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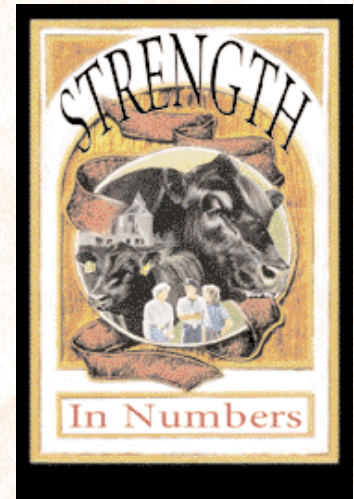In Numbers

BRAD PARKER PHOTOS

NETWORK OF QUALITY

Although their program is relatively young, grid pricing and cooperative marketing aren't new to Angus GeneNet's Ken and Dianne Conway. After some sharp turns in the road, they're at home building vertical cooperation in the beef industry to increase the value of high-quality cattle.

BY BRAD PARKER

You could say Angus GeneNet is wise beyond its year.

But it hasn't been that long. Sept. 1 will be the first birthday of Ken and Dianne Conway's brainchild — one year since the inaugural load of cattle was harvested on the Angus GeneNet pricing grid.

The couple brought more than an idea back to their hometown of Plainville, Kan., where they established the nerve center of an alliance that already includes 200 producers in 22 states, 40 feeders in seven states and five packing plants, each in its own state. They brought home 20 years of industry experience, too.

After studying animal science at Kansas State University, Ken managed a feedlot for a year; then he became manager of R&J Ranch, an Angus seedstock operation in Texas. He held that position for 17 years.

Angus
GeneNet
"A genetic network of high quality beef"

When R&J dispersed in 1993, Ken began doctoral studies at Texas A&M University, analyzing the packing and retail segments of the industry. "I spent three years trying to familiarize myself with the problems the

packer faces and the problems in retail," he says.

At Texas A&M Ken first heard of alliances. Imagining the vertical integration in pork and poultry production, he thought alliances were out of place among independent-minded cattlemen.

Then he found his place in an alliance. After completing his doctorate in 1996, Ken spent a couple of years helping to develop another program then decided to go out on his own.

"We enjoy being our own boss and letting our own ideas work," Dianne says.

Not only is their family in Plainville, the town is central to the producers, feeders and packers with whom they work. From the home base (literally based in their home) halfway between Kansas City and Denver, Ken travels extensively, promoting the alliance concept.

Above: Ken and Dianne Conway based their Angus GeneNet alliance on vertical cooperation and high-quality cattle almost a year ago. From their hometown of Plainville, Kan., they coordinate 200 producers, 40 feeders and five packing plants.

■ **Vertical cooperation**

That concept, unlike his early notions, will benefit the beef industry, Conway says. Preferring the term *vertical cooperation*, he believes eliminating the adversarial relationships between the industry's segments will increase profits. "We're helping to develop a trust between the segments that has been lacking," he says.

"We need to have those producing the product realize that they're producing for a consumer and not just their own little segment," he explains. "You can save a tremendous amount of money in the industry, which would put money back in the pockets of the producers."

Increased profits are the driving force behind any alliance. "You can have the greatest intentions in the world, but if it isn't a good deal for everybody in the system, it's not going to work," Conway states. He has studied several alliances and believes GeneNet is the accumulation of the best features from each.

The first step was finding a cooperating packer. Conway found one, then another. He negotiated pricing formulas with Monfort, the second-largest packer in the nation, and with Caldwell Packing, a division of the PM Beef Group.

With Monfort's plants in Grand Island, Neb.; Greeley, Colo.; Garden City, Kan.; and Dumas, Texas, and the Caldwell plant in Windom, Minn., GeneNet is able to serve more producers. "They talk like there's a lot of alliances out there and a lot of different things for people to do; but a lot of times, it's dependent upon their geographic area," Conway says.

He feels the packers are genuinely interested in producers and don't mind paying premiums for quality carcasses. That's where it starts, he explains. Their willingness to add value to the system makes GeneNet work.

■ **Basis of value**

Though impressed with the packers, Conway feels the biggest change in attitude has been the feeders'. Instead of just buying cheap calves, adding cheap gain and selling at the average price, many now embrace value-based marketing.

"There's a tremendous number of feeders out there who are trying to make the thing work," he says. "Genetics are very important, but without the management aspect, it will never be successful."

While management also includes nutrition, health protocols and implant

Bary Kienast of Kienast Feedlots, Manning, Iowa, says alliances like Angus GeneNet are a vital link in collecting and disseminating data.

strategies, sorting is a major factor in advancing value-based marketing, a cornerstone for alliances like GeneNet. "To me, sorting will help the industry as a whole and get the cattle to fit," Conway says, adding feeders must manage cattle to harvest individually instead of accepting pen averages.

"It doesn't matter how good your calves are, if they aren't managed and killed at the right time, they're not going to be successful on a carcass-merit formula," he adds.

The resulting premiums are worth the effort, according to Don Hergert, co-owner of Hergert Land and Cattle Co., Greeley, Colo. He's marketed nearly 400 head from his feedlot through GeneNet. "If you're going to grids, you're going to have to allow the feeder to go in there and sort the cattle," he says.

Facilitating relationships between cow-calf producers and feeders who will properly manage the cattle will add value to the system. Conway explains, "The only way we can get a premium back to the cow-calf producer is if we're able to get a premium on the feeding end of it." He asks why feeders should offer premiums if they accept the average price from the packer.

Premiums aren't the only benefit of the open relationship with feeders. Performance and carcass data also are getting back to producers. That's a recent change; it seemed feeders feared returning information would increase the price of calves.

"Most of the feeders now want that data to go back to the producers; and they realize if it goes back, the producers will do a better

job of producing the right kind of cattle," Conway says. Prices probably will increase for calves with supporting data, but feeders will pay for predictable stock.

One of those feeders is Bary Kienast, owner-operator of Kienast Feedlots, Manning, Iowa. "That's a vital link that Dr. Conway provides. The data comes back to me, then I can give it back to the rancher, or Dr. Conway sends it directly," Kienast explains. "The rancher, in turn, takes that data, and after two or three years, you can see how his genetic program is working."

When cow-calf producers start making better genetic decisions and stop being satisfied with just selling heavy calves, the beef industry can address quality and consistency. Not that carcass traits should become the next fad, Conway cautions.

"The cattle need to gain; they need to convert in the feedlot. If they can hit the carcass targets and get a premium back, that's even better," he says. "But, if you're a cow-calf producer, you still need to be worried about efficiency and reproduction."

■ **Benefits to breeders**

The added value doesn't end at the cow-calf producer. Vertical cooperation also helps seedstock producers.

Getting customers involved in programs like GeneNet is good for purebred breeders, Conway believes, explaining premiums and increased profits will lead to more bull sales and higher prices. Seedstock producers should seek out any and all of the alliances that benefit their customers, he says.

Commercial cattlemen appreciate guidance, according to Doug Honold of Honold Angus and Tarentaise (HAT) Ranch, Coon Rapids, Iowa. "When you're selling a bull, you need to help your customer market the progeny of that bull. I believe the days of selling a bull and going home with the check are over," he says.

"Commercial cattlemen are in mass production; they're not in marketing. Any time you can give them marketing help, they're very willing to accept," he adds. Honold has directed more than 1,100 head of HAT Ranch bulls' progeny through GeneNet, and his customers appreciate the $24/head average premium they've received.

Breeders also should encourage their customers to join an alliance to get carcass data. Not only is it useful in making genetic selections, the data justifies higher prices. "I'm using it as a promotional tool to my customers to demonstrate that the genetics

we're marketing have the ability to earn premiums," says Neil Hadley, managing associate with Production Angus Associates in Union, Iowa.

Although GeneNet doesn't promote specific bloodlines or breeders, the Conways are working with seedstock producers to provide discounts on semen and commercial bulls to the program's members. They also refer sire selection questions to a group of cooperating seedstock producers. "I'm not out trying to sell individual pedigrees," Conway says. "That's one of the reasons I want to work with as many purebred breeders as I can — that's their job."

With word-of-mouth promotion an important part of expanding GeneNet, the Conways are counting on their seedstock producers to help sell the program to commercial cattlemen.

■ In the 'Net

Qualifying for Angus GeneNet membership is simple: raise calves that are at least 50% Angus or Red Angus.

Conway explains that the decision to accept both types was based on the need for quality carcasses. "If the Red Angus cattle can hit the requirements, we're willing to work with them," he says, adding some black Angus carry the red gene and may have red progeny that are still 50% Angus.

"We've known for 30 years that hybrid vigor is an advantage. I think there's a place for crossbreeding," Conway says. "That's why we don't put any kind of color requirement on the cattle."

Once they are source-verified to a cow-calf producer to confirm the genetics, GeneNet will help market the cattle. The source verification also allows for information feedback to the producer for future genetic decisions.

Many alliances encourage or require retained ownership; GeneNet doesn't. Conway believes it will be a common practice in the future, but some don't want the risk.

"In my opinion, especially after what the industry has gone through in the last two years, if you start trying to encourage people to retain ownership and they get into it and lose money, they'll be mad at you and soured on the whole thing," he says.

Producers once needed to retain ownership and to sell on a grid to get feedlot and carcass data. GeneNet facilitates that information feedback without the risk.

Conway will help producers find feedlots to purchase calves, custom feed or partner with them and to return the data in any case. "If these calves sell into our system, we'll be able to capture the data and get it back to the producer," he says.

At the same time, Conway doesn't want to take away from local auction markets if that's how producers prefer to sell cattle. "We'll try to have buyers and feeders on the seats to bid," he says. GeneNet includes several order buyers willing to source-verify cattle.

Many of the cooperating feedlots take small groups, and others will commingle cattle. Loads can be split going to either packer. Monfort requires loads of 50,000 pounds (lb.), but Caldwell accepts fewer.

Flexibility is important, considering the diversity of GeneNet members. "We're working with producers who have 50 cows up to producers who probably have 3,000 cows, and everything in between," Conway says.

■ Formulas for success

Their scopes vary, but GeneNet cooperators have common goals. Conway says his program isn't designed to be everything for everyone. "Our formula is geared to reward high-quality cattle, and it has," he says.

The base price per hundredweight (cwt.) is determined by a formula negotiated with GeneNet's packers. That price applies to the basic carcass — a Choice, Yield Grade (YG) 3.

Seedstock producers should assist their customers in marketing calves, Doug Honold believes. Honold Angus and Tarentaise (HAT) Ranch has helped direct more than 1,100 head of their bulls' progeny through Angus GeneNet.

Prime carcasses receive $6/cwt. in addition to the base, and *Certified Angus Beef*™ carcasses get an extra $3/cwt. YG 2s receive an additional $3/cwt., while YG 1s qualify for $5/cwt. premiums. GeneNet's packers pay the premiums on all qualifying carcasses; minimum percentages aren't required to activate the grid.

At the Caldwell plant, nonbranded cattle receive a $3/head premium. Rib brands are discounted $4/head, while hip brands are ignored. The size of Monfort's plants makes it impractical for them to establish premiums or discounts for hides.

Based on an acceptable carcass weight range of 535-950 lb. (approximately 900-1,500 lb. live), the grid discounts lightweights and heavies $20/cwt. YG 4s are docked $20/cwt., and $25/cwt. is withheld from YG 5s.

While some formulas change about every week, GeneNet customers can rely on the pricing structure's staying the same. It's difficult for producers who only sell cattle once or twice a year to hit a moving target, Conway says.

To help manage risk, Monfort will contract for a delivery month and lock in a base price. Those who prefer not to contract follow the standard GeneNet procedure of scheduling kills on Monday for the following week.

Hergert enjoys that control. "The formula allows us to be in charge of when the cattle go," he says. That relieves one of his frustrations: having packer buyers come out when they aren't needing cattle, saying the cattle need more finish, then coming back in two or three weeks when too many are overfinished and wanting a discount to be part of the bid.

GeneNet rewards cutability (a reflection of feed efficiency) and marbling. "It's just like breeding cattle; you can't get into a single-trait selection. You've got to look at the whole picture," Conway emphasizes, saying the industry's future will be Prime YG 2s and 3s and YG 1s and 2s that qualify for the Certified Angus Beef (CAB) Program.

In GeneNet's first six months, 13,142 head were marketed. Overall, the cattle received an average premium of $22.83/head. The top 50% averaged $41.36. The best performing group of 76 head received an average premium of $62.44/head.

In all, GeneNet was responsible for $297,140 in premiums during that period. "I think that basically shows the producers

that, if they've got good cattle, this formula will get a premium back to them," he says.

Hadley concurs, "We've had the CAB Program for more than 20 years. Finally, there are some programs out here that are allowing breeders and feeders to benefit."

■ **Apples to apples**

With the number of options, grid pricing is complicated, Conway believes. Every packer uses at least one grid, trying to establish a "fair" value for highly variable cattle. Selecting one is the challenge.

"I've been comparing formulas for the last five or six years, and it is very confusing," he admits. "It's not easy to put apples to apples." He cautions against comparing one or two numbers within each grid because the base formulas or end-product goals of the systems may differ.

Kienast also found comparisons difficult. "It's sometimes tough to compare grids … because they don't all have the same categories," he says, adding it's important to consider all the costs of doing business with each program. Some requirements, such as delivery point, could add hidden costs, like trucking. Dollar for dollar, Kienast says, the $35.76/head average premium he's received makes GeneNet the preferred channel for 90% of the cattle he feeds.

Conway wants to ease comparisons, so he'll run data from other programs through the GeneNet model. "I'd be glad to tell them if we can beat a formula or if we can't," he says.

Regardless of the grid, Conway advises avoiding discounts and producing cattle that meet or exceed plant averages. "Basically, if you can get your cattle dead before they hit YG 4 and if you can get them killed within the desired carcass weight range, you will be successful selling cattle on a grid," he says.

Sifting through the confusion is worthwhile, Conway believes, because formulas are the only way to get above-average prices for above-average cattle. The other alternative is to sell live cattle for the average price.

"If you've got high-quality cattle, then you're definitely leaving money on the table because they will never give you, in the flat price, what those cattle are worth," he says. "You can go to what we call a 'value-added' market, or you can go to the commodity level. If you go to the commodity level, you'd better be a least-cost producer."

■ **Beyond the grid**

Value-based marketing isn't the only benefit of GeneNet membership. Carcass-data feedback is the other major component. In fact, it's the reason Hadley joined.

"We've become increasingly interested in carcass performance and carcass data, like the rest of the industry," he says. "That's what's drawn me into Ken Conway's program."

GeneNet makes three types of data available. *Normal* data is collected on individuals and includes carcass weight and price with quality and yield grades. *Group* data compares the carcass qualities of a load to others killed at the plant. Both types cost $5/head.

> ## "It's going to have to be a group effort from all of us."
> ### — Ken Conway
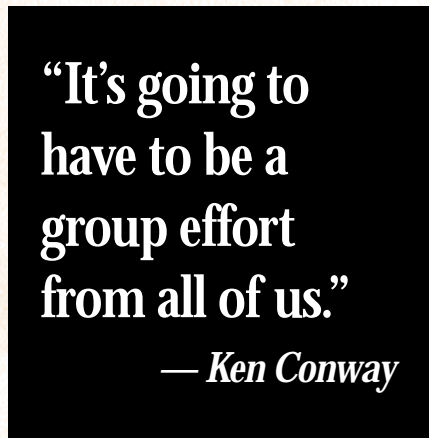
Complete data includes the same information as the normal set, plus the percent kidney, pelvic and heart (KPH) fat; actual ribeye area; fat measure; and marbling score. Complete data costs $8/head.

Fees are subtracted from the check written by the packer, which Hadley likes. "One of the real pluses, in my opinion, to Ken's program is that you don't have to make an initial investment," says the seedstock producer, who averaged $32/head over the live price on 300 head. "This program doesn't cost you; it actually pays."

The reliability of GeneNet data has impressed Honold. "We've never lost any data," he says. "When you get the data back, it's very clean. It's precise. You can trace it."

"We're very pleased with Monfort's timeliness in getting the data back to me so I can get it to the producers," Conway says. "I believe they're the best in the industry at data collection."

GeneNet also helps customers buy or sell replacement females — a side benefit of collecting carcass data. "If a producer gets carcass information on his cow herd, his replacement females will be more valuable," Conway says, adding it makes sense, if a replacement female is purchased, to get one with data.

Conway provides consulting to GeneNet customers, too. If someone needs management advice or help interpreting data, he'll offer suggestions or make a referral.

Conway explains that he doesn't require anyone to do anything. "All you have to do is sell a set of cattle through our program or sell a set of calves in the program, and you become a member of Angus GeneNet, eligible for all the services," he says.

■ **Down the line**

Just as the industry's segments must cooperate, Conway feels alliances should collaborate. "We are lining up with various alliances, such as Precision Beef and the Western Beef Alliance," he says. "Maybe their Angus or Angus-cross high-quality cattle will make more money on our formula, so we're working with them to help those producers."

To provide the greatest service, alliances must be willing to direct cattle toward the most appropriate grid. "It's going to have to be a group effort from all of us," Conway says. With that attitude, it's not surprising GeneNet doesn't require exclusivity from its cooperators.

Hadley appreciates the open, one-load-at-a-time approach because different cattle sometimes fit different grids. "If you find a better place to sell your cattle, you're free to sell them there," he says.

Conway also wants to work with the packer to tie GeneNet cattle directly to a retailer or to develop a branded program. "We will continue to use the programs, like the CAB Program, that are there; but we'll find other ways to take the other products that are not *Certified Angus Beef* product and try to get them into a branded program to get maximum value."

Other innovations are likely to follow as GeneNet matures. "We're still learning," the Conways admit.

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