



► U.S. Premium Beef (USPB) was initiated at a time when few cattle were fed to a meat end point. USPB aimed to change that with quality incentives and packer-producer communication.

Enduring Vision

A marketing program started by 21 beef producers has stood the test of time.

Story & photos by **Kasey Brown**, associate editor

Recall the best steak you ever ate. It probably had a rich, buttery taste and seemed to melt in your mouth. You know the one-of-a-kind texture a great steak has in your mouth.

As much as we in the beef industry may hate to admit it, it is possible to get a steak that isn't as drool-worthy. Instead, the texture could be close to that of beef jerky, or the taste might not be so buttery. While quality audits document the success of the industry's current emphasis on quality beef and consumer satisfaction, it took some visionary cattlemen to prove the merits of the strategy.

Years ago, when the beef industry was producing inconsistent quality and beef's popularity with consumers was decreasing, 21 beef producers got together to do something about it. They created an

industry-changing quality-based beef company from a simple idea and a lot of hard work.

Starting with an idea

"There are always challenges, and creating and implementing solutions has always been difficult. This is a beef industry success story," says Steve Hunt, former president and CEO of U.S. Premium Beef (USPB). Hunt currently serves as an advisor to the company.

The 1991 National Beef Quality Audit (NBQA), the industry's self-assessment tool, showed that there were issues with palatability, tenderness, cutability and marbling. Hunt laments that by the 1995

audit, none of those issues were fixed and others had been added.

In 1995, the beef industry had a lot of challenges, namely that there was no quality incentive. There was no information coming back from consumers to producers. Additionally, he says, there was a broken beef marketing system based on the live animal;

limited information transfer; strong distrust amongst sectors and, thus, little accountability; and diminishing beef quality and consistency.

"Frankly, we were concerned about 'Is this an industry worth staying in if it continues down this path?' At that point in time, we knew there was a lot of effort throughout the industry to improve the system and marketing, and we made the decision to

join that effort with increasing accountability through value-based pricing uniquely combined with processing ownership," explains Hunt.

Mark Gardiner, Gardiner Angus Ranch, Ashland, Kan., was one of the founding members of USPB and reiterates, "The idea came from fear as much as anything else. The cattle market was a wreck. Dr. Harlan Ritchie



► Steve Hunt, former president and CEO at USPB.

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had written a paper called 'Five Years to Melt-down.' He wrote about the rate we were losing market share in the beef industry. He was saying we had five years before we were not relevant as an industry, or even as a viable protein, to feed the world.

"My dad (Henry Gardiner) had always talked about the hope and dream of value-based marketing," he continues. "Like most things, and Certified Angus Beef wasn't any different, it got started because of a need and a desire to take charge, to take control and take action."

Twenty-one beef producers, most of whom knew each other from school at Kansas State University, came together with shared values and goals in November 1995, Gardiner says.

Hunt explains that the goal was to form a marketing cooperative that would vertically integrate the beef industry for its members. They wanted to build a production/marketing system that would enable them to produce high-quality beef and own it all the way through value-added processing.

During one of the early meetings, says Hunt, "Don Good stood up and looked at the group and said, 'Of all my years, we're at the most critical juncture for our beef industry, and the efforts that we're talking about today are the most dynamic I've ever seen.'"

Larry Corah, vice president of supply development at Certified Angus Beef LLC (CAB), observed that USPB's plan was to put a program together through which it would buy interest in a packing company and set up a

grid-marketing program that would reward producers for all the management and decisions they make. Initially, USPB chose to use a closed cooperative structure that depended on membership.

Gardiner calls this membership drive the "blue sky tour," because that's all they had to offer at that point. The goal was to convince producers that the group was professional, that the idea was sound and, most importantly, that they needed to take action.

Corah adds, "When you talk about a group of cattlemen having to buy shares to own a packing company, you can imagine how well that was received. ... For every one that had the vision that these founders had, there were about 10 naysayers who said, 'This is the silliest idea I've ever heard, and it has no chance of succeeding.'"

Youth is a wonderful thing, says Gardiner,



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because despite the criticism, they were too naïve to let failure be an option.

While the idea of buying an interest in a packing company may have seemed silly to some, it was a plan that worked because many in the industry came together for the project. Hunt notes that producers with seasoned experience like Henry Gardiner and Raymond Adams, and animal scientists like Don Good joined the effort, as did the financial community, universities and trade associations.

Taking risks

Simultaneously during the "blue sky tour," Hunt and some of the founding members

were talking to beef processors. Gardiner explains that they wanted to buy into an existing company with similar ideals. Ultimately, they chose to buy a percentage of Farmland National Beef Packing Co. (now National Beef Packing Co. LLC) and paid for it by having a stock offering in which more than 400 producers bought shares. For \$55 a share, these stockholders bought the right and obligation to market one finished animal every year per share. A minimum of 100 shares were required to be a member. Essentially, they were buying ownership in the beef processing company.

There was still quite a bit of risk once the

plant ownership was bought. Gardiner says he has collected carcass data for and with his dad all his life, and he recalls his concern that a lot of cattle might only be average without having great genetics. However, as he told the processing plant during negotiations, the best way to make more money for both the processor and the producer is to take a good product to the consumer, which can drive demand. The program began a system to drive the quality on the producer side first.

For instance, the risk of moving to value-based pricing was increased because many of the producers were in an area of the country where very few cattle were fed to and marketed on a meat end-point basis, says Hunt. Carcass data wasn't provided to producers, but USPB aimed to change that.

"We had commercial feedyards send letters to every one of their customers that said, 'We're committed to accountability. We're committed to this program, and every one of your cattle now is going to be marketed to this meat program, graded accordingly and paid accordingly. If you don't like it, we invite you to feed cattle elsewhere,'" he explains. "Can you imagine sending that letter out in that environment? We had a lot of our members doing just those things. They were committed."

The program inspired such commitment through its key elements, Hunt says, which



PHOTO BY TROY SMITH

► Mark Gardiner, Gardiner Angus Ranch, Ashland, Kan.



► Larry Corah, vice president of supply development at Certified Angus Beef LLC (CAB).

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include value-based pricing on every animal instead of averages; information transfer with individual carcass data at no additional cost; freight credit to help defray transportation costs; and livestock and carcass quality consulting. Having ownership in processing links producers with consumers.

Seeing results

In 1997, value-based pricing had caught on.

“Every animal was paid for on a meat basis,” Hunt says.

Premiums and discounts were paid on a consumer-driven basis, using quality grade, yield grades and *Certified Angus Beef*® (CAB®) acceptance, says Hunt. Since its inception, \$275.2 million in premiums have been paid, \$51 million of that was in 2012. Plus, as producers delivered better cattle and earned greater premiums, the processing company benefited by having more high-quality product to meet consumer demand, which enabled it to add value to its bottom line. As owners of USPB, stockholders also

share in that value created at the processing level.

The grid serves as a communication device between producers and processors, notes Gardiner. It told producers that they would be paid more for higher-quality-grade cattle. It didn't tell producers how to breed their cattle, but they learned to design better cattle and paid more attention to genetics.

USPB is successful because cattle producers have a willingness to take results and learn from them, he asserts. “We all learned together and shared information. We found out what the processor needed. We found out what made him more money. We gave incentives to where people (producers) could make more money, and that became a beautiful marriage — working together instead of against each other to design better meals.”

Hunt agrees, and cited that the 2011 NBQA reported the beef industry has increased data tracking, quality, consistency, and product offerings and categories.

Hunt likens it to the flywheel effect.

When you start trying to move a flywheel, it takes much effort from all involved to get it moving. Eventually, the mass of the flywheel starts helping itself. The same effort is involved, but there's much more improvement.

Gardiner emphasizes, “It's a great company with committed people. I would say it's been one of the single largest factors in helping the beef industry make changes these past 20 years. I would say it has helped producers, and especially Angus people, understand the value and the power of what happens in Saint Joseph at the American Angus Association with its database and genomics.

“I'm absolutely convinced that is one of the best beef companies in the world,” he continues. “I'm also absolutely committed to involve serious beef cattle producers. If you're in the Angus genetics business, and if you design the right kind of cattle, your customers should be partaking in high-quality-based grids like U.S. Premium Beef, which is the best high-quality grid in the business.”

One idea, with enough work behind it, can indeed change an industry.

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