A piece of the Packers
by Steve Cornett

There’s plenty of interest. We don’t really know why more people don’t invest,” says Mason Mungle as he sips a soda after a day weaning calves and doctoring the big crossbred cows on his old family farm at Atoka, Okla.

It’s a Saturday, a day off from his job in Oklahoma City. His help is a son, a nephew and a son-in-law, all down for the cattle work.

Mungle is one of the original movers behind—and chairman of the board of—American Native Beef, which is raising money to build a packing plant at nearby Hugo.

It’s one of a lot of projects around the country where cattle producers are trying to get their finger in the packer’s till. Mungle’s consternation is that his team hasn’t been able to raise the money it takes. It looks like an awfully good deal for the region and for investors.

Just about anything that might help producers get a bit of postharvest profits has been invented and tried in recent years: breed-based brands, production and marketing alliances, marketing co-ops, supply co-ops, marketing partnerships, new packing plants.

Some are working well. Others have failed. But there is one hard fact to consider when building such operations: When you start a business for the expressed purpose of paying more for your raw product, you need to be seriously careful.

So far, American Native Beef is only on the drawing board, but on its face, there seems to be a need for what they want to do. The country surrounding Hugo in the “Little Dixie” region of southeastern Oklahoma is crowded with mama cows, stuffed one to every 3 to 5 acres in herds that average 33 head.

Mungle’s operation is not atypical. His grandfather and father operated a dairy on this section and a half. Mungle works in town—as legislative director for the Oklahoma Farmers Union. He keeps the operation going on weekends and days off.

Few of his neighbors support themselves with their cowherds. Most have jobs in town, and most could use a few extra bucks. Producers within 300 miles of Hugo cull some 650,000 cows and bulls per year.

Packing plants around the area used to harvest thousands of them. But economics, tough competition and a tougher regulatory climate have driven them all from business. Cows moving through the sale barns here are shipped hundreds of miles to processing plants in other states.

In fact, Jim Mitchell, who has signed on to direct the operation, recalls that he bought cows from this part of the world when he was running a cow plant clear down in Florida.
Organizers want to build a $15 million to $20 million plant that will handle 100,000 cows per year. Mitchell says they’ll have a $30-per-head advantage over other plants simply by virtue of reduced shipping costs.

But when they finished their first round of meetings in February, they had only about $2.5 million of the $10 million they need.

They’re in the process of surveying the hundreds of people who attended their meetings to learn why most of them chose not to invest—but Mungle probably has his finger on it: “The general economy and that FBO thing.”

The “FBO thing” is, of course, the failure of Future Beef Operations, the 21st-century integrated-system plant that drew so much attention and crashed so spectacularly last year.

Obstacle course. FBO was an attempt to put what everybody agrees was a great concept into practice in a big way. It failed when management mistakes, bad timing, bad luck and inadequate staying power proved too many hurdles.

The thing, say people who study it all, is to be careful, because meatpacking, processing and purveying is one tough business.

“A lot of this pressure is coming from producers who overestimate the profits in the packing industry,” says Wayne Purcell, professor of marketing, price analysis and public policy at Virginia Tech. He—and just about anybody else with enough brains to keep their ears separated—warns that anyone who tackles big packers head-on—with commodity fed beef—is probably going to be disappointed.

Wythe Willey, who spearheaded the drive that raised some $10 million to rebuild a packing plant in Tama, Iowa, says it like this, “From the start, we knew we didn’t want cowboys and farmers trying to run a packing plant.”

The idea behind the Iowa Quality Beef Supply Cooperative harvest facility was to provide a market for fed cattle. So the goal is to pay more for fed cattle. That, again, can be a sandy sort of foundation for a business.

But imagine yourself an Iowa cattle feeder. The state—which years ago had a packing plant for fed cattle in about every county—today exports all of the 2 million cattle it feeds.

On to something. There is plenty of support for the project, which was pushed to fruition by Willey (former president of both the state and national cattlemen’s organizations) and the Iowa Cattlemen’s Association. They’ve contracted with American Foods Group to run the plant.

Purcell, who worries about producers jumping into projects with unrealistic expectations of profits, says the Iowa group may be onto something. “As producers,” he says, “even if the packing plant runs at break-even, it may be OK” because it may improve demand for their fed cattle enough to justify the investment.
Perhaps the most successful of the self-help efforts is U.S. Premium Beef. That co-op started in 1997 and has put into practice much of what FBO tried to do. In 2002, it paid its producer-owners $18.5 million—an average of $22 per head—in premiums from its value-based grid, and another $14.20 per head—$11.7 million—in patronage dividends.

USP’s success, says Purcell, is one reason so many producers are trying post-farm projects.

In Nebraska—a state with excess packing capacity already—the push behind Nebraska Corn-Fed beef is to build a value-added brand. To be eligible for the program, cattle have to be fed 100 days in the state. All the cattle sell on the grid, but only Choice cattle get the brand, and then only after aging.

So their goal is to add value to Nebraska cattle. Their success so far has been mostly among proud huskers, but they expect to build a competitive national brand using their abundant feedstuffs and the supply of high-quality cattle in Nebraska and nearby states.

Texas Cattle Feeders Association—which draws cattle from a whole different region and has less to gain from selling premium-quality beef—approached it all differently. That association helped create a marketing co-op, Consolidated Beef Producers (CBP), that sells consigned cattle to packers for participating member-feeders.

Their idea: use the marketing leverage afforded by cooperation among feeders to enhance value to packers by having big numbers available. And, of course, to offset packers’ buying power with selling power.

Originally formed in 2000 as a closed co-op, CBP recently opened to new members in other parts of the country. CBP’s founders considered a packing plant and decided it was probably not a good idea to get that many millions tied up in a plant that would have to compete with the big packers.

Another alliance that works well is Ranchers Renaissance. That group was put together by mostly large ranches and commercial feedyards who coordinate their production and partner with Excel to produce a high-quality, consistent brand of beef—Cattleman’s Collection.

Have a reason. So in each of the successful operations, you find some specific good idea—not just the desire to get more money for cattle. None of them has succeeded by windrowing all the “packer profits” so many producers assume are there for the taking.

“Too many producers are driven by what they think are big profits in the packing business,” says Purcell. “They think the packers are ripping them off.

“Most producers tend to overestimate packer profits and underestimate the efficiencies of scale and the importance of marketing.
“Why do you think IBP sold?” he asks. “Why do you think it took ConAgra so long to find a buyer?”

Purcell says just wanting a piece of the packer’s profits is a sure road to failure. Even operating at break-even isn’t easy in the packing business, he warns. The packers have learned in recent years to produce beef for free. They’ve developed their hide and offal programs, found new uses and new niches for various products and “they always lose money on the meat. . . the meat is just a little part of it.”

**Steve Kay**, publisher of Cattle Buyers Weekly, probably spends as much time snooping around the packing side of the cattle business as anybody.

What it takes. Kay thinks the earmarks of a successful operation are pretty clear cut. There must be a very strong, well-respected person at the center. There must be an “almost guaranteed” market for the beef. There must be a bulletproof procurement arrangement. And there must be enough capitalization to weather some early storms.

The successful ones “don’t do too much too soon” and “they don’t usually have a big investment in a packing plant.”

So, back to American Native Beef. They’re breaking some of those rules. There will be a packing plant, and it looks as if capitalization may be a challenge.

Their very mission statement—“to enhance rural economic development and maximize profit to agricultural producers through increasing the value of agricultural commodities by processing value-added foods”—seems to center on the problem rather than the opportunity.

But there is much, also, to be said for the opportunity before the region.

These folks won’t be going up against the big packers’ market power, but against a lot of smaller processors. They do have a lot of cows in their backyard, and they have run onto interest from marketers who would like to contract for further-processed beef.

And, as Mitchell says, “Oklahoma is really putting a lot of emphasis on helping value-added producers.” Both the state and the federal government are handy with money and advice for co-ops and rural businesses of all sorts these days.

The minimum investment in American Native Beef is $5,000. That buys the right to deliver 20 head of cattle a year. Mitchell and Mungle point out that if you don’t have the cows, or your cows are not in the right location, the co-op will be happy to fill your quota buying within their region.

Mitchell says the plant will help the region by providing the new market for cull cows. “But the return for the owners will be the profits” from the packing plant.

Which pretty well sums up the point: Sure, every cattle producer in the U.S. can benefit from new markets. But owning and participating in these things is a separate business proposition altogether.
And isn’t automatic.