Value-Based Marketing - A Panel Discussion

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John Huston
Moderator

John Huston: It's a privilege for me to serve as moderator for this group of industry leaders in a response panel to the presentations we heard earlier this morning on value-based marketing as well as their own perceptions from their segments of the industry. If you have your small advance sales bulletin, you can follow us on page 8 or 9. If you had a chance to go through the pedigree book, you will notice we have in our offering today in this panel some of the top studs in the business. We are not going to embarrass them by having an auction or anything like that. Also, don't be concerned that a lot of the pedigree is heavy with Kansas. Kansas ought to be proud of the fact they have the chief elected person of the National Cattlemen's Association, the President-Elect of the National Pork Producers Council and the President of the American Association of Meat Processors, all at the same time. It's not just the fact that they are all from Kansas, they truly are the industry leaders.

Now, on to value-based marketing. We had the stage set for us with the previous programs. I have heard a lot of industry leaders say value-based marketing is worthless; that it's a bunch of talk, a bunch of university talk because we establish value every time a buyer and seller come together. So, I want to make clear, at least from my own perspective, the goal that I feel comfortable with talking about here is the goal of somehow getting rid of the waste fat in the production and marketing system while we keep the taste fat and have the necessary profit incentive to make it happen. That's easy to say, but we know that in a complex industry like ours, it's just that, a very complex task. Before we begin today, I want to establish the game rules; we've had our time for speeches, now we are going to have some introductory remarks from our panel members here. We're then going to ask the four experts who shared their thoughts and perspectives in the opening session to join us and we will move into a Q & A session. I visited with the panel members this morning, and I want to make sure we all understand the rules. I have the famous Kansas State timer here and I'm going to set it for five minutes. At the end of five minutes, I will wave the sale catalog at you like this. At the end of six minutes, if you haven't stopped, I will throw it at you. So I don't want to embarrass myself and I hope you won't want to embarrass yourself, so let's all understand the rules.

Your job, during these introductory remarks, is to either take some notes or comments or perhaps even more important, write down the nasty questions that come to your mind that you always wanted to ask the top studs in this business. You have the people here who are the policy-makers, the top policy-makers, in the beef business, in the pork business, in the lamb business and in the packing and processing business. This is our golden opportunity, I think, for us to interface or, as we like to say in this conference, reciprocate.

Our first introductory remarks will come from our international guest, Dr. Pieter Walstra who joins us from the Netherlands. He has been in the U.S. for about three months doing some work at Purdue and visiting some other research

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Reciprocal Meat Conference Proceedings, Volume 44, 1991.

centers. He is currently the head of Slaughter Quality at the Research Institute of Animal Production in the Netherlands, and Pieter's research interests lie in carcass composition, evaluation, classification and boar taint. Pieter will save the boar taint for another meeting, but we're very interested in his perceptions on carcass composition, evaluation and classification. Join me in welcoming Pieter Walstra.

Pieter Walstra

I was asked to say something about how the classification system in the EC. Classification in beef in European countries is performed using a visual system. First, there is a conformation score and there is a score for fatness (one to five). There is no official system for lamb; however, an EC system for lamb is being discussed. The system for cattle includes fleshiness, conformation and fat covering. We subdivide each of the classes, so the E can be minus or plus, and that's for all of the individual classes including the five classes of fat covering. So we actually have 15 classes for each characteristic. Coming to the pigs, it's much different from the classification in cattle because here we have an objective system which started from the beginning of 1989. Each pig is classified according to objective measurement and in most countries it is done by electrical probes. There is a procedure that is used to evaluate different apparatus. They, the EC committee, evaluate the equipment and the RSD should be lower than 2.5% and the R^2 higher than .64. Of course, both are based on measurement of belly thickness and muscle depth and the resulting prediction formula is coming out. You may go on for each of the cuts and ultimately you will have to come to the same amount of muscle, I mean a common basis for comparison. And that should be done in every country and it's called "the EC reference method" where all meat is dissected as far as possible by knife, also including the muscles of the head. Well, as I said, ultimately it doesn't matter where you start, you will have to come ultimately to the same reference percentage of lean meat.

John Huston:

Before we go to the Kansas gang, I want to present the other individual who represents the sheep industry, Jim Magagna. Jim is the President of the American Sheep Industry Association and is from Rock Springs, Wyoming. He has a history of leadership in the livestock industry which includes being past president of the Wyoming Stock Growers Association, as well as being very active in the Public Lands Council in addition to his current activities with ASI. But the thing that impresses me most about Jim is that he has his undergraduate degree from Notre Dame University and his law degree from Stanford and has chosen to be a rancher. And it's so exciting to meet a lawyer who wants to make an honest living. For that reason I want to welcome you to this panel.

James Magagna

Thank you John, but unfortunately, being in the sheep business, I haven't found a way to make an honest living at it. As consumer demand for lean product heightened in the late 80's, I think that an outside observer or a layman looking at the lamb industry might well conclude that our approach to dealing with that was to see how far we could go and how successful we could be in defying the consumer. It seems that a series of perhaps unrelated, perhaps not unrelated, events has transpired in the late 80's that caused us, I think quite frankly, to provide the retailer, not necessarily the consumer, with a fatter product than we had previous to that time.

One of those factors was the decline in the wholesale price for lamb. A second was an increased emphasis on dressing percentage of lamb carcasses. All of these factors caused feeders of lambs and particular packer/feeders of lamb to hold lambs back in the hopes of a better market, to feed lambs more and to increase the dressing percentage; which necessarily meant in most cases reducing the leanness of the lamb, and resulted in a much fatter product, unfortunately, being put on the market. One phenomenon that took place during that time-frame was a considerable widening of the price spread between the retail price of lamb and the carcass price of lamb. A widening by 1/3 or nearly 33% occurred. What may well have been one of the contributing factors to that widening was the decline in the true quality of the product.

So, now the lamb industry stands at a time of extremely low prices over the past year and extremely tight financial circumstances. One of the good things that has come out of this is a renewed interest and a broadened support within our industry with nearly all segments of the industry looking at the concept of value-based marketing and how we can become players in that arena. Our first response as an industry, through our American Lamb Council, came early in 1990 with the introduction of the certified lamb program that was referred to earlier by Frank Lusk from Safeway. We've been very pleased with the growth in that program and the acceptance by the retail segment of the industry. It's been in existence barely over a year now and approximately 15% of our product is moving out as certified lamb and that amount is increasing daily. We estimate that, based on current production in feeding practices, approximately 43% of our product would qualify as certified lamb. With the recent growth we are experiencing, we think we can move rather quickly toward moving an extremely high percentage of the product out under that system. It's provided a way to identify premium lamb for the retailer through our advertising campaign that goes along with it. It's provided a way for the consumer to identify premium quality lamb. One of its main objectives, of course from our perspective, was to provide for a premium going back to the feeders and producers of lamb for producing that type of lamb. I can't honestly say that has come yet. I do believe we're confident that the system is capable of providing that as we move down that road.

However, we saw that as only the first step in moving into value-based marketing, a way to get off the ground, so to speak. We feel we need to go much further and that is why our board of directors took the step in January of this year of directing us to immediately begin a process of implementing a yield-grading system for lamb. A yield-grading system has been available from the USDA for lamb for 15 years or more; however, it has received very little use by the industry. So our approach to the USDA has been a formal request to them to make some changes in the current yield grades to make

them more realistic with today's consumer demand for the type of product we feel we are able to produce, and to then tie those yield grades or couple them with the current quality grade system so that any lamb eligible for USDA quality grading would have to be yield graded as well. We feel this holds some exciting potential for the industry, in terms of not shipping the fat around the country, as has been referred to earlier. In addition, we asked that in order for lambs to be yield- and quality-graded that the kidney pelvic heart fat would have to be removed down to a minimum of 1% before this grading takes place. These moves, we feel, are bold moves for our industry. They are not without controversy from some segments of the industry, particularly some of the feeding segment and some of the packer segment, but overall, they received strong, broad support. We've encouraged the USDA to move forward with this process, and they are in the process of developing the regulations now. Our goal is to see implementation early in 1992 and we feel that this is possible. We see this as having a two-fold benefit. Certainly, it provides a better measure for providing the consumer with the product they wish. But, on the other hand, I think it provides an opportunity to send signals back to our feeders and producers as to the type of feeding practice improvements and genetic improvements they are going to have to make in order to provide the type of product that is the consumer demand, and that they will receive the premiums that we need as producers of lamb in this country.

John Huston:

Next, for our pork industry perspective, our first Kansan to be at bat is Tim Rose who is president-elect of the National Pork Producers Council. Tim is the owner and manager of a 360-sow farrow-to-finish pork operation in Lyons, Kansas in addition to his duties at the NPPC. He also co-chairs the Quality Assurance Committee, the Lean Value Task Committee, plus Tim has been on Study Committee trips with NPPC to Denmark and Canada. At the time he wrote this letter to the program committee, he mentioned he was on his way to Japan to join MEF for the opening of quotas in Japan. Tim had an interesting note in his letter to the program committee. He says, "if possible, my wife would like to have the picture back." He goes on to say "I'm gone so much these days, it's the only likeness of me she sees for days at a time. It's something she can show the boys and say, 'Gee! You do have a dad'." You make it sound like you served in Operation Desert Storm.

Tim Rose

I have five points I would like to share with you briefly. The first thing I'm going to say is that in the pork industry, grade and yield is history if we have anything to say about it. We think it has to go. The grade is a subjective measurement and yield is not indicative at all of the percent lean or the true value of that animal. The second thing I would like to say is that I think it is important to understand where we have been. For 30 years, the swine industry has been trying to sell hogs based on value. Never before today have we had the technology in place that would handle that concept at the kill speeds that we have here in the U.S. My dad was involved during that time-frame and he had many experiences where he would ship hogs where the five primals were actually cut out and value placed on the whole load based on a percentage of that load. Every place he tried that, they would shut him off after the first load because they could afford to buy other people's hogs cheaper based on average.

Today's main thrust of our industry is that we intend to be a protein source. That means that we have to be a competitor not only on production cost but on product value. In the U.S., we are averaging about 47% lean in pork, Canada is up around 49% and Denmark is around 57% or 58%. It's not that we think we can't compete with those countries, it's just that we can be better. The pork industry has spent about 250,000 check-off dollars trying to get this technology developed. We spent about $100,000 alone in the Purdue consortium. We have to have this information to make genetic decisions out on the farm; and with the short generation turn-around in swine, we can make genetic progress rather rapidly. In my point of view, we either develop vertical information or we will have vertical integration in the swine industry.

Our obvious hurdle in the past has been convincing the packers that they could make money under this type of system, but I think we are coming close to that; especially with the work done at Purdue, with Jay Ackridge in the economic side of the equation. I was very encouraged to hear the Safeway man this morning talk about how important this concept is to their future. I think that if we can convince the packing industry that they will make more money by knowing what comes in the front door so they can turn around and sell it out the back door at a greater profit, we will overcome a big hurdle. I'm changing my mind a little bit personally. I used to think the entire packing industry would have to hold hands and jump in the pond at the same time. I don't think that is the case. I'm becoming more and more convinced that if this truly is a good concept, those that adopt it first will make the profit.

Finally, what is it we are after? A standardized evaluation system is our goal. Notice, I did not say a standardized *pricing* system. There are four main points we have to have in that evaluation system. We have to have carcass I.D., carcass weight, a percentage lean, and a quality score. Quality has already been discussed this morning, but it is very important. That was one of the problems we got into in the 60's and 70's. We got to a meat-type hog, but the quality went to pot and a lot of production problems went with it. Right now, all we ask for on the quality score is either a plus or minus. Either it's good or it's bad. I think, as Dr. Forrest related earlier this morning, we're a ways away from getting a real solid handle on it; but some time in this decade, I believe it will be possible.

There's a little sub-group here I call "pink fuzzies," the things that will make it sell to producers. I think we will still have to have a backfat measurement related back to the producer. We will still have to have a price-per-hundredweight related back to the producer. I mean that's what they talk about in a coffee shop, they've got to have that. Then there are two things that we will have to have that are a little more than a "pink fuzzy," they're almost a big hammer. We need a lot summary and then we need to know how that lot summary compared to the daily kill at that plant that day. If we can get that information, folks, we can make giant strides in a big hurry.

John Huston:

To give the beef industry perspective is Don Smith, President of the National Cattlemen's Association. His operation is based here in Tribune, Kansas. He's in partnership with his family, has three children in the business with him and they also have ranching operations in Colorado and Montana. Don is certainly not a new leader in this industry. He's past-chairman of the KLA Feeder Council, past-president of the KLA, past-Chairman of the NCA Grading and Inspection Committee and he has many other responsibilities.

Don Smith

The National Cattlemen's Association is certainly proud to be a part of organizing the task force on value-based marketing along with the Beef Industry Council, and being able to pull the expertise from the industry that we did and of course the job they did in summarizing the results. There are a few points within that report I want to talk to you about this morning from the perspective of the cattleman. I do think that the grading system within the beef cattle industry is going to come under fire within the next two years. Particularly the yield grading system if not the quality grading system. There's more and more discussion out there about it all the time; particularly as we are feeding more calves coming right off the cows right in the feed yard to finish. Because we finish them in 14 months of age, many of them are just grading Select. For that reason, I think that the second phase of the consumer retail beef study has to be done and done as quickly as possible before we might take off and do something to our yield grading system or the quality grading system that might be a mistake in the long run.

We have to have the research completed to help us make the appropriate decisions. Instrument grading is very important to the industry to give the credibility that it needs in order for us to go into a value-based marketing system. The value-based marketing system itself is quickly identified as the most controversial part of the whole report, particularly in those feeding areas. But it also goes back to some of our cow-calf producers too, who are very concerned, about whether or not their own livestock and calves would fit into a value-based marketing system. I'm talking about that particularly down south. The further south you go, the more Brahman cross cattle you find. The grade and yield marketing programs have strong opposition through the major beef belt area of the Texas Panhandle, out into Kansas and up into Nebraska and other areas. Before these questions can be resolved, we must have instrument grading (that's a very high priority to us). Also we support the DPD studies and the genetic characteristic studies that they bring out in the report.

Now let me put on the other hat, which is the cattle feeder's hat, because I'm a cattle feeder in Western Kansas, (I've two feed yards). We respond very quickly to the market signals and the market signal is "add fat." Now, I sell a lot of cattle on the rail. I'm one of the few that do, so I know the yield (dressing percentage) on all of my cattle, and the quickest way to raise that dressing percent is to add time and I know that when I'm adding time, I'm adding fat. So the market signals are all wrong. During time of short supply, as we have now, it's also easy to feed a lot of second-calf heifers and 900-pound bulls are better; go ahead and castrate them and put them on feed. Sometimes we don't even do that, but I'm feeding more junk. I've fed Corentae, I've fed Longhorns and I love to feed Jersey-cross cattle because I know they grade well and sell them grade-and-yield. Market signals are totally wrong and that's what we are going to have to change before we can really get the fat off of these cattle. We must get away from the dressing percent, feeding undesirable type cattle and putting an undesirable mix of products out into the consumer market to avoid consumer concern because the products are not dependable. So John, that's where I'm coming from as the President of the NCA and as a cattle feeder.

John Huston:

Thank you Don, and thanks for your candid remarks. You're the first President of the National Cattlemen's Association that I ever heard admit that he fed junk.

We go now to the processors and packers. To lead us off in the processing side is a native, not only of Kansas, but lives right here in Manhattan. He is the owner and operator of Flint Hills Foods, which is based just outside of town here. His company handles a full line of portioned beef and pork items that they sell under their own label as well as under a private label. He also is involved with other specialty food items including snack foods, smoked meats and cheese products. Bernie Hanson is the current president of the American Association of Meat Processors. Bernie is not new to leadership either. He's the past-president of the Kansas Meat Processor's Association here in Kansas. He's also serving on the board of the National Meat Purveyors, so Bernie, you bring a good perspective and a hands-on perspective to us. Let's welcome Bernie Hansen from Manhattan.

Bernie Hansen

I'll try to sum up some remarks from the part of the industry I represent and basically the two associations John talked about. They represent two totally different operations. One is the American Association of Meat Processors and most of the membership of that organization you would be more familiar with as your home town locker plant, custom processing plants and very small meat businesses. They make smoked and cured products and do specialty processing. That industry in itself has been shrinking in the last few years in general because of the consolidation of the way animals are fed. Like Don's industry, (cattle feeding) there are less animals on the home farms, less large families around, and in general the number of cattle that has been killed over the last few years at the small meat processing plants has steadily declined. This is causing a split in operations. By that, I mean there are some who are fairly successful custom killing and still doing enough numbers to be successful. On the other hand, the ones that can't survive on that have had to become very good value-added operations; and by that, I mean specialty products marketed mainly in a small geographical area. From what I have been hearing today, I guess one of my thoughts on that part of our industry, if we can actually get to value-based marketing, is that maybe the cattle that we see killed at these small plants would be the ones that are heavy with fat because we

normally see a trend. It used to be the one that didn't grow out right that went to the locker plant, so that may shift some of the killing that's going on there to fatter cattle if in fact the value-based marketing occurred.

The second industry segment that I represent is the National Association of Meat Purveyors which was the inventor of the Meat Buyers Guide that has been given away here this morning and has a very strong emphasis for a specialty trim product. It's the meat purveyors who supply products to the hotel restaurant industry. That's really a mixed bag when we get to that part of the industry because on one hand the survival of our business in that phase is dependent on high quality product, and as we went away to grass-fed a few years ago for the leaner type of animal, it really hurt our industry. I credit that as one of the reasons that chicken and fish got a jump on us, not only from a marketing advantage, but also as the quality of our product slipped down. People like to eat beef at a restaurant. They pay top dollar for it because they get what they want and if they aren't satisfied with that, they are willing to look at other products. That industry is dependent on quality and in this case it has normally meant fat. We have been the outlet; our operation has been the outlet for the fatter beef. I think when value-based marketing started getting some attention is when the packers actually came into our business. They started cutting meat further down the chain, breaking it into sub-primals and now into consumer cuts. All of a sudden, they realized the amount of fat that was involved in the trimmings, because, as I said earlier, a lot of the product that we got in the past was the Yield Fours and Yield Fives, but they still had an outlet for them. And we (the purveyors) screamed because this stuff isn't worth this because we're eating all of this fat. We had to come up with a close trim for the restaurant people and we had to have quality inside the muscle. So I think this is what made people start looking at this; "My gosh! I got ten barrels of fat over here and I paid $.70 live weight, I have to do something with this."

The next thing that is probably controversial is that from our standpoint as medium to small hotel restaurant purveyor, in order for value-based marketing to be successful, it may mean we all become extinct and that's a pretty rough one to take. But, I see this in the past few years and I see it more in the future years coming. I think one key to value-based marketing is the integration of the industry and that the packer does take the product on down further so that it is controlled. I give several speeches a year; one of the things I like to talk about is that a few years ago when I was growing up and going to school and working, the industry that I am in today was the dreaded middle-man. We were the ones that had all the profit, apparently, because the packers didn't make it, the retailer didn't make it so it had to be us. "Has it changed?" "No." But now we call that value-adding and we are highly respected.

That's a different perspective. There is a big difference in my mind between value-based marketing and value-added products, and I think that one of the saviors to our industry is that we have to become better value-adders. Value-based marketing may bring the product to us at a higher price, but it will be more in the form that we need it. So, our job in our part of the industry is to add further value, whether that is through seasoning or specialty cuts and new products. That is where we come in.

John Huston:

Our final wrap-up on introductive remarks comes from a native Kansan, formerly a faculty member here at K-State and now an educator turned packer. We have also saved the most mild-mannered consensus kind of guy to be our sixth person. For those of you who don't know Dell Allen, he's currently with Excel as the Vice President of Quality and Training. He was on the staff a number of years here at K-State, I think for thirteen years or so, and he was the coach of K-State's Meat Judging Team. And I might add, Dell was a very, very successful coach. Dell has never walked away from things that tend to be controversial in our industry. He was on special assignment to the Chicago Mercantile Exchange before he went with Excel. He has consulted with a lot of other companies. I have thought a lot of Dell for a number of years. I must share with you a personal experience. Dell is not real quick to put things together. He lived next to my first cousin when he was here in Manhattan, Linda Harrell was her name, and Linda would keep saying to Dell, "Do you know John Huston?" "No." Then they got together for a cocktail or something or a barbecue and Linda would say "Did you ever meet my cousin John Huston?" "No. I don't know if you're thinking about the movie director or what." But finally, after five years Dell probably put it together, "Oh you mean the Huston of the Meat Board, sure I know him!" Dell Allen, let's welcome him back to K-State.

Dell Allen

Thank you, John. The reason I had so much trouble with that is that Linda didn't know where you were employed or if you were employed. First of all, I would like, as a native Kansan, to welcome all of you who are not Kansans to a beautiful state. Kansas is dressed in her finest for you and I couldn't miss the opportunity to add something. I would like to point out that Don Smith is a Colorado State graduate and that the concept that Kansas is flat comes from the fact that people leave Denver on I-70, they travel 175 miles in flat eastern Colorado but they never remember that Colorado is flat. They think everything east of Denver is Kansas and so we get a bum rap because of Colorado. I'd also like to point out to John Huston, it won't do a bit of good to throw things at me, because I took my beginning meats course here from a guy by the name of Davey McIntosh who literally threw things at me all semester long and it didn't keep me awake even then. One other ground rule; Bob Kauffman, if you ask any questions, Glen Clipenstein is going to answer them for me.

I am amazed how easy this value-based marketing is after listening to Frank Lusk and some of these other people. It's nice to be among friends. All I have to do is go home and turn the key and we have got it. It all rests right here in the industry that I'm representing. "Do you want to promise that publicly?" I might just go on record of pointing out a few other things that might pose problems. One, who is going to pay for it? You know, Bernie alluded to that, there's a cost to it. Tim read a list of things that he would like to see coming from the packer that are going to be required from the packer if we are

going to make it work. One of them is individual animal identification of some reliable method. We have looked into that and it takes a substantial investment for us to do that type of thing both in terms of automation equipment, in terms of information systems and all the rest of it. I'm not saying that we won't do it, but we will only do it if and when it is a profitable move for us. We are not generous totally by nature in the business and we have to make a profit if we are going to stay in the business. So the cost issue of how we do it and who is going to pay for the instruments that are going to be utilized to make what is still, I submit, an estimate of that carcass value, is still unresolved. All of those are things that must be solved.

Frank Lusk, where were you when we needed you? Excel in 1987 rolled out a closely-trimmed product. The full intent at that time was to go to a closely-trimmed product totally. Our initial objective was to get enough volume where we could run one plant totally on that system. The problem was that nobody would pay the differential in what it cost us added labor-wise and added yield-wise to produce that product. Granted, they didn't believe our figures. That's all well and good. Maybe our figures were not exactly right, but still, it was there. And the one thing that I noticed about a lot of retail meat buyers who buy products on a central location basis is that the product goes out to a series of stores around the country.

The retail meat buyer in many cases is evaluated on performance—how cheaply he buys that product in relation to the industry average. Little consideration is given to whether that product is of greater value or not to the ultimate user. The other problem you have with the whole thing is the gross margin concept that was alluded to earlier. The fact that a $2.00 item was brought into the meat shop, a 28% or whatever markup is put on it to cover the cost of labor, packaging and overhead. Well, a 28% markup on a $2.00 item, when it is taken down to a closely trimmed basis and the price correspondingly goes up, let's say, to $2.50, and the same 28% margin is put on it, results in a higher priced product that sells less but will ultimately be of equal value or even more economical. The retailer must get away from the gross margin concept before we are going to move on down the line very well on this whole issue.

A couple of other points I would point out; I have spent my entire life really working in this area and value-based marketing is no new concept. We don't know much more today in terms of what differences in value are than we did in the 60's when I was doing my Ph.D. research under Bob Merkel. Shortly after I came back from that, I was in this very building, (this part wasn't added then) on a panel with another retailer and I had all the facts, the figures, the cutout data and the works to show and demonstrate why a Yield Grade One was worth more than a Two and Three, and so on up the line. And after we got done, this individual asked me one simple question, "Of those different kinds of animals, which one is the most economical for you to produce as a producer?" By the way, I fed cattle myself for 20 years; many like Don described here. If we believe what we know, basically the lean cattle are the most efficient to produce; he just asked me a very simple question that I have never been able to resolve in my own mind in terms of whether he is right or not. He said "Why then do you need to be paid twice for producing what is most economical for you to produce in the first place?" And with that, I will quit.

John Huston:

OK, well I can only conclude out of our Kansans, we got two junk dealers, an honest middle man, and a hard working pork producer who is never home. Is that representing this industry or is it? Thanks to all of our panelists.

Discussion

J. Huston: Please direct your questions to the panelist you wish to hear from; some of you will obviously want more than one panel member to comment. Panel members, rules for you; feel free to add comments to any of the questions, or to ask each other some questions, so let's maximize our time. Who would like to ask the first question in the reciprocation?

N. Marriott: This question is for Don Smith. You alluded to the fact that you were receiving incorrect or confusing signals. Obviously, time did not permit you to indicate the solution. Would you please, as briefly as possible, tell us how to fix that problem?

D. Smith: I really think it's going to be fixed in about two or three years when the supply of cattle increases and when packers quit buying that junk. In short supply, they are going to buy anything they can to keep the kill floors going. Once that supply increases, then I will have a hard time selling that type of animal.

Huston: Don, I don't want to argue with you, but if that is the case, then when we had the big supply in 1976 we should have had a good value-based marketing, right?

Smith: No, not necessarily, because a lot of those plainer type animals went to non-fed slaughter at the time. And of course, they never got to the feed yard, but in time of short supply and cheap feed (and I had better throw the cheap feed in there because their cost of gain is going to be certainly higher), then we are going to feed anything we can that we can get sold. For that reason, you are seeing a lot of those junk cattle and those odds and ends do so well at the sale barns.

Huston: Tim, do you have a similar situation in the pork industry?

T. Rose: Well, we've certainly got a similar situation, in that we have an over-kill capacity. I think it was running about 33% to 34% over-kill capacity and that's been probably one of the biggest bugaboos in getting a lean value type idea even talked about over the years because the packer: a. started killing good hogs; b. analyzing the people that had medium to poor hogs; c. then pretty soon his kill lines weren't full. His labor contracts couldn't be honored; so I think we have to pull this thing through and not push it.

Smith: If I could add that certainly average selling encourages that too. If you want to make some money in the cattle feeding industry, why upgrade cattle because the people with the good cattle are going to be brought down to average and they are actually being penalized?

Huston: Any packer-processor have any comment on the

signals in the system? What can you do, Dell, to send better signals?

D. Allen: I think you know, and I think I agree with Don, that if we would get back into a better supply of cattle where we have more numbers, we will give some better signals. I think that I would disagree with some of the things that I heard this morning, I don't necessarily think that dressing percent is all bad and I hear it being bad-mouthed a lot. I think dressing percent is an extremely important pricing ingredient. We just don't know how to use it.

J. Price: I have a question for Mr. Lusk, he was decrying the fact that the industry standard was a one-inch trim, the last *Meat Buyer's Guide* that came out in the fall of '88 has all of those products listed as ¼" trim. Would it be antitrust action if all of the major retailers got together and insisted that their buyers and their products stay with the NAMP specifications?

F. Lusk: Well, you use some terminology there that I won't address. I think that the answer is that retail can send the same signals or message. I think it was done recently, as I referred to, at the AMI/FMI meeting. That is the largest gathering of packers and retailers in the same forum that we have in the country today and there was a clear message that, from the retailer standpoint, they do want a closer trim product and that basically they say they are willing to pay for fair value, so I guess that's easy. The other thing I addressed in my comments, and I know I might not have made the point clear, but we need to make these standards, not an option! I'll go back to Dell's question about their perfect trim or ½" that they have. First, does it go far enough? Second, it was an option, and when I need to go out there and buy 21,000 head worth of tenderloins, it wasn't an option because it boxed me in and I couldn't run my business and satisfy my customers. So from the standpoint of that, we would love to go tomorrow to a ¼" trim spec from the packer.

Huston: Do you feel that all packers are going to have to go at the same time?

Lusk: Someone, I think on the panel here, said the one that goes first is going to gain the most benefit. If enough of them go first, whether it be one of the big three or two of the big three, I know they will get a lot of Safeway's business. I will say this, Excel Corp. has made a strong effort on a quality program. We do cutting tests every week. The program that they have put together does show that their product is improved in value. I would challenge Dell Allen to go back and see if Safeway's business has increased and it's a direct reflection of that. So, we do buy based on value. We run cutting tests every week. We measure the various suppliers' products that we buy against each other and basically try to make our purchases based on quality, price and service included.

D. Johnson: I guess you really alluded to my question just a little bit. I am hearing these retailers say that we are willing to buy the leaner product and the packer saying that we're really ready to produce it, it's just getting the numbers worked out. What do you think is holding you back from getting those numbers worked out so both parties can believe them?

B. Hansen: I think that one of the things that I alluded to is that the HRI industry is primarily the receiver of that fat product. But a lot of that (and I didn't mean that to be derogatory to the packer), was the same reasoning that we are talking about right here that we could buy that product cheaper also. And I think one of the things that has to happen is better information in our own operations (evaluating the true cost of products). I feel that this is like the reduced-salt products that evolved several years ago. Our customers in the institutional field continually said "we want low-salt roast beef, we want low-salt products." We produced those products and they didn't like the taste of them and that's the same problem we have here. We say we will pay that price and then we look at our own cost and we aren't fair and honest with the total cost on the thing; that's what has to happen in order to make this occur. Same thing when we take a cut steak for a restaurant, we say this Kansas City strip is $7.49 lb. and they say "I can buy them for $3.50 in this whole strip and I pay a butcher $2.00 an hour. I don't need it because I think the stew meat we get from it is worth $.79 but it cost us $3.50." You have to be honest with each other before you can actually make that happen.

Huston: Russ and Jeff, in your presentation you talked about one of the hurdles of new arithmetic. How is this challenge any different than we had as an industry when we went to boxed beef, there was new arithmetic there, wasn't there? Is there anything we can learn from that experience to help move this along?

J. Savell: Well, John, I think one of the things you saw in the beginning of boxed beef was a tremendous amount of effort involved in looking at the new math. You know, at that time, if you had carcasses that would have been 50 or 60 cents a pound, it was difficult to convince somebody that they could pay roughly 30% more per pound for 70% as much product. By the time you went through all the math and the credits, it was all right. You could feel that you were doing something correct by paying more for the product. You know, we still have people that are still thinking about the first cost versus the last cost of the product. They can go through and do these things themselves without really looking at the total numbers involved. I know Frank's is not necessarily that case, but Frank's is more the exception, not the rule. As we work with both packers and retailers, I think, Dell, one of the problems that you had with perfect trim is that IBP didn't have perfect trim and neither did Monfort. When a retailer got ready to make these calls to find out what they are going to buy, they had one quote and that was yours. They didn't have the ability to call IBP for a quote. So whenever you do that, then you are sitting there knowing that you have to pay a little more for this. But I can go back here and get three quotes real quick here on the commodities and they can buy that one that is a penny under today. So I think that is the thing, getting enough product out there so people can then have the choice when they go through the buying. Then the argument, Dell, is correct on this, you know. How can you get enough volume then in order to generate either a plant or a production line or whatever it may be? I do believe that the day needs to come that we don't have it as an option in the market place when you can have either/or, because I know the argument we have gone through is just trying to get Select graded. Whenever you start going through Select and you had Choice and no-roll, and you add Select to that, you have just now increased the number of slots in your warehouse by 50% at least. In this case, what you have to have is just it all at ¼" trim; that's just starting Monday morning, that's what we are

going to have and that's tough! But in doing that, you have to have faith that this is what the price would be and that's what we are going to do and that's going to be the market place.

Huston: Dell, as a former educator and now a packer, do you see any role that the people in this room and our association, the groups represented here, can do to be a catalyst in this area of the new math?

Allen: Very definitely. I think I will address that and then I want to address another point I want to make real quickly. Yes, education-wise, we need a lot of help in making and facilitating the understanding as you call it, the new math. What is the true value represented in these products? I think that centers most reasonably in the land-grant system in cooperation with producer groups, the trade associations, etc., John. I really believe that and I think we would welcome it and be glad to work with people on that. The program that Frank alluded to, we have embarked on at Excel. My first assignment when I went there was to initiate a total quality management (what most people call it) program or process. A part of that is a customer, supplier, education process where we talk to them on both ends and identify what we are doing and what we are all about. One of the things we have embarked on and I have had a very integral part in it because I initiated it, is looking at our company in relation to our competition in what we are selling. We have done a tremendous amount of yield work ourselves, but more importantly, we have measured and identified a tremendous number of products as to whether or not our competitors and ourselves are cutting them to meat "specifications." We have what we call a "truth in value" program and that has been presented to all our major customers; so we have initiated a challenge really to our competitors and our customers to compare us to what we say we are and our competitors to what they say they are.

The point I want to make out of that is that we talk a lot about fat cover and talk very minimally about the other things on specifications that can also contribute to value. It is my experience after collecting a tremendous amount of data with our company that there are a lot more problems with other things about specifications than fat cover, for example, tail lengths on products. It is a lot quicker to add yield, if you will, in our system by just extending the tail length a little bit on the strip or another product than it is to leave fat on it because many times that fat is not there to begin with. So I think that is part of the equation that gets very little talk but is a very, very important part of the value issue. I think we need to address that as well.

B. Osborn: I agree with Dell that this value-added marketing has been around a long time. Maybe it is a little like biotechnology where we are using new nomenclature and maybe also it's a little bit like international trade where we have non-tariff trade barriers. Here we have non-scientific marketing barriers and I would like to ask what the role of the breed association is in this whole concept of value-based marketing. Somebody told me "thin is in but fat is where it is at" and I think that the breed associations can make a contribution, but how can they?

R. Cross: Basically, the breed associations must be prepared to respond, but they have to get the correct signals first. They have to know what to respond to and I think that has been their problem in a lot of cases. On the flip side of the coin, the breed association can do a lot of what they have been doing and that's leading the charge in some areas, particularly in the lean production, to respond. If you talk to some of our breed reps, you see a lot of frustration because they see they are not getting paid for the value. I think that frustration will go away in a functioning value-based marketing system, but the key thing is that they have to get a clear signal as what they should be producing.

J. Riemann: We have observed the success or failure, or whatever you want to call it, of the Excel product in a lot of our Tennessee stores. One of the major players of the grocery store chains and we have seen a tremendous problem with attitude within the store in that we will pick up a package, take it to the cashier and she will say "My gosh, you want to buy that, that looks awful." At the same time in comparing prices for similar products, Dell alluded to this in his comments, we are seeing the exact same mark-up on the closely-trimmed product as there is in the product that was produced in the backroom of the store and I guess I want to ask Mr. Lusk two questions. First, if the retailers are really wanting this kind of product, then what kind of program do the retailers have for in-store orientation of employees to try to promote this kind of product? Also, what justification is there for applying the same percent markup to a product that comes into the store ready to put onto the retail shelf as you would put on the product that's produced in the back room?

Lusk: I think we do make a strong effort. We make a strong statement to our customers that we are on a ¼" or less trim-period. We do have supervision and we watch our stores for this type of thing and if they do not meet our expectations, there is corrective action taken. Our customers are the big thing. They are our report card. If they don't come back or if we have bad product out there for them, they are going to shop with the competitor. That's our report card, so we have to respond to them. The second question is on the same mark-up on product produced in the back room. I know that mark-ups and percentages are used as tools and I think that somebody alluded to the fact that sometimes we use these tools wrongly. They are still used wrongly in many instances, but we still put dollars in the bank and that's what we look at, so you know I am not going to tell you that we would put the same percentage margin on there. We have to look at the net dollar and that is the way we value it. Maybe it is not done everywhere, but that is the way we try to look at it.

R. Kauffman: This is a question for all of you, but particularly for Mr. Lusk. I have already raised it with him and he is prepared to answer it. I can't be convinced that if you really want a product, that if you don't pay for it, you can't get it nor can you turn the product back if you don't want it. I know that you have many stores. I know that you have to keep them going and therefore that's a very important problem. I would like you to answer this question to Dell Allen, not me. I would like to have you say: "Why don't I get into the vertical integrated business of doing my own slaughtering and then actually raising my own cattle and perhaps doing all of this so that the signal does get back rather than do the other? Are you prepared to let the government legislate all of this for us? Are you prepared to see that this message gets back clear to the cow-calf producer?

Lusk: I don't know if I can satisfy you with the answer that I am going to give you. Basically all I can do is make the

statement that we are willing to pay for value. We can't have one supplier or packer out here do that because of the system we operate in. What it is going to take is Dell and Safeway and the other packers and other retailers to continue this dialogue about where we can improve and if we need better education on what the value is. We have got to continue on that but I'm telling you, I hope it doesn't take five years to do this or we are going to have the beef business down where we can handle it.

Huston: Jim, I know that 15% of lambs are sold certified. What's the lamb feeder and producer getting out of that? Are they getting an incentive?

J. Magagna: I think I mentioned that at this point and time, I can't say they are getting that incentive. I think the potential is there.

Huston: Pieter, Tim told us about the percent of lean and Denmark was 57%, I think we are 47% in this country, do you know what percent of lean pork is in the Netherlands?

P. Walstra: At the moment, I think about 53%, but you have to be careful when you compare percentages because you have to know a lot of other things: for example, carcass weight, how carcasses are cut, how dissection was performed, so be very careful in comparing meat percentages.

Huston: Tim, you mentioned that whatever we do in the coffee shop, we still have to have the probe and we have to have price-per-hundredweight. John Forrest, for you, do you think in the coffee shop you can convert that into talking about ultrasound and probes and so forth?

J. Forrest: Yes, I think that the new technology is a matter of correlation. You can put it to percentage, you can put it to fat depth. I think basically what we are going to see, ultimately, is probably a combination of technologies, not single ones, going in working together to get the very best information that you need in order to develop a value-based system and get the information to develop a price and value.