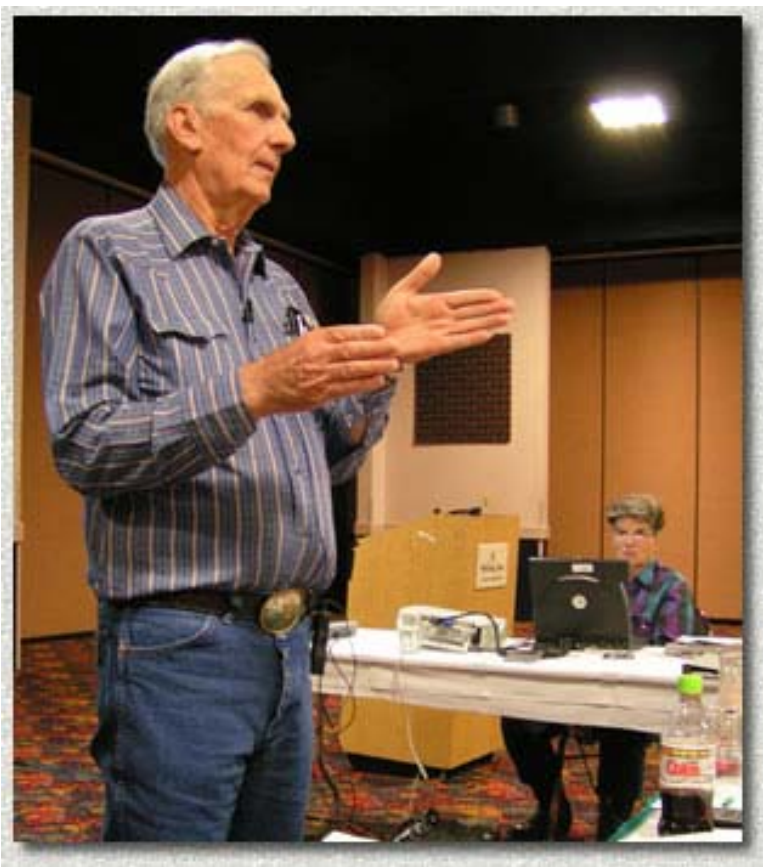


Bud Williams Marketing

Profit-Centered Livestock Marketing Strategies Quivira Coalition Mini-Presentation January 18, AD 2007



“Excellence is an art won
by training and
habituation. We do not
act rightly because we
have virtue or
excellence, but we
rather have those
because we have acted
rightly.

We are what we
repeatedly do.
Excellence, then, is not
an act but a habit.”

— Aristotle

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Which of the following items is most critical to profitability in the livestock business?

- A. AVERAGE DAILY GAIN**
- B. TOTAL POUNDS GAINED**
- C. COST OF GAIN**
- D. ALL OF THE ABOVE**
- E. NONE OF THE ABOVE**

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Store Selling VCRs

Target Markup: 30%



Buy

Sell

\$400

\$455

\$350

\$390

\$300

\$325

\$250

\$260

\$200

\$195

\$150

\$130

\$100

\$130

Store Selling VCRs

Target Markup: 30%



Buy

Sell

\$400

\$455

\$350

\$390

\$300

\$325

\$250

\$260

\$200

\$195

\$150

\$130

\$100

\$130

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Questions

1. What is the positive cash flow so far?
2. What is the return on the initial investment so far?
3. Is this market inflating or deflating?
4. What is the proper method for calculating margins in a mercantile-based business paradigm?



Store Selling VCRs

Target Markup: 30%

What would happen if we decided that we weren't satisfied with the buy-sell margin on our \$200 VCR, and stopped selling?

<u>Buy</u>		<u>Sell</u>
\$400	+14%	\$455
\$350	+11%	\$390
\$300	+8%	\$325
\$250	+4%	\$260
\$200		\$195
\$150		\$130
\$100		\$130

Questions

5. What is the positive cash flow in this scenario?
6. How much cash flow did we cost ourselves by fixating on the buy-sell margin?
7. What is our return on our initial investment in this scenario?
8. What is the proper method for calculating margins in a mercantile-based business paradigm?



Store Selling VCRs

Target Markup: 30%

What would happen if we decided that we weren't satisfied with the buy-sell margin on our \$250 VCR, and stopped selling?

<u>Buy</u>		<u>Sell</u>
\$400	+14%	\$455
\$350	+11%	\$390
\$300	+8%	\$325
\$250		\$260
\$200		\$195
\$150		\$130
\$100		\$130



Questions

9. What is the cash flow in this scenario?

10. How much cash flow in total did we cost ourselves by fixating on the buy-sell margin?

11. What is another term for “zero cash flow”? What term will we use instead henceforth?

12. What is the proper method for calculating margins in a mercantile-based business paradigm?



The price structure for VCRs has now stabilized. We execute 5 more trades AND buy a 6th VCR to maintain inventory.

Buy		Sell
\$400	-----	\$455
\$350	-----	\$390
\$300	-----	\$325
\$250	-----	\$260
\$200	-----	\$195
\$150	-----	\$130
\$100	-----	\$130
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\$100	-----	\$130
\$100	-----	\$130
\$100	-----	\$130
\$100	-----	\$130
\$100	-----	\$130
* \$100	-----	\$130

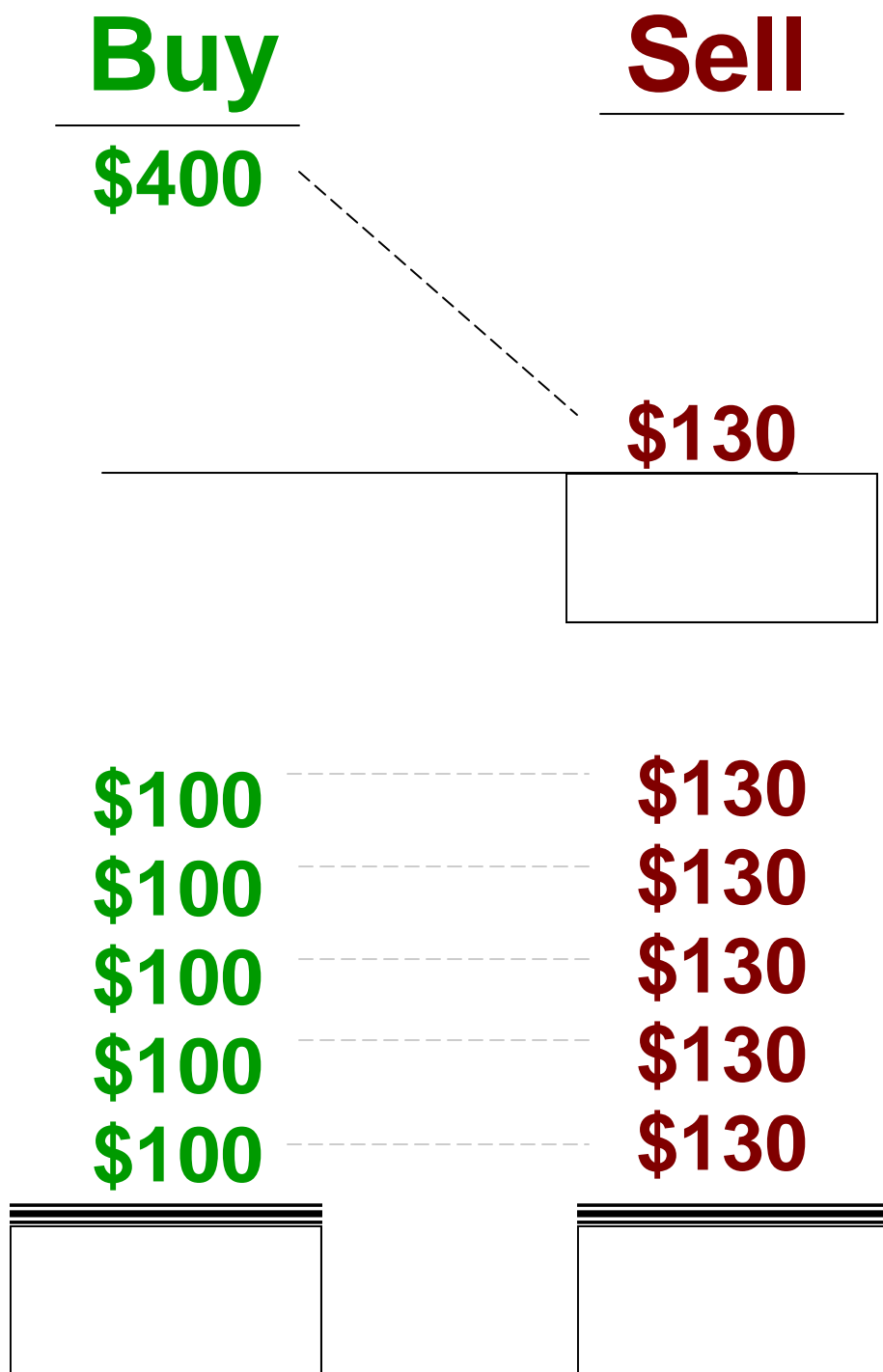
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Questions

13. What is the cash flow on the additional five transactions (below the line)? Did we maintain inventory?
14. What is the total positive cash flow?
15. What is the total return on the initial investment?
16. What is the proper method for calculating margins in a mercantile-based business paradigm?



If we refuse to sell without a 30% buy-sell markup, we end up blowing out of our first purchase at \$130, and then continuing in the stabilized market.



Questions

17. What is the loss created by the hold-out on the \$400 VCR?
18. What is the total cash flow? Do we finish with inventory?
19. Who is to blame for this? What could have been done to avoid this loss?
20. What is the proper method for calculating margins in a mercantile-based business paradigm?



MARGIN PERSPECTIVE REVIEW

\$400 buy → **\$455** sell = +14%
\$350 buy → **\$390** sell = +12%
\$300 buy → **\$325** sell = + 8%
\$250 buy → **\$260** sell = + 4%
\$200 buy → **\$195** sell = (- 2%)
\$150 buy → **\$130** sell = (-13%)
\$100 buy → **\$130** sell = +30%

\$455 sell → **\$350** buy = +30%
\$390 sell → **\$300** buy = +30%
\$325 sell → **\$250** buy = +30%
\$260 sell → **\$200** buy = +30%
\$195 sell → **\$150** buy = +30%
\$130 sell → **\$100** buy = +30%

Discount Store—Fast Selling Item

10% Target Markup

<u>Buy</u>	<u>Sell</u>
\$40	\$43
\$40	\$42
\$40	\$41
\$39	\$40
\$38	\$39
\$37	\$38
\$36	\$40
\$37	\$42
\$38	\$43
\$39	\$44
\$40	\$44

Below the Buy column is a blue-outlined box. Below the Sell column is a blue-outlined box.

Discount Store—Fast Selling Item

10% Target Markup

If we hold out for that 10% markup . . .

<u>Buy</u>	<u>Sell</u>
\$40	\$43
\$40	\$42
\$40	\$41
\$39	\$40
\$38	\$39
\$37	\$38
\$36	\$40
\$37	\$42
\$38	\$43
\$39	\$44
\$40	\$44

Diagram illustrating the relationship between Buy and Sell prices for a fast-selling item, aiming for a 10% target markup. The Buy prices are listed on the left, and the Sell prices are listed on the right. A dashed line connects the top Buy price (\$40) to the Sell price (\$44). Another dashed line connects the bottom Buy price (\$40) to the Sell price (\$44). The final Sell price (\$44) is highlighted in red, indicating the target price for a 10% markup on the \$40 buy price.

Discount Store—Fast Selling Item

All Sell-Buy Margins exceed 10%, but if we hold out for at 10% buy-sell markup . . .

<u>Buy</u>	<u>Sell</u>
\$40	\$43
\$39	\$42
\$38	\$41
\$37	\$40
\$36	\$39
\$35	\$38
\$34	\$40
\$36	\$42
\$38	\$43
\$39	\$44
\$40	\$44

Diagram illustrating the relationship between Buy and Sell prices for a fast-selling item. The Buy prices (left column, green) and Sell prices (right column, red) are listed. Dashed lines connect the Buy and Sell prices, showing that the Sell price is consistently higher than the Buy price, indicating a profit margin. The Buy prices range from \$34 to \$40, and the Sell prices range from \$40 to \$44. At the bottom, there are two blue boxes representing inventory levels, each with a double horizontal line above it.

Discount Store—Fast Selling Item

All Sell-Buy Margins exceed 10%, but if we hold out for at 10% buy-sell markup . . .

<u>Buy</u>	<u>Sell</u>
\$40	\$43
\$39	\$42
\$38	\$41
\$37	\$40
\$36	\$39
\$35	\$38
\$34	\$40
\$36	\$42
\$38	\$43
\$39	\$44
\$40	\$44

The diagram illustrates a sequence of buy and sell prices. The 'Buy' column lists prices from \$40 down to \$34, then back up to \$36, \$38, \$39, and finally \$40. The 'Sell' column lists prices from \$43 down to \$38, then back up to \$40, \$42, \$43, and finally \$44. Dashed lines connect the buy price to the sell price, showing a consistent upward trend. The final two rows, where the buy price is \$39 and \$40, and the sell price is \$44, are highlighted in bold. Below each column is a blue box with a double horizontal line above it, likely representing a profit or loss calculation area.

Questions

21. True or False: \$8 positive cash flow is better than \$32 or \$44 positive cash flow.

22. True or False: It is better to hold out for a fixed buy-sell margin because it proves a point to the packer and sets a good example for the kids.

23. What does Wal-Mart do with inventory goods that don't move?

24. What is the proper method for calculating margins in a mercantile-based business paradigm?



The Loaf of Bread

We are a grocery store. On January 1st we buy one loaf of bread for \$1.50 to establish inventory. We place the loaf on the shelf for sale priced at \$1.51. Soon after, the loaf is picked up and sold to a customer. As the loaf is scanned at the checkout counter, the **\$1.51 sale** is posted to our database. What happens next?



The signal is INSTANTLY sent to the bread supplier to deliver another loaf of bread to replace the one just sold. The replacement cost is **\$1.50**.

SELL @ \$1.51
BUY @ \$1.50

What is the margin as a percent?

The Loaf of Bread

If we sell and replace that loaf-unit **every day** for one year. How much will we make?

What is the return on investment generated by selling one loaf per day?

If we sell and replace that loaf-unit **every week** for one year. How much will we make?

What is the return on investment generated by selling one loaf per week?

If we sell and replace that loaf-unit **every month** for one year. How much will we make?

What is the return on investment generated by selling one loaf per month?

SPEED OF INVENTORY TURNOVER IS MORE IMPORTANT THAN MARGIN!!!



Trading a Steer

If we sell and replace one steer unit **every day** for a **\$1** profit, we will generate **\$365** profit over a one year period.

How much profit per trade must we generate to keep pace if we trade **weekly**?

How much profit per trade must we generate to keep pace if we trade **monthly**?

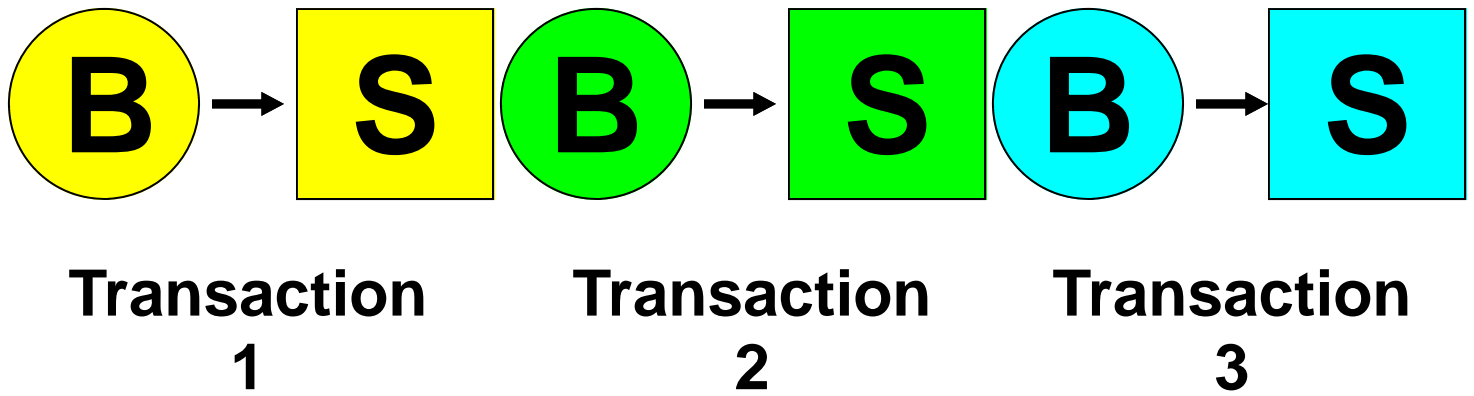
How much profit per trade must we generate to keep pace if we trade **quarterly**?

How much profit per trade must we generate to keep pace if we trade **annually**?

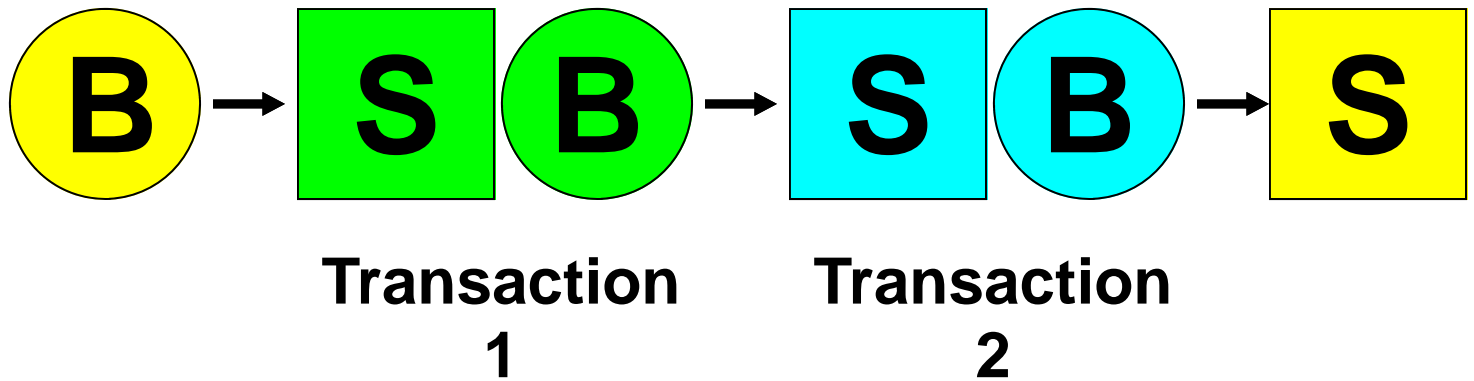
What trade frequency is viable?



Transaction Clustering



Transaction Clustering



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