaining presidential race in our country's history came to an end, we saw a noticeable increase in overall optimism — especially in rural America. Bring on the new year!

Looking Ahead…

The great Yogi Berra once said, *"It's tough to make predictions, especially about the future."* That is so true. Nevertheless, it would be prudent to consider the possibilities and plan accordingly.

In February 2002, Donald Rumsfeld, the then US Secretary of Defense, stated at a department briefing: *"There are known knowns. There are things we know we know. There are known unknowns. That is to say, there are things we now know we don't know. But there are also unknown unknowns. There are things we do not know we don't know."* Folks, is this not true for each and every one of us?

An example of a known known for cow-calf producers is cost of production. We know the average cost of producing a calf increased from $384 in 2000 to $883 in 2014. That's a whopping 130% increase! We also know this trend will probably continue into the future. If you have not already done so, 2017 would be a great time to transition into a low-input program with efficient, low-maintenance cows. Why put it off any longer?

Two examples of known unknowns are the weather and the markets. We know the weather and the markets can have huge effects on our business — but we don't always know what the weather or the markets have in store for us. Drought is once again becoming a reality for many of us. We need to plan accordingly. We don't know if we have seen the bottom in cattle prices or not. We hope we have — but there is evidence we've not yet seen the bottom of this cycle. It's always best to prepare for the worst — while hoping for the best.

The unknown unknowns are scariest of all. An example would be when BSE was discovered in Canada in 2003. That had a devastating effect on Canada's beef industry. The possibility of an unknown catastrophic event is very real. The most likely catastrophic event would be an economic collapse of major proportions. Another possibility would be terrorist attacks that wipe out our electrical grid and/or transportation system. Life as we know it could quickly come to an end. The only way to prepare for such events would be to create an ultra-low-input operation that depends on very little from the outside.

Weekly Emails…

If you would like to receive our FREE weekly updates and devotions, send your request to Tammy@PharoCattle.com.

Profit Per Cow or Per Acre…

It doesn't take a genius to see that nearly all purebred operations are focused on maximizing production per cow. As a result, they have big (5 to 7-frame), high-milking cows. The trouble with big, high-milking cows is they require a tremendous amount of energy just to meet their maintenance requirements. Maintenance requirements must be met before any weight gain or reproduction can take place.

No matter how good or how bad your environment is, you will always be able to run a greater number of smaller, moderate-milking cows than big, high-milking cows. Keep in mind that we do NOT raise calves on milk. We raise calves on grass, and supplement the grass with milk. Eighty-five percent of a calf's ability to grow from birth to weaning is due to its genetic foraging ability — not milk. I don't know of a ranch anywhere in the world that needs more milk production.

Small, low-maintenance cows have the ability to maintain good body condition, even with a limited amount of forage. They meet their maintenance requirements and then store up energy in the form of body fat. A cow is incapable of rebreeding until she starts storing up fat. Small (3 to 4-frame) cows will always wean a higher percentage of their own weight than big (5 to 7-frame) cows. Therefore, small cows will always produce more pounds and more profit per acre than big cows. Ask your banker if he thinks you should focus on profit per cow or on profit per acre.

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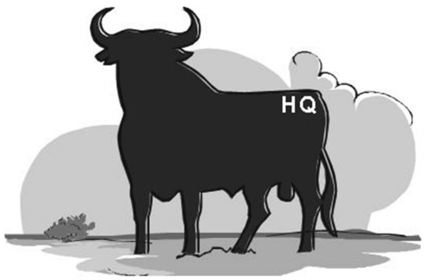

Dare to be a Herd Quitter

Cowboy Logic: _"While most people follow old trails, a few are breaking new trails."_

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