

How Do We Get There From Here? Bridging the Gap.

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The future of the beef industry is clearer than most think, at least to me! It is clear that it will look nothing like it does today and it will be led by different people or at least entirely different philosophies.

While the endgame is more clear than the course to get there, I believe there are three major opportunities, or even principles, that will help a forward thinking person or organization be in front.

1. Recognize that we have, perhaps, the closest thing to a free market as anyone.

You know the scenario. The local cattle producers are meeting this week in town to hear a speaker that has come in to discuss the changing beef system and how people can develop a strategy to be part of that system. Most people come to really hear what the speaker has to say and figure out how they will have to change to fit their beef operation into the new system. The questions are challenging for the speaker as the audience tries to get as much information out of him as possible so they can develop a good plan for their business. Of course, not everything the speaker has to say will work but there are some good morsels there for the picking to be sure.

Then it happens—it's the "anti-packer guy". This ole boy gets on his high horse and, regardless of whether the question fits into the topic of conversation that night, asks the speaker the question that turns the educational event into a bounty hunt. "Yeah, but..." the question usually begins. "All this wouldn't be necessary if the packers would give us what we deserve and if the government would just guarantee us a free enterprise market."

Let's take a look at that philosophy. The standard Merriam-Webster dictionary defines "free enterprise" as follows: *freedom of private business to organize and operate for profit in a competitive system.*

Note that the definition doesn't say anything about guaranteeing that any particular business will be profitable. Several Centuries ago, Adam Smith, an economist penned the expression and concept of the "invisible hand." It works in the beef industry as well today as it did for all "free markets" back then. In the context of today's beef business this theory says that you, or any one else, is welcome to participate in the

beef business at any level you wish. You are welcome to have a business as small or as large as you wish. You should try to sell your products for as high a price as your buyers will pay and you should pay no more for your inputs than you absolutely have to. You will need to be able to recognize when the needs of your customers change and it will be your responsibility to adapt. The only catch is that everyone else gets to play the same game. Mr. Smith would have gone on to say—if the marketing system changes and you find that your old way of doing business does not provide you with the income that you desire then you are welcome to leave the industry—thank you very much.

I have read all of the studies that have been done trying to determine if the packers are controlling the market place. The studies are inconclusive. However, I would like to put your mind at ease by solving the mystery. YES! Indeed the packers are paying the feeders for the cattle a price that is as low as they possibly can and still get the cattle. They are not paying a premium to get commodity cattle from one feeder when they can bid the price down and get essentially the same cattle down the road. In addition, they are selling the beef they get from those cattle for as high a price as they can get from the retailers. By the way, if you recall, this is called a "free market" and it is available to them as well as you. As you know, with the recent downfall of Future Beef, this "free market" does not guarantee the packer a profit either.

The retailers get to play the same game. They will charge a price for retail beef about as high as they can and still sell the meat to the consumers. If the price goes too high the consumers will walk to the pork cooler. If the price is too low the retailers will sell all the meat they have and leave some profits on the table. On the other side of the business they will pay feeders a price for commodity beef as low as possible. The money that is left is the free market profit. They don't get a guarantee and neither do beef producers. Unless of course, we want to argue that the government should control the market which is the opposite of where we started by asking for a free market.

Granted, there is a possibility for abuse in the free market and the government is there for that situation. Perhaps, however, we have used a fear of market power of some as an excuse for lack of entrepreneurship for others. As an industry we tend to

gather up to point fingers at others rather than point a finger in the direction we wish to go.

Perhaps the greatest threat to the beef industry is the beef industry

In the beef business we are proud of our traditions. Producers learn from an early age that hard work and, well more hard work will get you every edge there is available. Even more importantly, hard work is always honorable. We teach each other the way it is in the business in terms of who is expected to succeed and who is not. Then, as the next generation comes through, we are shocked that the same people are farther ahead in the game.

Have you ever wondered whether some things stay the same because that is the way we expect them to be? Some would say that is called tradition. I think it is a little closer to home than even tradition. Take that word AGRI-CULTURE apart once and you will see what I mean. The traditions and lifestyles that we enjoy are part of our culture. We just need to realize when to leave the old culture behind and find the new. We all grew up learning what the acceptable rules were in our homes and in our communities. This was dictated by the culture of our heritage and the principles of our parents. If you grew up in the agriculture world you also began to see some of the culture show its face if you ever tried to question the way something was done.

“That’s not the way we do things around here, son” was one of the first things I heard when I asked someone in the beef industry about rethinking the way they marketed cattle. When I pushed the issue, they pushed harder. The culture of the beef industry has run deep into every stage of our business from the cow-calf producer all the way through to and including the retail store. It is only when a few people step out in front and show a different way of doing things and insist on not backing down when the pressure hits that the culture is challenged and positive change begins.

Think about the way “we” taught consumers to eat our beef products. We taught them that beef comes in white styrofoam trays with cellophane plastic over the top. Be careful when you tip the package in case the blood run off leaks onto your pants in the grocery store. We taught consumers that beef really tastes great – every once in awhile when you get lucky and find just the right cut of meat and get even more lucky to cook it just right. We taught them that we were going to work very hard on our farms and ranches and they should appreciate our effort and pay us more for the meat they enjoyed eating—well mostly enjoyed eating. We

taught them that we were going to label our product just the way we liked thank you very much and that included a subjective measure of quality using a grading system that the USDA, not consumers, choose to differentiate our products. We taught consumers that beef was really good and they needed to keep coming back and trying it again even if the last steak they bought was tough and chewy. “Trust us”, we taught them, “the next one will be better.” Well we tried to teach them these things anyway – that WAS our culture. Then a few people began to try something different and, well, have you seen the retail beef case lately?

That old culture of the beef industry continues down through the system though doesn’t it? The system has taught cow-calf producers that they really are doing a great job if they get a good price at the commodity sale this fall. We taught them that a single price given to them on a single day for a years worth of work was a signal about whether they had the whole system right or wrong this year. We taught them that someone who would see their cattle running by them for 30 seconds really did know best when it came to evaluating the real value of the cattle before them and the quality of feed and husbandry that went into those cattle. We taught cow-calf producers to go back and figure out what was good and not so good about their calves based only on this one price signal from the sale. Well we tried to teach them these things anyway – that WAS our culture. Then a few people tried something different.

We taught those who bought in the commodity system that they were to buy cattle that had problems, pay as little as they could, group the cattle together, fix the problem, and then market the cattle for a profit. Of course, neither the buyer nor the original producer would ever know what, if anything, was really wrong with the calves or whether the grower corrected the problems. We taught the feedlot managers that over time they really should not expect to make any money as an industry and they should save up during the good times as the bad part of the cycle was coming. We taught our extension education industry to hound us constantly about knowing our cost of production and then we secretly laughed when they gave us speeches to do just that because we knew we never would—but the free steak was good that night—well actually it was a little tough, but it was free! Our culture taught us that when the checks were not bouncing the farm must be making money.

Then something happened. The culture began to change. It started slow as some in the retail sector began to notice that the fresh meat aisle was the only

one in the store without branded products. The retail culture, you see, is that retail shelf space is limited and the more times you can empty and fill that space the more money the store makes. They noticed that branded products which offer quality and consistency throughout the store were attracting consumers as repeat buyers once the consumer found the brand he wanted and could rely on the quality to be the same each time.

It started in the poultry business, continued through pork and finally hit beef. Our culture in the beef system began to change. The check-off was born and invested in finding products that consumers would like and for which they would be willing to pay a premium. They funded programs that finally broke our culture down and recognized that the word "consumer" is not singular. There are many types of consumers with many tastes and preferences. As our culture changes we will teach cow-calf producers that they can make a good living if they learn as managers to manage information more and fence repairs less. We will teach them that using information will increase profits faster than better hay management. We will teach the livestock markets that they have a vital role in the new market place in facilitating the transaction of cattle between buyers and sellers and their value will come from facilitating the transfer of information more than their skills on the auction block. We will teach the packers that as the information flows back through the system along with corresponding prices for differentiated quality that producer will raise their respect rather than their suspicions. The culture of agriculture is changing and the beef system is finally on board ?

2. The Gap for individuals is entrepreneurship.

The basis of the generic beef cattle business has always been a massive commodity system providing processors in every part of the country with an animal supply that is cyclical and inconsistent in quality. Against this background, former USDA Secretary Dan Glickman said, "The days when most farmers could make ends meet by simply bringing bulk commodities to market are over." Managing the farm operation requires the establishment of a set of farm policies just like the government. The question for individuals is not rocket science- Have you formed a farm policy, or business plan, which will guide your operation toward finding the most money possible, then setting a course to earn and capture that money for your operation? It is time for your own farm policy. What will it take in your cattle operation to maintain your family and living style 10 years from now? The cold economics lesson from Adam Smith says that if you can't maintain a

profitable business then the free market will find someone else who can.

Vertically coordinated value-added systems attempting to capitalize on a changing consumer demand have emerged. These are emerging as new and separate entities from traditional markets as well as from livestock markets that are adding value to their customer's product by helping them develop vertical marketing relationships. This is one way that progressive managers are taking the advice of Adam Smith by redefining how they do business in a changing "free market." There are many other ways of course and the key is to recognize your strengths and find a way to make money in the marketplace. I don't think complaining at meetings will help your checkbook balance.

The concept of vertical relationship marketing is not new. We have seen a substantial increase in the presence of these types of groups in recent years. However, like every other new innovation that has come along, it also requires a new understanding of some part of the business. How is it possible to pick the right alliance to join in with? How will your returns and costs be different? Will this change add to your bottom line or just the top line? The answer to these and other questions can only come from how you decide to fit into the new beef production and marketing system. That answer comes from how you shape your new farm policy.

Managing your farm with an objective in mind is really easier than without one. Of course, most of us have the objective to make more money. But how? Just waiting for it isn't going to make it happen. The answer comes from identifying where you believe you can best serve the industry as the returns to a value based marketing system come to those who provide the most value or service to the system. To determine this, consider what it is that you are or can be best at doing in the beef system. I guarantee you that if your answer is that you just like to be with the cows there are problem days ahead. I mean really think about what part of the business you can do better, cheaper, and more efficiently than others. At the same time think about what you are really not very good at. The manager that will be able to thrive in the future in our changing beef system described by Secretary Glickman will be the one that can expand his business in the first area and contract it in the second.

Learn what to focus off!

It is never difficult to learn more about that which we are interested. The one who likes nutrition so will

hardly pass up an article in a trade journal sharing some of the latest knowledge about feeding. Our genetics friends will read every sire summary cover to cover trying to find the best bull to use. Finally, our business friends will learn all he can about money – how to make it and how to keep it.

Of course. It is fine to continue to learn about what we are interested in, however, I challenge you to make a list of all the skills that you think a good cattle businessmen should have. Next check off on that list the skills that you have. The remaining list is where you need to focus. Chances are the list will reveal what you already know are your biggest business management weaknesses. Don't just go to an extension meeting on Wednesday night because you have that evening available. Choose educational and reading opportunities that help you check off more items on your list. Think about it this way, if a young man just out of high school were to come to you and ask what skills you would advise he should have to be one of the decision makers in the new beef chain, what would you say? Think about the list you might sit down and sketch out for him. The skills you need to survive as a businessman in this changing structural environment are those you just shared with the young man. If you already believe that this list you gave him has all the skills needed to survive then just check off the skills you have mastered – the remainder is what you need.

3. The Gap for organizations is leadership.

Visionary leaders take their organizations forward in a particular direction not always because of some of its members but often in spite of them.

Who Shredded My Lettuce?

You might have heard of the widely popular New York Times best seller, "Who Moved My Cheese." If you haven't heard of it go and buy it and read it. It is a small book that will take about a hour to read. It is a parable really, a story about 4 mice and how they deal with change when their cheese supply disappears. One of them complains about how it shouldn't have been moved while another goes out and finds another source of food. Their other two friends fall somewhere in between. It is a great story that will make you think about change. Change is inevitable you know (except from a vending machine). The story however, has at least one weakness for some readers who cannot make the leap from being mice to being producers. Here is a story of two lettuce producers that might have taken place about 10 years ago.

Bob and Rex had adjoining farms on which lettuce had been grown for the local coop for several decades. They both had about the same number of acres and, apparently, about the same level of wealth. Bob had always thought of the operation as a business. While he loved the land and all that rural life had to offer his family. He knew that the days of not having to worry about a market place would soon be over. Rex was a third generation farmer. He did go off to college at his fathers' advice to learn a vocation in case the farm couldn't always support their family.

Lettuce has certain market periods when there is a large supply coming to market because most of the producers sell their crop at the same time. Bob and Rex would always see each other at the lettuce buying station and would, along with the other producers, complain that the price was too low and how the lettuce baggers were making all the money. Rex's usual complaint went something like this, "Look, I get fifteen cents a head for my lettuce and it sells for seventy-five cents in the store—you do the math on who is getting all the profit. It's those baggers and the government won't do a thing about it."

Meanwhile at the bagging plant, Bob takes a tour of the process to see what happens to his lettuce after it leaves the operation. During the tour, Bob notices several trucks that don't belong to the bagging plant backing up to the truck ramps near the cooler. He recognizes the name on the side of the truck is from one of those companies that make the shredded lettuce for salads and tacos that can be bought at the grocer. He watches as the buyer for the value added lettuce company carefully looks through the cooler and finds the quality that he is looking for and selects about 10 percent of the cooler to go to his company for shredding and bagging. Bob stops and thinks out loud to no one in particular, "do you mean these guys just come in here and buy bulk commodity lettuce by the head from the cooler and then go shred it and put it in a bag and sell it for about six times what the commodity lettuce sells for in the store?" The proverbial light bulb comes as Bob walks away saying "I want a piece of that!"

Bob stops and talks to one of the bagging plant managers on the way out of the plant to confirm what he had just witnessed. "Yes," the manager said, "that is exactly what happens and we have several more of those companies that come in and buy the higher quality lettuce. We also have some of those salad bar and steak restaurants come in and buy some of the lower quality stuff. The rest goes into our generic bag of whole head lettuce and off to the grocery store. We then blend all the money from the high end sales, the low end sales and what we sell to the grocers for and

blend that price into what we can pay you at the buying stations for the commodity stuff.” Can I let you in on a little secret, the manager continued. “We have noticed that those value added buyers are starting to develop relationships with the producers directly through some kind of alliance they call it. Well, if that continues then all the good stuff will never end up in my cooler, I won’t get that premium price for my lettuce and that will lower the blended price I can offer producer for their lettuce. I have a plan though, are you interested?”

It didn’t take Bob long to sign up. The deal was that Bob would start to sort his lettuce according to growing condition, variety, and other quality factors and promise to sell all of his harvest to the bagging plant directly. His lettuce would not go through the buying station anymore. In return, Bob would get a guaranteed base price plus quality premiums for each head that met standards that were set by the bagger. Bob became the spokesperson for the bagger and recruited several others of his friends. Rex would not budge. “That doesn’t sound right,” Rex said. “You have to watch those baggers every minute. My daddy didn’t trust them and I am not either. In fact I said something at a meeting the other day about these new programs and I think the government is going to shut ‘em down.” Bob moved on to other producers.

The next year, Bob and his new alliance partners kept better records about the varieties of lettuce that they planted and when they planted each variety. Part of the deal with the bagger was that he could lower his costs of buying lettuce at the buying station if he knew when the new “alliance lettuce” was going to be ready for market. He had to pay his employees on the chill floor weather they were working at full capacity or not. The bagger figured he could pay a premium to Bob and his friends if they could time when their lettuce came to market during the times when the commodity lettuce was in short supply.

As it turns out, over the next few years the alliance that the bagger had started grew in popularity among some of the producers. It was true that most of the money for the processing, shredding, marketing, advertising, and retailing went to the businesses upstream from the producers. However, they also noticed that the price of lettuce sold at the buying stations was lower than what they were selling their product for. They also noticed that some of the buying stations had become part of the new system helping the bagger recruit and develop ways to sort and keep records on the lettuce. Most of those were still in business. Most of the others were not.

It was the last sale date for the buying station that Bob

and Rex had always gone to. Bob hadn’t sold his lettuce there for several years now but went to the sale that day for nostalgic reasons. That buying station was a part of the lettuce history. He and his friends used to sit with their dads on sale days in the audience and watch as each head was sold to some unknown buyer. That was all over today as that buying station was purchased by some website that planned to close it the next week. And look, there was Rex in the café eating a piece of pie and what was he saying? “Look, I get fifteen cents a head for my lettuce and it sells for seventy-five cents in the store—you do the math on who is getting all the profit. It’s those baggers and the government won’t do a thing about it.”

Rex went on to become a leader in the lettuce improvement federation and drained all of the resources of the federation fighting change. Most were afraid to challenge him on his ideas because he pulled so much weight in the organization. Most of the young leaders knew that he was wrong and knew that the federation was not helping the industry by sticking with these old value systems.

Eventually, the more aggressive thinkers just stopped coming to the meetings because they were tired of the same old arguments. Since the opposition began to decline, Rex decided he was right. The organization folded a couple of years later.

Never think that a few dedicated individuals can change the world! Indeed, it’s the only thing that ever has – Margaret Meade.