The Next Step: Engaging Farmers and Ranchers In Animal Identification

The ID Mandate: Meeting Consumer and Government Demands
- Effective Traceability Programs
- Market Access
- Compliance with Marketing and Regulatory Requirements

August 25-27, 2009
Westin Crown Center
Kansas City, Missouri

August 27, 2009
Kansas City, MO

Nevil C. Speer, PhD, MBA
Western Kentucky University
WHERE ARE WE?
WHERE SOME MIGHT HAVE US GO?
WHERE DO WE NEED TO GO?
A little like….
After 39 ½ years of wandering in the desert, Mrs. Moses secretly asks for directions.
This Is Now…Fair Assessment

“Only a pitifully small handful of people stood up for a national program during the 14 city tour. The vast majority of the often overly enthusiastic crowd spoke against N.A.I.S. using very specific and occasionally salty language. Trying to talk those people into accepting an animal identification program will be tougher than talking a card-carrying N.R.A. member out of his gun.”

Chuck Jolley, NAIS-It Ain’t Over Until The Fat Lady Sings , Cattlenetwork (July 28, 2009)
NAIS: Dead or Just “Mostly Dead”?  
Senate: $7.3 million...House: Zero
End Run: S425? HR2749?

Senate cuts proposed NAIS funding to $7.3 million

(8/4/2009)
Sally Schuff

The Senate’s proposal to provide $14.6 million in funding for the National Animal Identification System (NAIS) was cut in half Monday; Sens. Jon Tester (D., Mont.) and Mike Enzi (R., Wyo.) asked for the cut in an amendment offered during floor debate on the $23.6 billion agricultural spending bill for fiscal 2010.

The amendment also limited use of the funding to USDA rulemaking on the beleaguered program, which failed to gain any industry support during a series of listening sessions held by Agriculture Secretary Tom Vilsack.

The funding issue now goes to a conference with the House bill, which zeroed out NAIS funding at the request of House agricultural appropriations subcommittee chairwoman, Rep. Rosa DeLauro. DeLauro said during debate on the House bill that Congress had spent $140 million on the program and “gotten next to nothing.”

R-CALF and the Western Organization of Resource Councils, groups representing grassroots livestock producers were quick to praise the Senate action, although WORC said it would have preferred to see the Senate follow the House and zero out funding.

S. 425: Food Safety and Tracking Improvement Act
H.R. 2749: Food Safety Enhancement Act of 2009
SOME PERSPECTIVE

BESSIE -- I CAN'T BELIEVE YOU ACTUALLY DID IT!!

HEY! I GOTTA BE ME!
R-CALF Argument

• **Bill Bullard, RCALF CEO (KOTA-TV, Rapid City):**
  "NAIS is the culmination of over ten years of aggressive efforts by the U.S. Department of Agriculture to destroy the very foundations of U.S. Livestock."
  "NAIS is fundamentally flawed, it's rotten at its core, it's Un-American."

• **Stayton Weldon, RCALF Region V Director:**
  “NAIS is but a veiled, governmental marketing program designed to economically disadvantage independent U.S. cattle producers by reducing what little competition remains in the highly concentrated and quickly shrinking U.S. cattle industry.”
R-CALF’s 12-Day Blitz: Day #2

Costs of NAIS Will Worsen the Ongoing, Long-Run Lack of Profitability for Independent U.S. Cattle Producers

According to USDA’s own data, the average return to U.S. cattle producers for the past 12 years (1996-2007) was a loss of $493.87 per bred cow per year. When only operating costs, and not total costs of production, were calculated, the loss per bred cow per year was still $6.42 during this period. Therefore, any production cost increases caused by NAIS would accelerate the exodus of U.S. cattle producers…
Some Context: USDA Land Values

Updated Aug, 2009

Cropland
Pasture

<table>
<thead>
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<th>Year</th>
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<th>Pasture</th>
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<td>1270</td>
<td>466</td>
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<td>2008</td>
<td>2760</td>
<td>1090</td>
</tr>
<tr>
<td>2009</td>
<td>2650</td>
<td>1070</td>
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</table>
Which Facts Do You Choose To Tell?

**USDA Average Farm Size = 418 acres (most diversified)**
- Assume 10 acres / cow annually
- @ $500 / cow represents loss of $21,000 annually
- 12 year time-span: total loss = $252,000
- Pasture value increased ~$600 / acre over 12 years
- 420 acres * $600: total gain = $252,000

**Full tracing program cost: $2.53-to-$5.84 / head**
- 0.85% of outlined losses (*Significant worsening of profit?*)

‘96–’07 LMIC cow/calf returns: $40/hd
COOL Has Implications For The U.S. Beef Industry

Success evaluated in two ways:

1. ability to provide consumers with meaningful information and create value at a reasonable cost
2. capacity to provide U.S. beef producers with a comparative advantage over their foreign competitors.

- **Rationalization**
  - Consumer “right-to-know” issue
  - Food Safety
  - Differential demand curves

- **Reality**
  - Same grading system...no evidence imported food is less safe
  - Demand impact evaluated only over long-run
  - Opportunity Cost
Hmmm….COOL = YES / NAIS = NO

• Which to believe?
  – On one hand: COOL position – USDA is worthy of industry-wide mandates
  – On the other hand, we have the NAIS position – USDA is an agency who’s out to “destroy the very foundations” of the beef industry and regulation is “Un-American”.

What About Business Implications? Blitz #6

NAIS will facilitate the dissemination of proprietary and confidential information

- **Weldon’s Argument (Agweek, June 1, 2009):**
  
  **Business relationships** have been built between individual cattle producers and these markets and feedlots and they all compete with other similar businesses to acquire the numbers and type of feeder cattle best suited to their respective marketing and feeding programs.

  Over time, these markets and feedlots earn reputations for sourcing, marketing and feeding the specific quality and type of cattle highly coveted by the concentrated meatpackers.
NBQA2005: Industry Goals for 2010
New Iteration Embraces Business Realities

1. Clarify market signals that encourage production of cattle, carcasses and cuts that conform to industry targets.
   – Value-Based Marketing

2. Increased age and source verification to build supply lines [marketing networks] of cattle to fit domestic and export markets.
   – Market-Driven Traceability
Commodity Mindset vs. Coordinated Networks

- **Traditional Supply Chain:**
  - Characterized by adversarial relationships
  - Win-lose negotiations
  - Short term focus
  - Primary emphasis on cost
  - Little concern for added value
  - Limited communication

- **Coordinated networks:**
  - Sustainable partnerships
  - Open communications
  - Responsive
  - Emphasize value
  - Recognize that all parties should benefit

The more fully traceable attributes endure through the supply chain and impact the ultimate end-user the more valuable traceability becomes.
Inherently Conflicted
You Can’t Have It Both Ways

On one hand:

Denigrate NAIS influence upon free market system (especially disingenuous given the COOL track record)

Endorse importance of business relationships and free market (market-driven networks)

On the other hand:

Endorse entities such as OCM which works in opposition to the free market and desires to limit two-party agreements.

(More on this later!)
## Channel Leaders

### Top 5 Grocers

<table>
<thead>
<tr>
<th>Company</th>
<th>Stores</th>
<th>Sales ($ bil)</th>
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<th>Sales ($ bil)</th>
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<tbody>
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<td>Walmart</td>
<td>2765</td>
<td>146.3</td>
<td>3395</td>
<td>258.5</td>
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<tr>
<td>Kroger</td>
<td>2480</td>
<td>60.7</td>
<td>4397</td>
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<td>Safeway</td>
<td>1507</td>
<td>35.5</td>
<td>1743</td>
<td>44.8</td>
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<td>SuperValue</td>
<td>1594</td>
<td>33.0</td>
<td>2491</td>
<td>45.0</td>
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<tr>
<td>Costco</td>
<td></td>
<td></td>
<td>544</td>
<td>72.5</td>
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<tr>
<td>Ahold USA</td>
<td>704</td>
<td>23.6</td>
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**Upstream:** aggregate consumer info  
**Downstream:** traceable attributes
CONSUMER PERCEPTIONS (IT IS REALITY)
Recession influencing retail purchases
- 3 out of 4 shopping differently
- 1 out of 3: economy “very important” in purchasing decisions

Expenditures rotating from restaurant to retail
- 6 out of 10: eating out less often vs year ago
- Looking ahead 1 year, 50% continue to eat more meals at home

“People are eating out less… demanding more of supermarkets.”
Lempert Supermarket Guru/Nat’l Grocer Association Consumer Panel (Feb 5, 2009)
Producers Have ‘Uphill March’
Morgan & Myers and WorldCom Public Relations Group
As reported in Feedstuffs, Dec 31, 2007 (Smith, R.)

- Only 50% of consumers say they’re confident in safety of their food vs.
  - Automobiles (83%)
  - Consumer electronics (80%)
  - Clothing (77%)
  - Pharmaceuticals (51%)
  - Toys (37%)

- 65% possess confidence in breads/cereals/grain products
  - 58% vegetables
  - 57% dairy
  - 48% beef, pork, poultry
Consumer Embrace Forward Documentation
Consumer Reports, Oct 23-26, 2008 Survey, n=1001

• 93% agree dairies that produce milk/milk products w/o [bST] should be allowed to label their products as such

• 57% willing to pay for milk/milk products w/o bST

Forward Documentation vs. Traceability
What’s For Dinner?: % Respondents
Deloitte Food Survey (May, 2008)

- More concerned about food they eat vs 5 years ago: 76%
- Believe number of food-related recalls has increased in past year: 73%
- Stopped eating a particular food, permanently or temporarily, as result of recent recall: 57%
- Area of concern: fruits / vegetables: 53%
- Area of concern: dairy: 53%
- Area of concern: chicken: 67%
- Area of concern: beef: 78%
Consumer Opinions of Ranchers/Cattlemen
% Very/Somewhat Favorable
FY 2008 Beef Checkoff Annual Review

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<td>63</td>
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</table>
2009’s Hit
(Google search: August 23, 2009)

Salmonella Outbreak Prompts Massive Beef Recall
FOXNews - Aug 6, 2009
The beef was distributed to retail distribution centers in Arizona, California, Colorado and Utah. The recall notice says the beef products bear the...

Salmonella beef recall hits 11 states USA Today
Salmonella cases spur Fresno ground beef recall San Francisco Chronicle
Company Recalls 825769 Lbs Beef For Salmonella -USDA CNNMoney.com
Examiner.com - KRDO
all 825 news articles » Email this story

Salmonella Ground Beef Recall Linked to Food Poisoning in 11 States
AboutLawsuits.com - Aug 11, 2009
The salmonella ground beef recall was first announced last Thursday by the US Department of Agriculture for meat produced by Beef Packers, Inc., ...

Calif. meat plant cited for cow handling problems The Associated Press
Salmonella Meat Processor Cited Prior to Outbreak Newsinferno.com
Salmonella Beef Outbreak Illnesses Rises While Cargill Refuses to ... Lawyers and Settlements
Grist Magazine - Visalia Times-Delta
all 346 news articles » Email this story
“What’s more sacred than peanut butter?”
Sen. Tom Harkin (D-IA) (2/6/09)
Could Have Been LGS!

Three-year-old Jacob Hurley joins his father, Peter Hurley, at the House Energy and Commerce Subcommittee on Oversight and Investigations during a hearing on the recent salmonella outbreak associated with peanut products manufactured by the Peanut Corporation of America, on Capitol Hill in Washington, Wednesday, Feb. 11, 2009. Peter Hurley, testified to the subcommittee how Jacob was sickened by his favorite snack because the crackers contained tainted peanut products. (AP Photo/J. Scott Applewhite) (J. Scott Applewhite - AP)
Perception Matters

“Consumer confidence in our food supply is being tested yet again… Pleading the “fifth”…is not acceptable when people have died.”
Lempert Report (2/19/09)

Each incident causes consumers to trust us a “little bit less”
Larry Pope, CEO, Smithfield
USDA Outlook Forum (2008)

Only 15% of Americans agree the food safety system in the U.S. is well prepared to deal with further food contamination outbreaks.
Food Safety Communications Check-Up, Burston-Marsteler (Feb, 2009)

Hallmark: “Game Changer”
Mike Siemens, Cargill, AVC, Phoenix, 2009
It All Gets Lumped Together
Letter to the Editor, Rosa DeLauro (D-CT), Chairwoman: House Ag-FDA Appropriations SubCmte
Wall Street Journal (2/24/09)

• Reference to “Peanut Butter Justice” (dated 2/18):
  “Companies like Hallmark/Westland Meat Packing faced massive losses...peanut butter is just the latest in a long line of contaminated foods that have sickened thousands.”

“Now that’s where we differ... I do pretend to know.”
TAKE-HOME MESSAGE?
New Thinking: 
“Breaking The Cake of Custom”

“One of the greatest pains to human nature is the pain of a new idea. It...makes you think that after all, your favorite notions may be wrong, your firmest beliefs ill-founded...”

Walter Bagehot, *Physics and Politics*, c. 1872
(Discussing rapid advancements within 19th century and ensuing political conflict)
Obama: Top Three Priorities For Agriculture

• More nutritious food
• Increasing alternative energy opportunities
• Transition agriculture from dependence on fossil fuels

Sec’y Vilsack, USDA Outlook Forum (2/26/09)

Personal priorities stated by President Obama upon Vilsack’s acceptance of Sec’y position
ONLY 12 OUT OF 535!!!
EASY TO FALL IN TRAP
CYNICISM / DEFEATISM
TN Beef Alliance
Objectives

- Maximize profit potential and reputation of feeder cattle produced in Tennessee.
- Enhance genetics of Tennessee feeder cattle and cow herds.
- Provide producers with quality herd sires balanced in performance and carcass traits.
- Enhance the uniformity of feeder cattle within and across producer groups.
- Assist producers with production and management concerns.
- Provide the opportunity for cooperative marketing between producers.

Allow producers to realize....
  - [establish, document, advocate and verify]
  - the **true value** of their product
## 2008 Summary - Added Value / Head vs. TN Weekly Average Market

<table>
<thead>
<tr>
<th>Sale Date</th>
<th>Head</th>
<th>Added Value TN Avg. Price ($/hd)</th>
<th>Total Added Value TN Avg. Price ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 24, 2008</td>
<td>1272</td>
<td>$100.67</td>
<td>$128,050</td>
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<tr>
<td>October 3, 2008</td>
<td>887</td>
<td>$74.35</td>
<td>$65,947</td>
</tr>
<tr>
<td>December 5, 2008</td>
<td>1336</td>
<td>$31.61</td>
<td>$42,228</td>
</tr>
</tbody>
</table>

Total Added Value Compared to TN Reported High Price: $102,028 Total or $29.19 per Head
NEED MORE BE SAID?

TIME

The Real Cost of Cheap Food

BY DYLAN WALSH

WARNING: This examines may be hazardous to your health. Why the American food system is bad for our bodies, our economy, and our environment, and what some visionaries are trying to do about it.
View Yourself As A Food-Producer Partner!!!
(vs. “top down” approach: “educating” the consumer)

Shelf-Centered Collaboration

• The overarching goal is for each function and each business in the value chain to think end-to-end about the entire network of participants, from the first supplier to the end consumer.

• Instead of seeing their job as simply creating demand of supplying the shelf, they can now contribute to making the entire value chain more effective and responsive.
Traceability: Is Right and Reasonable?

Tangible Benefits: Consumer Oriented

1. Deliver desired attributes
2. Facilitate integrity
3. Provide verification
4. Create trust
5. Establish brand loyalty
6. Secure value
7. Advocate producer story

“The path to sustainable, profitable growth begins with creating more promoters [happy customers] and few detractors [unhappy customers]….It’s that simple and that profound.”


Producer 180: empowerment vs. “trace-back trepidation”
Market Driven: “Protecting Food Brand Equity”
Adapted From: Walt Staehle, Siemens, World Food Expo (2007)

• Direct Recall Costs:
  – ConAgra: $55 M
  – SaraLee: $76 M
  – General Mills: $100 M
  – Pilgrim’s Pride: $100 M
  – “Spinach” et al.: $XXX M
  – Hallmark / Westland: $XXX M
  – Peanut Corp: $XXX M

• Indirect costs include:
  Investigative costs, inventory losses, removal costs, legal fees, loss of sales, product replacement, destruction costs and “re-marketing” expenses

• Compliance plays out in public!!!!
Be Proactive! A Sense of Urgency

“The most dangerous situations arise when the threat is ambiguous. This leads managers to ignore or discount the risk and take a wait-and-see attitude. Such an approach can be catastrophic.”


“Decay in a company or industry happens gradually...one day at a time.”

QUESTIONS??

Nevil C. Speer, PhD, MBA
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