

# The Quick Or The Dead



## For feedyards to succeed, new thinking and new approaches will be needed.

BY BURT RUTHERFORD, SENIOR EDITOR

**T**wenty three years ago, when the Beef Marketing Group (BMG) jumped into the fed cattle market with what was then a very radical concept, Lee Borck took a lot of heat for his idea of a cooperative, vertically aligned marketing arrangement for feedyards.

He still is. And the Kansas cattle feeder and chairman of the BMG board, still isn't paying any attention.

That's because he's much too busy paying attention to what he thinks really matters to the beef industry – focusing on consumers and their needs and desires so he can succeed in a changing marketplace.

BMG approaches fed cattle marketing from a cooperative rather than a combative mindset.

"When you talk about marketing, certainly volume is an issue," says John Butler, BMG chief executive officer. But marketing is also about focusing on the end user and being nimble enough, and willing enough, to meet their demands.

### Focus on customers

To that end, BMG focuses much of its attention on the value-added end of the beef marketing continuum. Their customer, they say, is the end user – packers, food service and retail.

That's the philosophy behind BMG's latest effort, called Progressive Beef. "Progressive Beef is essentially a verified system ranging from animal care and handling,

to a HACCP-based system in the feedmill, to environmental compliance," Butler says.

It's a system that has been 11 years in the making. The result is a "Good Housekeeping" type seal of approval – a verified promise to consumers that all the cattle in the production system were handled and managed in a way they have come to expect.

"We feel strongly that food safety is something we're obligated to do," says Borck. "Packers have recalls and end users have recalls. We have an obligation to help those folks, who take our product and put it into a saleable form, to be able to produce a safe product. If we can reduce that pathogen level before it gets to them, then their interventions are just that much more successful. In fact, we are now working to fold a new SRP *E. coli* vaccine into our process to add even more value

to our cattle for the packers and the end users."

That's not to say that BMG feedyards don't buy, feed and sell cattle on the cash market.

"In my opinion, there will always be a place for commodity (cattle) in our business," Butler says. "But to become part of our value-added program, cattle must meet or exceed the economic expectations of our commercial feeding program. It's the foundation. We not only run as fast as the competition in this arena, we try to outrun them."

Winning in the commodity marketplace, Butler says, means taking advantage of what the markets give you. "But that stops at the packing plant. We're trying to go beyond that so we've got something unique and differentiated to offer our customers and ultimately the consumer. If we're just producing commodity cattle and that's it, my product is a widget and is no different than the next guy's down the street. It just isn't sustainable."

### Branding

BMG doesn't own a beef brand. Rather, it seeks opportunities to help end users enhance the value of their brands, which in turn enhances the value of the cattle BMG buys.

"As we see it, and understanding consumer behavior as we do, we have always felt we would be strong in the value-added business," Butler says. That comes with its own set of pressures, he admits. "But our position is to really understand the consumer, which means really knowing their concerns about where their food ultimately comes from, how the product is handled and managed, and the overall safety of the product."

Branding is here to stay, with more than 80% of all retail beef sold today offered under some sort of



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store brand. "Stores in the past five years have aggressively moved to private labels," Butler says. "With that comes a promise. You can't just put a label on a package and not have something behind it."

Butler says BMG's role in that promise is to help packers and retailers enhance their brands, and he believes their Progressive Beef system will do just that.

But will consumers buy into that promise, especially with the looming cattle shortage driving retail beef prices ever higher?

"We spend a lot of time with end users, retail and food service," Butler

says. "To this point, they haven't backed away. However, consumers are buying fewer pounds. According to a recent consumer study, they're paying the higher prices. They're not shifting their purchasing; they're just buying a little less."

Balancing that, however, is the export market. "We have a new set of variables now. As long as we have a growing export market, we'll see little if any change in price to the consumer, even with lower per-capita consumption in the U.S."

Escalating beef costs are making retailers rethink how they sell beef. Butler thinks the time-honored ▶▶▶

## BMG is a central Kansas fixture

Headquartered in Manhattan, KS, the Beef Marketing Group (BMG) is a marketing cooperative comprised of 14 feedyards, most in central Kansas and Nebraska. Lee Borck, one of the original founders, is BMG's chairman as well as chairman of the board of Innovative Livestock Services, a venture capital company that owns six of the feedyards that comprise BMG.

BMG was formed, Borck says, because the participating feedyards didn't have the volume individually to compete in a consolidating marketplace dominated by larger

feedyards. Together, the 14 BMG feedyards have a one-time capacity of more than 250,000 head.

"So we got together in 1988 and said let's have an impact," he says. "And it created the desired effect we wanted. That's having packers, vendors and end users (retailer or food service) who would come to us and say that we have a critical mass, that they would do business with us vs. the members trying to work individually. And it's worked. We've been successful for 23 years and counting; it's been very effective for us." ■



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tradition of featuring beef to draw consumers into a store will continue, but it will be more difficult for retailers to feature beef as regularly as they are used to.

“What the end users are now trying to figure out is how they can enhance their brands. This may result in reduced featuring in the future,” Butler says.

#### Feedyard survival

In that changing environment, how can feedyards survive? That’s a question that both Borck and Butler spend a lot of time pondering.

The answer may be more than just survival of the fittest. It may be a variation on the idea of “The Quick and the Dead.” Except in this case, it’s either/or. Either you’re quick, or you’re dead.

Borck says with both corn and cattle trading at stratospheric levels, market volatility becomes a lot more painful. “You can go broke a whole lot quicker. Because of the volatility we’re experiencing, when you can have a \$20 to \$30/cwt. move in a year’s time in the value of a fed animal, if you’re wrong, you’re out of business.”

That makes risk management critical. And while alliance marketing is one part of BMG’s risk management philosophy, it’s not the only part.

With higher, more volatile costs come higher, more volatile costs of gain. “An animal costs about 50% more to produce today than it did just two years ago,” Butler says. “So this means needing a bigger line of credit. We have to then put more security in that investment, which means an ad-

ditional focus on risk management.”

Higher, more volatile costs affect the industry in other ways as well.

“CattleFax numbers will tell you that to feed 10,000 cattle in 2011 takes 80% more capital than it did on average over the last five years,” Borck says. “There are a lot of operations in this country that won’t have the ability to come up with 80% more capital. So we’re going to see continued consolidation.”

That will continue to drive change in the fed cattle sector.

“It used to be that a 2,000- to 5,000-head feedyard was small.” Borck says. “Now, a 5,000- to 10,000-head feedyard is small. If you’re a stand-alone operator who has a 10,000-head feedyard and you don’t have an alliance with a marketing group or with a partner, you’re going to have one heck of a time selling cattle on a competitive basis with the rest of the industry.”

Despite those challenges, Borck is bullish on cattle feeding. “We’ve always had good demand for beef because people like beef. They eat chicken because it’s cheaper, not because it tastes good. I think demand is going to continue to be huge. But it’s going to take a lot of dollars to sustain it.”

And a lot more work and effort. “We’re making meat for the center of the plate and we’ve got to be able to connect those dots,” Butler says. “It has to be verified, it has to be validated with dollars so that rancher, that feeder, that backgrounder, in fact, anyone in the supply chain contributing to the creation of the added value, is economically rewarded.” ■

**Draxxin**  
(tulathromycin)  
Injectable Solution

Antibiotic  
100 mg of tulathromycin/mL

For subcutaneous injection in beef and non-lactating dairy cattle and intramuscular injection in swine only. Not for use in female dairy cattle 20 months of age or older or in calves to be processed for veal.

#### CAUTION

Federal (USA) law restricts this drug to use by or on the order of a licensed veterinarian.

#### INDICATIONS

##### Beef and Non-lactating Dairy Cattle

BRD – DRAXXIN Injectable Solution is indicated for the treatment of bovine respiratory disease (BRD) associated with *Mannheimia haemolytica*, *Pasteurella multocida*, *Histophilus somni*, and *Mycoplasma bovis*, and for the control of respiratory disease in cattle at high risk of developing BRD associated with *Mannheimia haemolytica*, *Pasteurella multocida*, *Histophilus somni*, and *Mycoplasma bovis*.

IBK – DRAXXIN Injectable Solution is indicated for the treatment of infectious bovine keratoconjunctivitis (IBK) associated with *Moraxella bovis*.

Foot Rot – DRAXXIN Injectable Solution is indicated for the treatment of bovine foot rot (interdigital necrobacillosis) associated with *Fusobacterium necrophorum* and *Porphyromonas levii*.

##### Swine

SRD – DRAXXIN Injectable Solution is indicated for the treatment of swine respiratory disease (SRD) associated with *Actinobacillus pleuropneumoniae*, *Pasteurella multocida*, *Bordetella bronchiseptica*, *Haemophilus parasuis*, and *Mycoplasma hyopneumoniae*; and for the control of SRD associated with *Actinobacillus pleuropneumoniae*, *Pasteurella multocida*, and *Mycoplasma hyopneumoniae* in groups of pigs where SRD has been diagnosed.

#### DOSAGE AND ADMINISTRATION

##### Cattle

Inject subcutaneously as a single dose in the neck at a dosage of 2.5 mg/kg (1.1 mL/100 lb) body weight (BW). Do not inject more than 10 mL per injection site.

##### Swine

Inject intramuscularly as a single dose in the neck at a dosage of 2.5 mg/kg (0.25 mL/22 lb) BW. Do not inject more than 2.5 mL per injection site.

#### CONTRAINDICATIONS

The use of DRAXXIN Injectable Solution is contraindicated in animals previously found to be hypersensitive to the drug.

#### WARNINGS

##### FOR USE IN ANIMALS ONLY.

##### NOT FOR HUMAN USE.

##### KEEP OUT OF REACH OF CHILDREN.

##### NOT FOR USE IN CHICKENS OR TURKEYS.

#### RESIDUE WARNINGS

##### Cattle

Cattle intended for human consumption must not be slaughtered within 18 days from the last treatment. Do not use in female dairy cattle 20 months of age or older. A withdrawal period has not been established for this product in pre-ruminating calves. Do not use in calves to be processed for veal.

##### Swine

Swine intended for human consumption must not be slaughtered within 5 days from the last treatment.

#### PRECAUTIONS

##### Cattle

The effects of DRAXXIN on bovine reproductive performance, pregnancy, and lactation have not been determined. Subcutaneous injection can cause a transient local tissue reaction that may result in trim loss of edible tissue at slaughter.

##### Swine

The effects of DRAXXIN on porcine reproductive performance, pregnancy, and lactation have not been determined. Intramuscular injection can cause a transient local tissue reaction that may result in trim loss of edible tissue at slaughter.

#### ADVERSE REACTIONS

##### Cattle

In one field study, two calves treated with DRAXXIN at 2.5 mg/kg BW exhibited transient hypersalivation. One of those calves also exhibited transient dyspnea, which may have been related to pneumonia.

##### Swine

In one field study, one out of 40 pigs treated with DRAXXIN at 2.5 mg/kg BW exhibited mild salivation that resolved in less than four hours.

#### STORAGE CONDITIONS

Store at or below 25°C (77°F).

#### HOW SUPPLIED

DRAXXIN Injectable Solution is available in the following package sizes: 50 mL vial, 100 mL vial, 250 mL vial, 500 mL vial.

U.S. Patents: See US 6,329,345; US 6,420,536; US 6,514,945; US 6,583,274; US 6,777,393

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To report a suspected adverse reaction call 1-800-366-5288.

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SEE THE LABEL FOR DIRECTIONS

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