



TROY SMITH PHOTOS



# SETTING THEMSELVES APART

*The Nebraska Corn-Fed Beef program is offering producers from Nebraska and surrounding states the opportunity to differentiate their product from the commodity mix.*

BY TROY SMITH



**F**or about 15 months IBP packing plants in Lexington and West Point, Neb., have been processing cattle enrolled in the Nebraska Corn-Fed Beef (NCFB) program. By the end of August NCFB expects to have harvested more than 25,000 head.

That's a modest tally in the whole beef production scheme, but to NCFB backers it represents a good beginning. It's a step toward realizing their greater goal — that of handling 1 million head of cattle per year (about one-fifth of Nebraska's production) and seeing the beef marketed under NCFB's own brand-name label.

The NCFB concept was conceived more than three years ago when members of the Nebraska Cattlemen decided it was time to

do more than wring their hands and worry about declining domestic demand for beef and a marketing system apparently incapable of moving volume. Then serving as the association's vice president was cattle feeder and rancher Alan Janzen, who headed a task force charged with exploring ways of enhancing demand for Nebraska cattle.

"We took our cue from the Nebraska Department of Agriculture's effort to promote Nebraska-processed beef overseas," says Janzen. "But that included beef from all cattle slaughtered in the state, regardless of origin. What we wanted was a vehicle for marketing product that was bred, raised, fed and processed in Nebraska. To differentiate quality and take advantage of Nebraska's quality connotation, we wanted to put a

Nebraska label on Nebraska beef."

In addition to building demand for home-raised cattle, Nebraskans wanted to enhance market signals so consumer preferences were relayed all the way back to the producer, rather than getting lost somewhere among the retail, wholesale or packer levels. The program would emphasize quality assurance through source verification, encouraging each beef production segment to keep consumers in mind and to accept accountability for the product.

Carrying a plan for implementing NCFB, Janzen's task force sought the backing of Nebraska Cattlemen members at the association's December 1996 convention.

Among the members anxious to supply cattle to the project was Thedford rancher Dave Hamilton, who now chairs NCFB's all-producer board. According to Hamilton,

**Above: NCFB isn't for everybody. Cattle with good carcass genetics, like these from Jerry and Judy Cool, meet program specifications and fare well on the NCFB pricing system. Producers with poor-quality cattle would fare better on a cash market.**

the project's quality focus goes beyond that of most other branded-beef programs.

■ **Sourcing quality cattle**

"Quality in terms of palatability has been the goal of many, but ours includes quality in terms of safety," says Hamilton. "We hired Lee Weide to develop a source-verified supply of cattle with every animal accompanied by a paper trail documenting adherence to safe and proper management practices throughout the production chain."

Weide organized beef quality assurance (BQA) training and certification sessions. Before participating in NCFB, cattlemen and employees involved at every level of production are required to complete training and to become BQA-certified to assure that everyone who comes in contact with the cattle has been schooled in procedures for safe handling, feeding and health management. Recertification is required every two years.

Weide also directed cattle enrollment, which requires use of official NCFB ear tags to maintain individual identification from ranch of origin through the feedlot and all the way to slaughter.

To be eligible for enrollment, cattle must be raised in accordance with BQA guidelines. Cattle must have no *Bos indicus* (Brahman) influence and must be fed for at least 90 days in a participating Nebraska Cattlemen-member feedyard. The high-concentrate finishing ration must consist of at least 50% corn or corn byproducts.

Eligible cattle must be tagged with individual NCFB ear tags, which identify the animals all the way to slaughter. The charge for tags is \$1 each. Technically, official enrollment doesn't occur until cattle begin the finishing phase, but if animals change ownership before then, specific transfer documentation must be filed to maintain eligibility. The enrollment fee is \$3/head.

The first NCFB cattle were processed in April 1998, and by the end of the year more than 11,000 head were delivered to packing partner IBP. Weide reported that the cattle performed above anticipated levels with 61% of the carcasses grading Choice while 35% graded Select. The yield-grade breakdown was 8.5% Yield Grade (YG) 1, 49% YG 2 and 41% YG 3. The cattle were sold to IBP on an industry-competitive grid with the top 20% bringing a premium of \$24/head over the cash market. The top 50% garnered an average premium of \$11.76.



**NCFB participants Judy and Jerry Cool, Callaway, Neb., believe in producer accountability.**

■ **New pricing system**

However, a new pricing system was adopted for 1999 using the Chicago Mercantile Exchange (CME) live-cattle futures price to establish the NCFB grid's base price for Choice, YG 3 carcasses. The base price for the original grid was figured from cash market prices established the week previous to cattle slaughter. NCFB Executive Vice President Sandra Milton believes the new pricing system offers producers some additional advantages.

"As compared to the previous system, some of the discounts have been cushioned. And there are some significant premiums to be earned. What kinds of premiums still depends on what kind of cattle you have," says Milton. "University of Nebraska economist Dillon Fuez has compared our system to the cash market and an alternative grid. His analysis shows high-quality (high-marbling) cattle have fared better on our grid than they would with the alternative or cash. The difference wasn't so pronounced with pens of average-quality cattle, but we still do a little better.

"Producers with poor-quality cattle will do better on the cash market where cattle are sold on averages, and the alternative grid might be more forgiving of low quality than

ours. NCFB isn't necessarily for everybody," Milton continues.

Between January and June 10, 1999, NCFB tallied 16,322 head with more than 68% grading Choice or Prime (11% qualified under *Certified Angus Beef*<sup>™</sup> specifications), while 29.9% graded Select. Carcasses averaged 780 pounds (lb.), charting 5.1% YG 1, 49.1% YG 2, and 43.4% YG 3. Of course, not all cattle earned premiums; but, averaged over all carcasses, the new pricing system paid \$14.14/head over cash.

As mentioned previously, NCFB carcasses are sold to IBP for distribution through the packer's regular channels, but Milton and participating producers are anxious to begin marketing product bearing NCFB's own label. After much study, consultation and testing, a product logo has been developed and approved. NCFB participants believe it conveys the appropriate image — one that consumers can interpret as a seal of quality.

■ **Hurdles to clear**

But a few more hurdles must be cleared before NCFB-labeled beef appears in the meat case.

"From the beginning, the program was

## Nebraska Corn-Fed Beef works for Cool cattle

The board and staff of Nebraska Corn-Fed Beef (NCFB) would welcome more program participants like Jerry and Judy Cool of Callaway, Neb. For one thing, the Cools run both spring- and fall-calving herds, putting them in tune with NCFB's need for a year-round supply of cattle. For another, Cool cattle match program specifications, with the majority producing high-yielding yet high-quality carcasses. The Cool philosophy also matches the NCFB mission to link quality with safety.

"We feel obligated to produce the safest, most wholesome product that we can. Producers should accept that responsibility and be accountable," says Jerry Cool. "This program requires accountability."

Starting with crossbred cows and building uniformity with Angus genetics, Cool runs about 200 cows that calve in April and May. Nearly as many cows calve during late August and September. From the two calving seasons, he actually ends up with three groups of calves that are finished and marketed during different periods.

"The heavy end of backgrounded spring calves goes to the feedlot in January. They'll be ready for slaughter by early July," Cool explains. "By then

our second group, including the late spring calves and a few heavy fall calves, will come off grass and go into the feedyard. They'll be ready for market in November or early December. The last bunch of fall calves goes in October and finishes in February. By sorting the cattle into three target groups, rather than two, we've increased the uniformity of each group."

Maintaining beef quality assurance (BQA) certification and compliance with program guidelines takes a little bit more time and better recordkeeping to document vaccinations and individual treatments for each group of calves. Cool believes it's worthwhile to deliver a product worthy of consumer confidence, but he does expect to be paid for it in the long run.

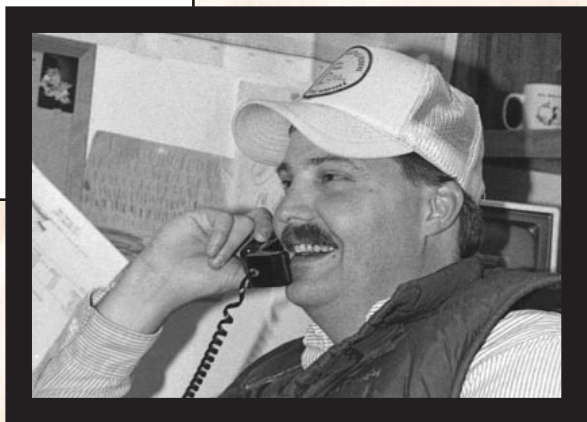
"I think NCFB will produce the kind of product that consumers want, with the uniformity and consistency that's lacking in commodity beef," adds Cool. "When NCFB has its name on that kind of product, we'll be in a position to claim a share of the retail profits."

Meanwhile, Cool says the NCFB pricing system has returned some reward for quality. Typical closeouts for Cool cattle show well over 70% grade USDA Choice or Prime with a similar majority making Yield Grade (YG) 2 and 3. YG 4 carcasses are rare, but a few of those and the occasional too-heavy carcass spell discounts. Cool credits custom cattle feeder Craig Uden, Cozad, Neb., for managing the cattle to keep discounts at a minimum.

"The parameters are well-defined," offers Uden, who has marketed 140,000 head of cattle through a variety of pricing grids. "The NCFB grid's target is 60% Choice and 40% Yield Grade 1 and 2, on 600- to 900-lb. carcasses. The key is avoiding outliers, and we can manage for that."

Uden says one of the strengths of NCFB's pricing system is knowing up front what the adjustment for basis (the difference between cash price and futures price) will be. He also likes knowing that some premiums and discounts are fixed. Uden also favors the NCFB forward contract, noting that it offers premiums and discounts, while many forward contracts have discounts only.

"For producers who retain ownership of their NCFB calves or for feeders who buy and feed NCFB calves," adds Uden, "the pricing system is very user-friendly."



Feedlot manager Craig Uden, Cozad, Neb., calls NCFB's pricing system "user-friendly."

to be USDA-certified, and we must complete process verification before we apply our own trademark to product. USDA will likely audit a few participating ranches, feedyards and our office, so they are satisfied that our source-verification paperwork is in order," explains Milton. "And we still have to identify the best retail and food-service partners for NCFB. We're going to get aggressive about it. What we really need is a retail partner that's willing to take all of the carcass, not just the middle meats."

Another hindrance to NCFB product marketing is the uneven supply of cattle coming through the program. Milton says slaughter-ready cattle have been particularly hard to come by during September, October

and November. Development of a steady, year-round supply has become a priority. Consequently, NCFB's newest staff member, Field Director Todd Ledden, is going down the road to explain the program's nuts and bolts to producers and to recruit a steady supply of cattle.

While the program was conceived as a merchandising vehicle for Nebraska cattle raised by Nebraska Cattlemen members, the need for numbers has Ledden courting out-of-state producers, too. BQA certification by the Nebraska program or an approved equivalent is required of non-Nebraskans, and they must be members of their own state's cattlemen's association. Cattle of out-of-state origin must be finished in a participating Nebraska Cattlemen-member

feedyard, and they are subject to a \$4/head enrollment fee.

"Producers from nearby states are interested, particularly in South Dakota and North Dakota. Those states have developed BQA programs, and participating producers want to do something with their training. And the fact that this is a producer-driven program is appealing regardless of your address," says Ledden.

### ■ Retained option

Emphasizing its flexibility, Ledden says producers don't have to retain ownership of their calves to participate. In fact, he discourages them from overhauling their current marketing plan without testing the waters first. He says qualified producers



**Chairman of the NCFB Board of Directors is rancher Dave Hamilton, who recommends the program to beef producers who are seriously looking for marketing options.**

whose cattle meet the requirements can tag their calves, and NCFB will help advertise them to potential buyers.

"We publish the *Connecting Link*, which is a listing of program-eligible cattle that are available for sale privately or through various sale barns. We distribute that to our participating feedlots and the listing is free," Ledden explains. "If a producer's tagged calves are sold and go on through the program, he or she can get back the basic carcass data (individual carcass weight, yield grade and quality grade). So even if producers market their cattle as feeders, the program offers an opportunity to learn what the cattle do after they've gone beyond the ranch gate."

For producers who do retain ownership of their cattle, Ledden believes NCFB's pricing system offers some marketing advantages and flexibility. Per delivery specifications are 60% Choice, 40% YG 1 and 2, and carcass weights of 600-900 lb. While most value pricing grids have fluctuating premiums and discounts, the NCFB grid offers fixed premiums for Prime, CAB® and YG 1 and 2 carcasses over the "expected" 40%.

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*— Jerry Cool*

Of course, where there are premiums there are discounts. Ledden warns that carcasses of undesirable quality grade take hard hits, as do those pegged as YG 4 or 5. Too-light and too-heavy carcasses are discounted, but NCFB's grid does provide lower fixed discounts for carcass weights no more than 50 lb. lighter or 100 lb. heavier than the target range.

Ledden says the system offers opportunity for risk management if producers choose to forward contract their cattle to IBP. Cattle may be contracted anytime before one month prior to the first day of the expected delivery month (for example, Nov. 30 for January delivery). However, the cattle don't have to be priced until the last trading day of the month prior to the delivery month (for example, Dec. 31 for January delivery).

"The program offers plenty for producers to consider," says Ledden. "And while it's no cure-all for the industry, it's definitely a step in the right direction — a step toward differentiating our product from the commodity mix."

The commitment shown by NCFB participants and the quality of cattle enrolled have been encouraging to Dave Hamilton. Yet he's a little bit frustrated by the number of producers taking a wait-and-see attitude.

"It seems like the market situation would have them looking for options," adds Hamilton. "But some people want a guarantee of windfall profits before they



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will try something new. Or at least they want some hard evidence of the program's validity for garnering a premium. I think we're gathering the evidence they want."

