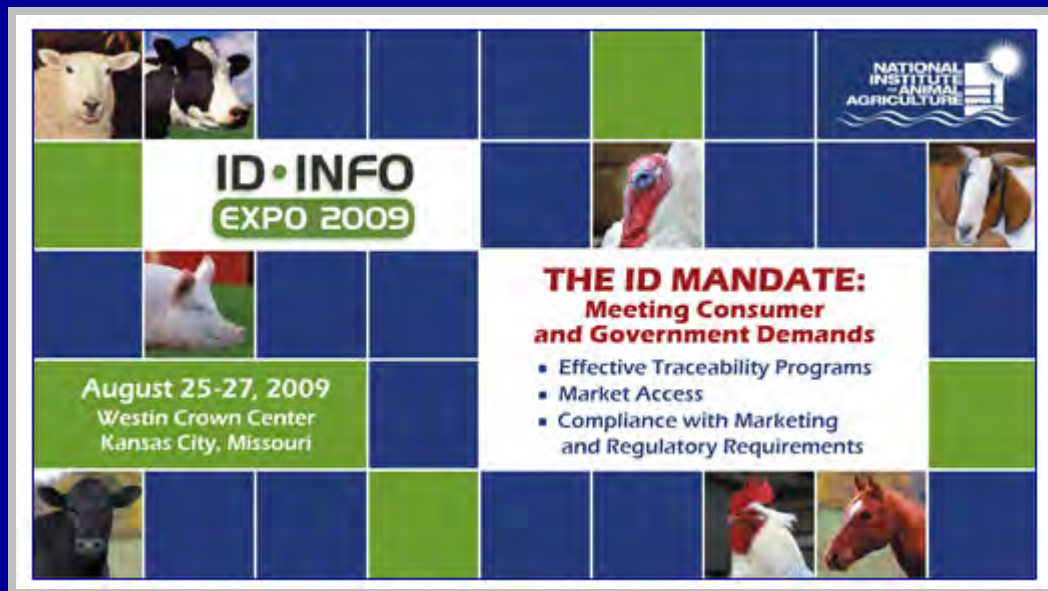


The Next Step: Engaging Farmers and Ranchers In Animal Identification



**August 27, 2009
Kansas City, MO**

*Nevil C. Speer, PhD, MBA
Western Kentucky University*



A LEADING AMERICAN UNIVERSITY WITH INTERNATIONAL REACH

WHERE ARE WE?
WHERE SOME MIGHT HAVE US GO?
WHERE DO WE NEED TO GO?



THAT WAS THEN...

ID•INFO EXPO 2006



2009 NAIS Listening Sessions

**AGRICULTURE SECRETARY VILSACK SEEKS
DIALOGUE WITH PRODUCERS AND STAKEHOLDERS
ON NATIONAL ANIMAL IDENTIFICATION SYSTEM**

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

 printer friendly format  email page

(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.

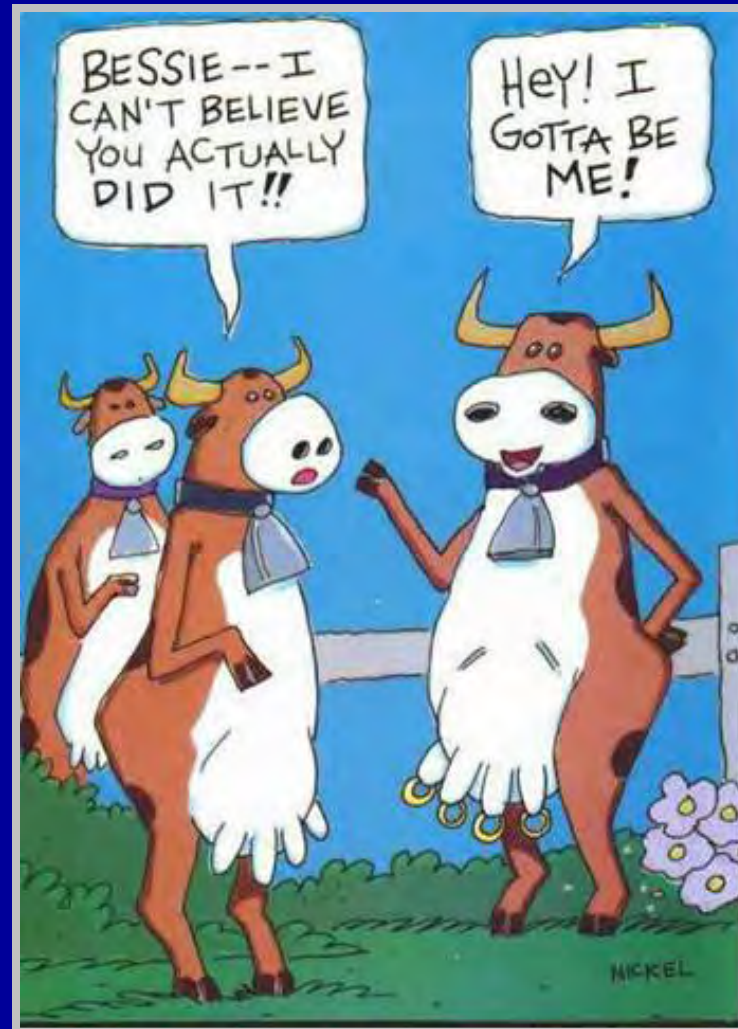
The funding issue now goes to a conference with the House bill, which zeroed out NAIS funding at the request of House agricultural appropriations subcommittee chairwoman, Rep. Rosa DeLauro. DeLauro said during debate on the House bill that Congress had spent \$140 million on the program and “gotten next 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



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

12 Days of NAIS Opposition – Blitz No. 2

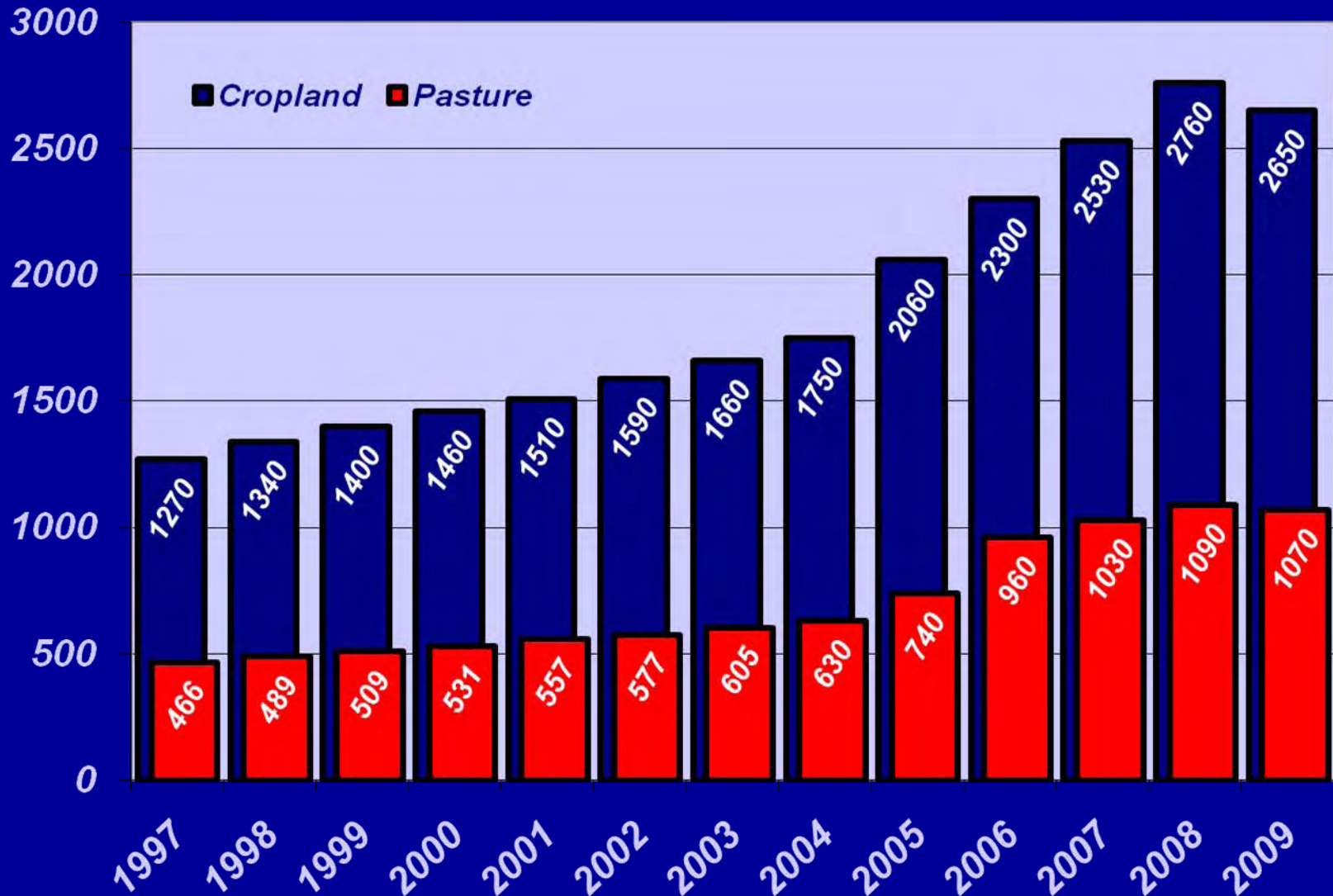
Costs of NAIS Will Worsen the Ongoing, Long-Run Lack of Profitability
for Independent U.S. Cattle Producers

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



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

- 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

- 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.

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

	Progressive Grocer, May 2009		Supermarket News June 2009	
<u>Company</u>	<u>Stores</u>	<u>Sales</u> (\$ bil)	<u>Stores</u>	<u>Sales</u> (\$ bil)
Walmart	2765	146.3	3395	258.5
Kroger	2480	60.7	4397	77.2
Safeway	1507	35.5	1743	44.8
SuperValue	1594	33.0	2491	45.0
Costco			544	72.5
Ahold USA	704	23.6		



Upstream: aggregate consumer info
Downstream: traceable attributes

CONSUMER PERCEPTIONS (IT IS REALITY)



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on

this column.

To all you hunters who
kill animals for food,
shame on you; you ought
to go to the store and buy
the meat that was made
there, where no animals
were harmed.

I am calling in regard to
the Sneakout I am an avid

Economic Impact on Food Purchases

PLMA Consumer Research Report, GfK Custom Research North America, c. 2009

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.”**

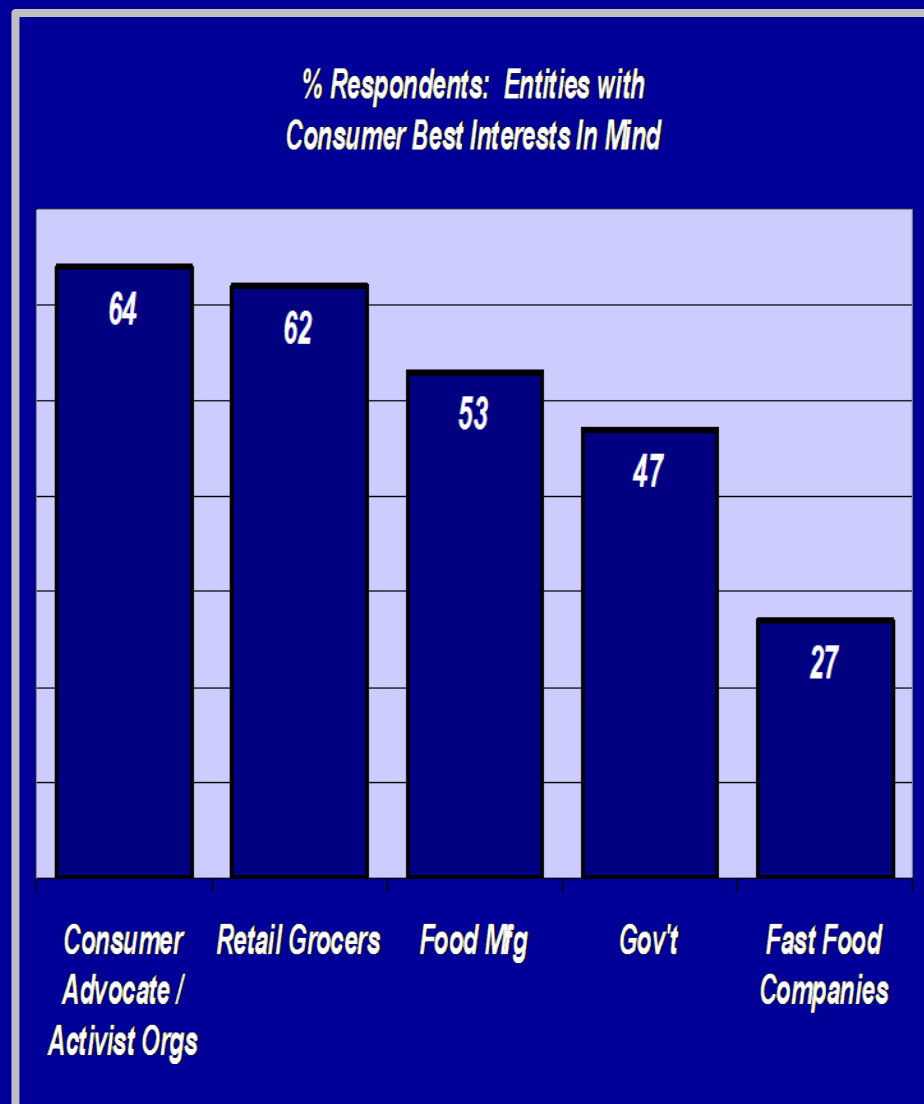
Lempert Supermarket Guru/Nat'l Grocer Association Consumer Panel
(Feb 5, 2009)

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

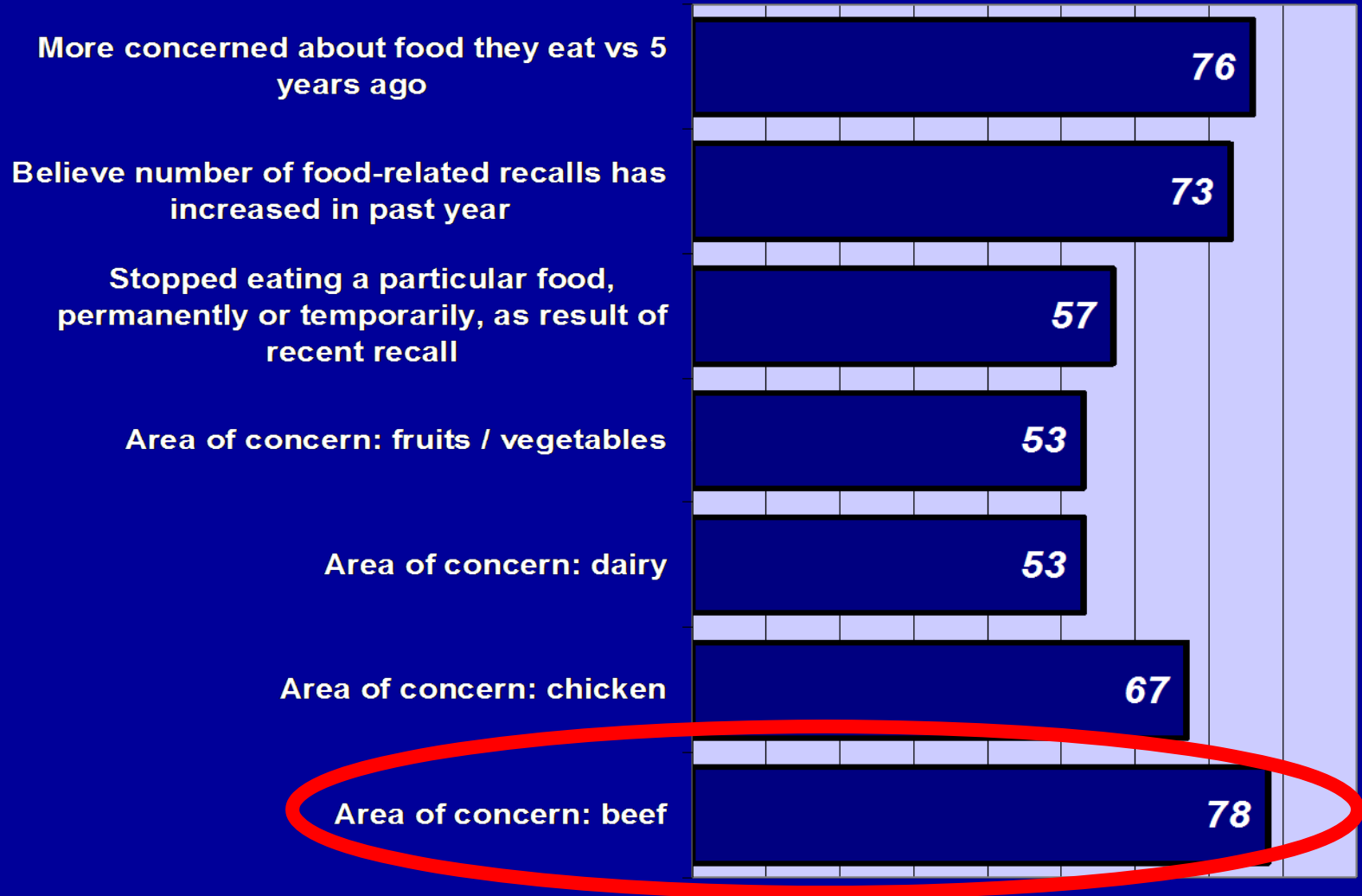
- 93% agree dairies that produce milk/milk products w/o [bST] should be allowed to label their products as such
- 57% willing to pay for milk/milk products w/o bST



Forward Documentation vs. Traceability

What's For Dinner?: % Respondents

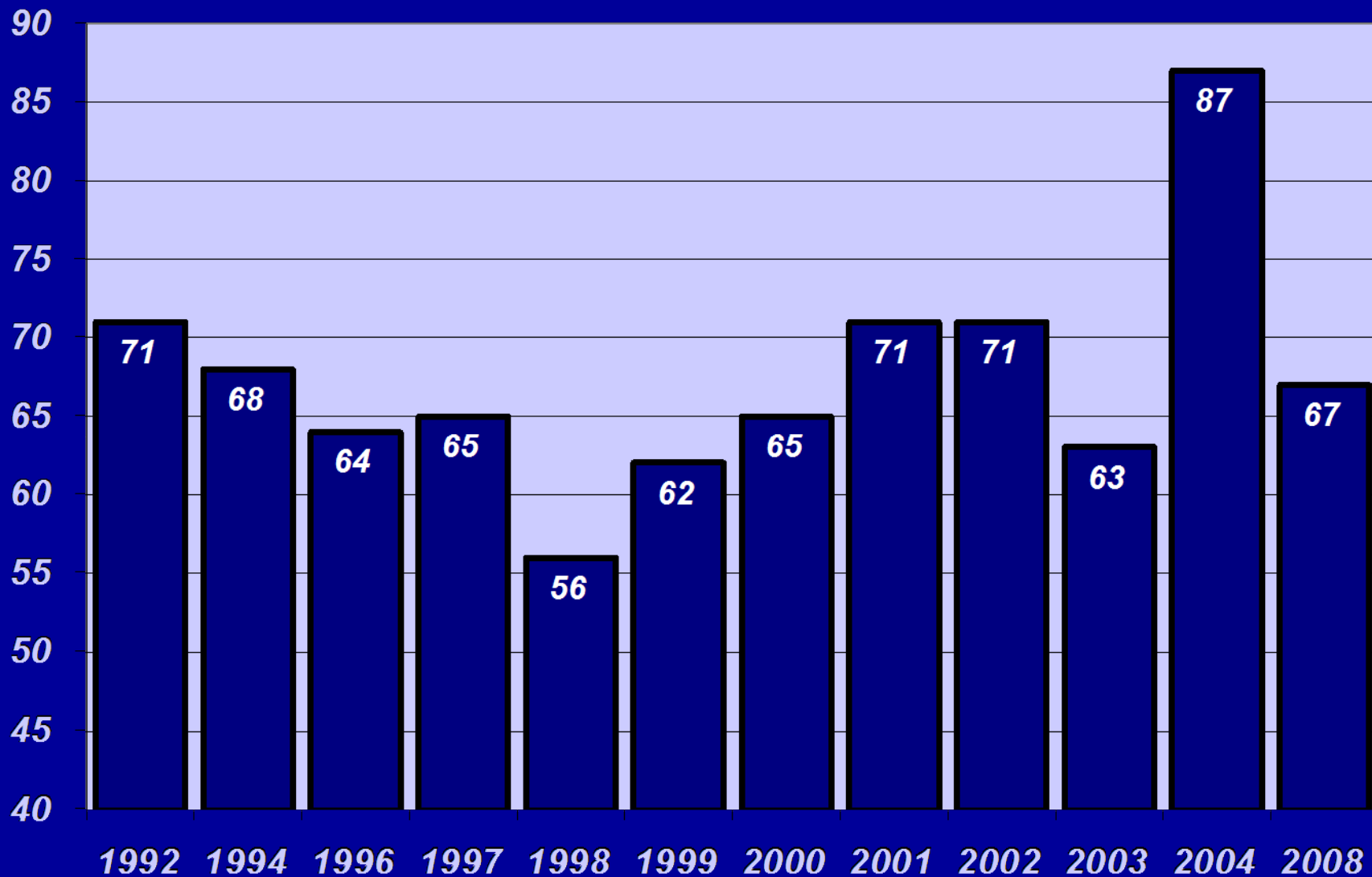
Deloitte Food Survey (May, 2008)



Consumer Opinions of Ranchers/Cattlemen

% Very/Somewhat Favorable

FY 2008 Beef Checkoff Annual Review



2009's Hit

(Google search: August 23, 2009)

Sorted by relevance [Sort by date](#) [Sort by c](#)

[« View all web results for beef recall](#)



eFitnessNow

[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](#)



Bakersfield Now

[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](#)

TIPPING POINT



Peanut Corporation of America

FOLLOW THIS TOPIC



Dead rodents, excrement in peanut butter plant lead to recall

The Texas Department of State Health Services on Thursday ordered the recall of all products ever shipped from the Peanut Corporation of America's plant in Plainview, Texas, after discovering dead rodents, rodent excrement and bird feathers in the plant. [full story](#)



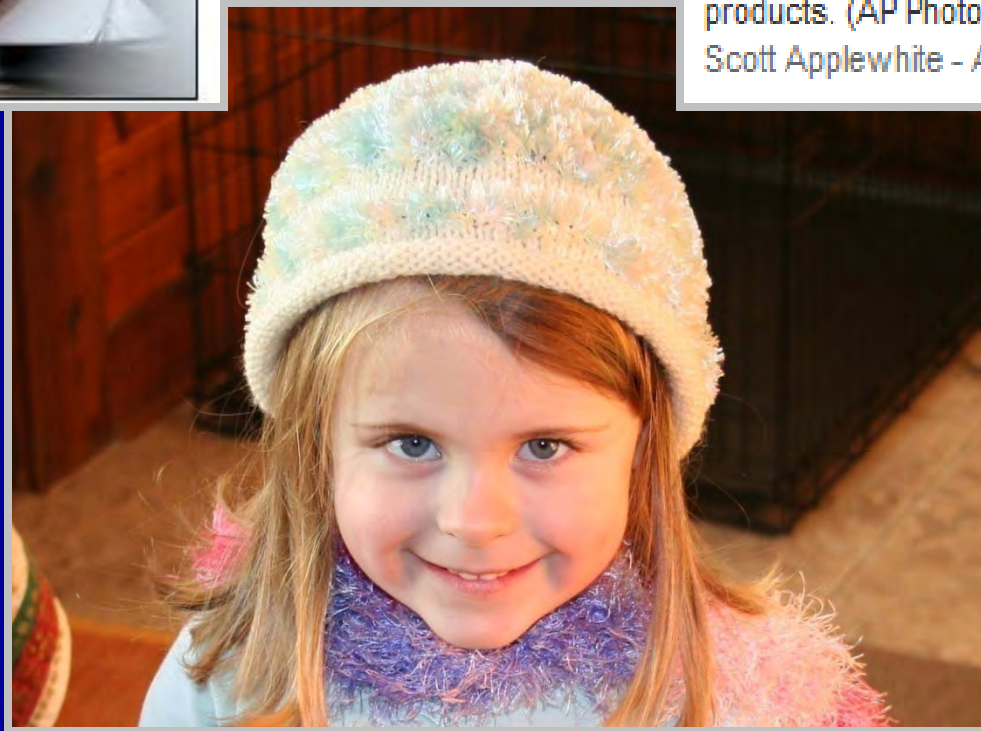
“What’s more sacred than peanut butter?”

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)

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-Marsteller (Feb, 2009)

Each incident causes consumers to trust us a “little bit less”

Larry Pope, CEO, Smithfield
USDA Outlook Forum (2008)



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

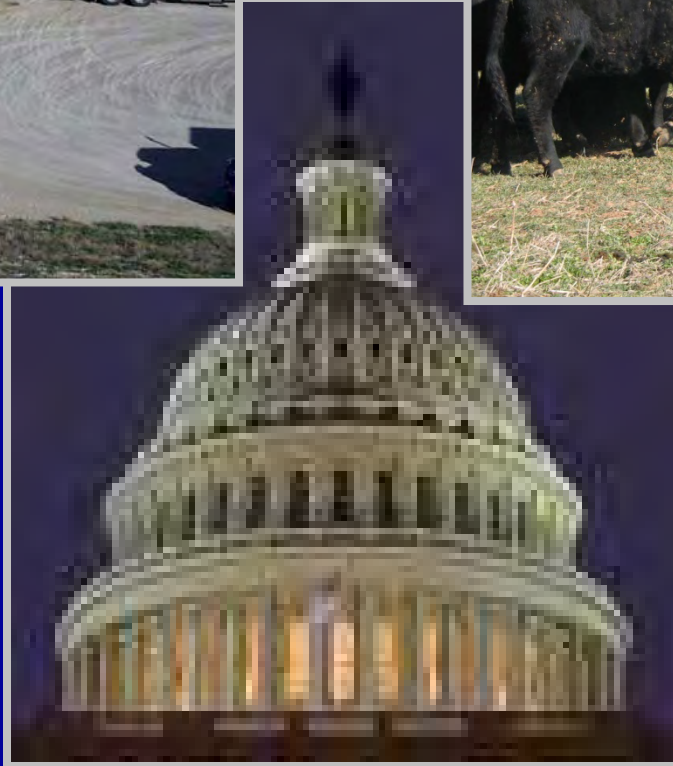
- More nutritious food
- Increasing alternative energy opportunities
- Transition agriculture from dependence on fossil fuels

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

Sale Date	Head	Added Value TN Avg. Price (\$/hd)	Total Added Value TN Avg. Price (\$)
July 24, 2008	1272	\$100.67	\$128,050
October 3, 2008	887	\$74.35	\$65,947
December 5, 2008	1336	\$31.61	\$42,228
	3495	\$67.59	\$236,225

Total Added Value Compared to TN Reported High Price:

\$102,028 Total or \$29.19 per Head

NEED MORE BE SAID?



View Yourself As A Food-Producer Partner!!!

(vs. “top down” approach: “educating” the consumer)

Shelf-Centered Collaboration

Kauffeld, Sauer and Bergson: Strategy + Business, Autumn 2007

- 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 or 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.”

Frederick Reichheld, Harvard Business Review, Dec. 2003

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.”

Roberto, Bohmer and Edmonson, “Facing Ambiguous Threats”, Harvard Business Review, November, 2006



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

John Kotter, Harvard Business School,
Inc. Magazine,
September, 2009

QUESTIONS??



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A LEADING AMERICAN UNIVERSITY WITH INTERNATIONAL REACH