



# Premium Plans Pay

## Improving cattle and bottom lines.

Story by **Steve Suther**

**A**fter a dozen years, U.S. Premium Beef (USPB) is living up to its name. Members have seen their plan work for the most part, improving their cattle and bottom lines in the process.

Shares — conveying the right and obligation to deliver cattle for harvest — were sold in 1997 for \$55 each. That amounted to \$5,500 for the 100 shares it took to get in on this new idea. Sure, they doubled in value within five years and go for nearly \$150 today, but USPB had to start with nothing but resolve.

“I don’t blame people for not joining in at the start,” says Steve Hunt, CEO. “You know, I may be the world’s worst salesman, but I told anybody considering this thing not to put in their money if they couldn’t afford to lose it. Nothing like it had been done on the scale we planned.”

Those who took the risk had cause to worry a few times. “We started out rowing upstream in some pretty difficult times,” Hunt says, “taking in the effect of muddy conditions when we were used to selling live, mud and all. Now we had to sell beef, without the mud.”

Members also had to develop trust in the packing sector that they joined as a minority partner in Farmland National Beef. A few years later they had to trust they had learned enough, buying out their bankrupt partner. A few months after that the export markets

were shut down, but the company weathered those storms and looked back at how far it had come.

“The learning curve was steep when we began,” Hunt says. “At first it helped people to visit the plants and just accept that, yes, those were their cattle. Then using the individual data they could effect change through genetics and management. Today our producers are justifiably proud of what they have been able to do.”

Outside of a few new unitholders, or those who deliver through leasing units, nearly all USPB producers have been refining their game for more than a decade. “They understand producing cattle to a targeted carcass end point better than I do, better than anybody else in the industry,” Hunt says. “They fully understand how genetics, management and weather impact them.”

In late 2009, USPB was a 100% producer-owned limited liability company (LLC) and 69% owner in a \$6-billion business.

Within their herds, members have progressed from the lessons each animal taught — “why they graded Prime, why they graded Select, why they were Yield Grade (YG) 1 or 4, why not all black-hided cattle were Prime, why some cattle graded that they didn’t expect to grade well,” Hunt says.

“Today, there are not too many surprises,” he says, adding, “They know they will be

surprised from time to time, but that’s what they understand and plan on.”

The spread in value between USPB cattle and other cattle processed at National has continued to widen over time, Hunt says. “There are significant differences that our people grasp quickly, on how to produce these cattle to maximize value not only for themselves, but for our plant and the experience consumers are willing to pay for.”

That’s a great advantage for all the National Beef brands, not least for the *Certified Angus Beef*® (CAB®) brand that it began producing 27 years ago, the first of the “big” packers to sign on.

Hunt sees fewer obstacles to producer access to carcass data across the industry now, compared to the 1990s. But regardless of rancher sophistication, the data must be paired with economic signals to move a population.

“As the Angus breed has grown because of consumer signals that they were willing to pay more for Angus products, guess what? We have more Angus, a pretty strong upward trend line because a lot of our programs are driven by Angus,” Hunt says.

Signals are getting more sophisticated, too. “We have a visual record of every loin that goes through our plants, and we provide that to our suppliers as additional information,” Hunt says. “It helps us identify specific yields and losses within our plants, which goes to the profitability that members share in.”

Consolidation has been a fact of life all the way from farm to market for a century or more, but with interests on both sides of the packinghouse door, USPB members have built a degree of insulation. Moreover, as some commercial feeding groups back away from owning commodity cattle on feed, at least one group of producers has the confidence to expand retained ownership of their predictable cattle on feed.

“Just like on their farms, our producers integrate this enterprise into their mix,” Hunt says. “They may own cow herds, but in a sense they have all become experienced feeders and packers. Any losses they experienced on the ranch in the past year have been partly offset by the premiums they receive and the ownership of processing so that they sell meat meals instead of cattle.”

The top 50% of cattle sold on the company’s base grid in late October earned more than \$50 per head in premiums, and the top 25% earned a \$61.30 per-head bonus.

From most angles, USPB looks like a success story, but Hunt always points out, “Success is a journey. Things look pretty good today, but tomorrow may be different, and we will have to line up and see how we deal with that.”

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