



## [ASK] - Always Seeking Knowledge Selected Back Issues – May 2010, No 4

### Marketing for profit

#### Is Vilfredo Pareto at work at your place?

It is really interesting to study what makes non-agricultural businesses tick. I have now spent many hours doing just that. Almost without exception these folks focus on 'sales'. Most businesses discover at some stage that the 80/20 theory, which is often attributed to a wily old Italian, Vilfredo Pareto, is correct. The theory suggests that 80% of our results arise from just 20% of our actions. In marketing terms, 80% of the profit comes from 20% of the customers. Put another way, just 20% of our actions produce 80% of our results. By definition, the remainder of our actions are pulling us away from the planned outcomes.

I recently read about such a situation. The company involved had an annual turnover of around \$A12m, but was stagnant. There were 600 customers, and the staff were at their limit in servicing them. Close analysis showed that the least profitable 200 companies (ie 33%) between them provided just \$A1m in turnover ie just 1/12 of the total. By dropping the bottom 1/3 of customers, the company has moved turnover up to \$A20m in a just one year, and lifted profit by an even greater percentage. The sales people have been able to build better relationships with the people who could and would pay the most for the product they sold. The bottom 200 customers previously occupied the company's staff time grizzeling about price, and then complaining about performance.

It is instructive to think about it in terms of everyday work in your business. Are you guilty of spending 80% of your time doing things that do not generate a return. The Japanese have a wonderful word for this. They call it muda, which translates as 'waste', 'futility' or

'purposelessness'. What jobs do you do that are muda? Drenching? Spraying weeds?

Remember the rule of succession: *a species will move into an environment when the conditions become suitable for their establishment, and will move out of that environment when the conditions become unsuitable for its reproduction.* So whilst many activities you now engage in may be important in the short term, your every waking moment should be directed at creating conditions which make them unnecessary in the future.

How serious are you about removing muda in your life, so that you live the life you desire – the life that you have written in your holisticgoal. If you don't have a goal, then you would do well to remember that some one else will have one for you, and it will most likely involve muda for you.

#### Marketing: from a different perspective

This article was written in September 2004. Last month, in Christchurch the NZ people turned on a spectacular 2 day seminar. It began with one of the largest snowstorms in Christchurch for many years – the place looked like a European postcard. And then it got even better!

In particular, I want to talk about the presentation made by Brent Rawstron, owner of Rosendale Wines <http://www.rossendale.co.nz/index.php>. The vineyard is located on the outskirts of Christchurch city. Nothing if not a marketer, Brent made a number of points that I want to pass on.

Firstly, he told us how we must be sure we know what our target market is, BEFORE we produce the product. Then, he said, we must produce perfectly for that market.



Brent told us how some 20 years ago he had identified a market for a single, select cut of premium meat that could be sold at very high prices though a specialist outlet he located in Germany. Since that time he has been meeting that market every month. The amazing thing is that from every carcass he produces, he sends only 18kg of meat to Germany. The rest of each body is sold conventionally, but the premium on the 18kgs is so good it effectively doubles the profit per carcass.

Think about that. He has identified a single cut, sells it to a single market, and in turn has provided outstanding service over a long period of time. It is a true relationship. If it were to ever fall over, he does not have an entire supply chain of meat that he has to sell. The 'commodity' meat people look after that for him, which is a low stress option if there was one, I would expect.

In the USA I know of organic milk producers who are selling their milk to their local co-operative. These farmers then buy back from the co-operative all of the milk they need to meet their own direct marketing purposes, and the rest is sold as normal by the co-operative in the commodity market. That seems like a low stress option as well for the specialist organic producer.

Last week we came across another interesting marketing technique. As you would be aware, it is illegal to sell whole milk for human consumption without first pasteurising it, a process deemed by many as damaging to the vitality of the milk, but declared by authorities as necessary for human health! There are some people who remember unpasteurised milk from the house cow, or milk straight from the dairy vat, and they would like to keep that experience. In recent times some Holistic Management practitioners have vainly tried to provide the experience, but with no lasting success.

Now we have come across a southern Queensland family who are selling their milk as "Bath Milk". They make express claims that it is not sold for human consumption, although they stress it is produced in 'hygienic conditions'. Technically it is illegal to sell the product in Queensland as Bath Milk or as any other form or name of milk. It is

unpasteurised, and therefore illegal! However, Section 92 of the Australian Constitution allows free trade across state borders. It is not illegal to sell Bath Milk in NSW! Now, there's a twist the founding fathers probably hadn't considered.

There are some excellent marketing things happening at the moment. David and Joan Cook in WA are having increasing success with their 'Dandaragan Organic Beef' brand, whilst one NZ farmer is on track to make the value attached to his brand greater than the value of the land on which his production is based.

### **Giving away your only marketing advantage**

*This article was written May 2007.*

I have banged on about this before, but its worth revisiting. I was prompted to write this article after reading Allan Nation's blog site recently. Allan is Editor of the prestigious Stockman Grass Farmer newspaper, based in Missouri. In this blogsite [article](#) Nation talks about the fact that if US corn growers could receive 2007 prices for their corn, grown at 2006 costs, they would be "sitting pretty" with Gross Profits of around \$270/acre (\$667/hectare). In reality they are growing 2007 crops at 2007 prices and have GP's of around \$50/acre (\$123/hectare), and if corn comes back to 2006 prices, most would be bankrupted. Of course that won't happen. Uncle Sam will step in to maintain his peasants on the farm.

This got me thinking a bit more. There is a widespread belief in agriculture and in its many service industries that 'Marketing' is the big thing, the salvation of the peasant farmer. And in many ways marketing is important, very important. What I started to realise is this: with few exceptions, good marketing ideas can be replicated. Once people cotton on to what is happening, others move into the space.

Until recently in the US, prices (to the farmer) for organic dairy products have been up to 100% higher compared to similar products produced conventionally. Guess what? Right now there is a dramatic oversupply of organic milk as literally hundreds of farmers move into the space. The conversion is partly fueled from a moral standpoint by producers who want to do things better, but in reality much of the

movement has been dollar driven. There is no doubt in my mind that much of the perceived "marketing advantage" of organic agriculture will continue to erode as more producers move into the space, and organic production becomes 'commodified'.

At the same time I work with some of the lowest cost producers of beef, lamb and wool in the world. These people know they are producing nothing but a commodity, and have worked hard to make themselves bullet proof should prices decline, as they inevitably will. They make themselves bullet proof with productivity gains and more importantly, by making deliberate decisions about keeping costs low.

Every overhead taken on increases your break even point. When working with one farmer recently we figured that the overhead of their new web site cost them 1 cent per kg of their wool production, and would not produce a single additional kilo of wool. Why did they have a web site? For marketing purposes!! Will the expected premium last in the event of a world downturn in prices? I have no idea, but I know that my clients won't make that price decision, the "market" will.

Here is my new saying:

Anybody can take your hard-won marketing advantage away from you, but only you can make the decisions required to give away your low cost of production.

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And the relevance of this in Australia, in particular? Guess what: with better grain prices the price of inputs is going through the roof. MAP and DAP are at all time highs. The salesmen are telling farmers this is connected to high oil prices, but your heart tells you that these people price their products at what the market will stand, and that this is not related in any meaningful way to the suppliers cost of production.

Farmers with biologically unsound practices will be forced to continue buying high volumes of expensive inputs in order to sustain their production. Farmers who have decided to be really, truly biologically sound producers can decide not to play the price game this year. They will decide the level of their inputs, and for some, they will choose zero, because they can afford to sit out the market! They will not compromise their position and give away their only real marketing advantage, which is their low cost of production.

**Post script:** The scenario above is playing out again in 2010 in Australia.