

Traits to Dollars - What Will the Target Be?

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Background:

PM Beef Group, a privately held company, was founded 10 years ago in partnership with Ukrop's Supermarkets (Richmond, VA) to deliver a more consistent product to the retail case. A packing plant was purchased in Windom, MN and a fabrication plant was added in Hartley, IA. As the company moved into case ready meats, a central cutting facility was established in Richmond, VA. Feedlots were certified in MN, IA, NE, SD & IL. In addition to Ukrop's, Heinen's Fine Foods (Cleveland, OH) also markets PM's Ranch to Retail™ beef under their own brand name. Approximately 35,000 head of finished steers and heifers are marketed each year in the Ranch to Retail™ program. PM also harvests cattle for other programs including: Zalman's Glatt Kosher Beef™, Preferred Stock™, Amana Beef™, & Shenson. Nearly 75% of PM's production is branded.

Current Climate:

From a customer survey conducted by Ukrop's, the following attributes were identified as important to meat purchasing.

<u>Attribute</u>	<u>Extremely Important</u>	<u>Very Important</u>
Food Safety	86%	9%
Quality of Meat	78%	19%
USDA Inspection	79%	13%
Tenderness	69%	27%
Juiciness	63%	30%
Farm Fresh Taste	57%	27%
Price	45%	42%
Ease of Preparation	41%	42%
Local / Regional Brand	29%	41%
Organic	12%	24%

Source: Attracting Consumers to Locally Grown Products report, Oct. 2001

The consumer first and foremost wants safe food. Safe food covers many fronts today including: bacteria, antibiotics, pesticides BSE, etc. Secondly the consumer wants quality which they may define as appearance, taste, tenderness, packaging, leanness, all natural, organic, source verified, etc. The tenderness issue is harder to solve. Grade alone doesn't provide assurance the product will be tender, as noted in the NCBA Tenderness Study. The study also found that 61% of consumers would buy more product if it was guaranteed tender. Another study by Supermarket News, March 18, 2002, stated: 90% of today's meat buyers would buy more fresh beef if they had product that met their quality expectations for tenderness, juiciness and freshness on a consistent basis, they said.

These trends require increased marketing sophistication and increased coordination, ultimately leading to source-verification and process-verification. PM's Ranch to Retail™ beef program has been source-verified and USDA Process-Verified for several years, and is designed to use the best practices to give the consumer the ultimate eating experience every time.

PM's Features Defining Quality

- All Natural — Residue-tested
- USDA Process Verified
- Source-Verified
- Guaranteed Tender
- Great Taste
- Great Product Appearance and Shelf-life
- Outstanding Yields — perfect for case ready system
- Safety Conscience

Source-verification is a means to the end, not the end. Quality is affected long before cattle move to a processing point. There is no silver bullet that allows a system to deliver tender, great tasting, and safe beef to the consumer. Source-verification is a tool to accomplish the task and Process-Verification is the quality system to back it up.

Together, they allowed PM to:

- Eliminate certain breeds
- Standardize cattle types
- Feed Vitamin E
- Standardize feeding plans
- Eliminate injection site blemishes
- Document the entire health history
- Limit animal age
- Provide traceability all the way through the system
- Standardize portion sizing with carcass specs
- Establish guidelines for product aging

USDA Process-Verification is an ISO 9002 quality system model that establishes targets and standardizes practices. There is a verification system that measures compliance to the pre-set standards. It includes complete sharing of data with producers, feeders and customers. Performance is benchmarked and preventative methods are developed. Finally, it is audited by the USDA to provide credibility. A 2002 study by Southeastern Research Institute found that 76% of the respondents (consumers) would pay a higher price for USDA Process-Verification.

Ukrop's and Heinen's both market the beef under their own label — Ukrop's Own Beef and Heinen's Own Beef. Because both retailers are partners in the quality system, they are able to make claims about their ranchers, their feeders, Midwest corn fed and that the meat is hand selected according to their specifications. They have developed relationships with the PM producers and feature them in company promotional material. The following are quotes derived from a focus group of Ukrop's customers:

I think Ukrop's Own Beef is more consistent

With Ukrop's Own Beef, I have found a more consistent quality. I can trust that when I pull that steak out, it's going to be more tender

Very tender

The first time I cooked it I was amazed, I said to my wife, Look! There's no grease in the pan

At Ukrop's even the lean beef is very tender, like prime used to be, and it used to be full of fat. This is lean that Ukrop's carries and it's still tender!

Source: Southeastern Institute of Research, 1998
Ukrop's Supermarket Focus Group Research

Producer Application:

What does all this mean to producers?

- Increased Accountability — Food safety is at the top of the list.
- Increased use of technology — Animal identification, databases, gene markers
- Decreased room for outliers — for a range of specifications from animal age and handling to yield grade attributes.
- Need for more data analysis .sort through the reams of accumulated data.
- Increased understanding of all segments.
- Understanding of your optimal operational practices and determine best marketing fit.
- BQA enhancements

After you determine your marketing fit:

- Increase your consistency around the bulls-eye!
- Decrease Outliers!
- Know the details behind your carcass data, USDA Yield grade and USDA Quality Grade isn't enough.

We picked two individual steers from our data base. Both were USDA Yield Grade 2 and USDA Quality Grade Select. Both carcasses were tracked through to the box and individual cuts were weighed as was the bone and fat. The difference in Box Value was \$85.31. The difference is in the details (the 841# carcass was worth \$85.31 more):

Carcass Weight	838#	841#
Rib Eye Area	12.6	14.8
Back Fat	0.2	0.3
Sub Total % Yield on Subprimals	52%	55%
Fat & Bone Weight	188#	181#

Conclusion:

As processors are able to follow individual animals through the fabrication (boxed beef) plant, new methods of cattle value and payment will evolve. What can you do now to be ready to be paid on Boxed Beef Yield? The following are adapted from PM s targets for the Ranch to Retail“ program and our best answer to What will the target be?

- British / Continental Cross
- 1200 to 1300 pound finished weight
- Heavy muscled, less bone, less external and seam fat
- USDA High Select to USDA Low Choice marbling score
- Less than 0.4 back fat
- No USDA Standards, no rib eyes less than 12 or larger than 16 , no back fat greater than 0.6, no carcasses weighing under 700 lbs. or more than 900 lbs.