

Oregon Country Beef

Better humans, better ranches, sustainability, better families

Background (initial strategy, evolution of strategy and enterprise structure, dynamics and resources involved in getting started; amount of start-up capital required?)

OCB is a member cooperative of 40 cow/calf beef ranchers in Oregon, with 16 prospective [trial] members from Oregon, Washington, Idaho, Nevada and California. An additional 15 ranch families are considering joining the cooperative. The organizational goal was drafted by the original 14 ranchers in 1986 – stating in part that “Our goal is to provide a sustainable means through a group to profitably market quality beef products desired by the consumer while retaining every possible bit of independence.” After one year of selling beef through retail outlets, OCB was officially incorporated by 14 ranch families in 1987 in the State of Oregon. The mission statement (1991) reaffirms the cooperative’s value placed on making the rancher the key decision-maker, and the sustainability of the land and health of the animals a key factor. OCB maxed out the 10,000 mother cows of the original 14 members after 13 years. The ranches vary in size from the smallest with 60 mother cows to the largest with 4,000 mother cows. Most of the ranches have between 600 and 1400 mother cows. Ranching is the primary income generating activity for all the members.

Organizational form / scale / leadership (nature & legal form of the enterprise, number of members, capitalization and other major financial indicators, amount of product, leadership & decision-making structures, changes over time and reasons for changes)

OCB is a member cooperative in which *each* member family (husband *and* wife) sits on the Board of Directors. Rancher members perform all of the day to day business functions. They have distinct offices for different aspects of the business: *Marketing* - led by founders Doc and Connie Hatfield; *Financial / headquarters* - Mary Foreman is the Chief Financial Officer; *Feedlot* – administrated by John Wilson, owner of Beef Northwest; *Production* – led by Dan and Susie Proeberton. Recently, Norm and Jennifer Birch joined the marketing team to take over day to day marketing needs in the wake of rapid growth in demand for OCB product, specifically dealing with inventory management, forecasting demand 18 months in advance and coordinating with production to ensure an adequate supply. Participating in the day to day management of the cooperative makes them all more responsible as producers. They believe there has always been someone in the coop with the talent to do everything they have needed. Another responsibility of membership is that each ranch family spends one weekend a year in one of their partner stores in Seattle, Portland or San Francisco. OCB considers contact between ranchers and consumers as a key element in how they conduct their business. This relational marketing approach even impacts the wholesale impacts of the business, as the marketing team makes weekly contact with each of their retailers. While this approach to management is difficult, it is critical to the success of the business.

OCB believes that having every ranch family on the Board is essentially since they all share in the risk of the business. They hold two 3-day board meetings each year attended by all member families. All OCB Board decisions are made by consensus, which slows the process but dramatically improves the buy in by each member for decisions that are made. One member is fond of saying “we just keep muddling along.” Each member feels as though his or her opinion is valued. In fact, there was a case in which one member decided to block a decision that everyone else had agreed to. She was allowed to voice her concern, which resulted in everyone changing to her decision. In addition to the meetings, OCB holds a weekly conference call of the board. Oregon Country Beef is “a people thing; it’s a great big people thing.”

Three keys to the success of OCB are the involvement of the ranch women, the age differential of members, and the emphasis on people as the center of the business.

Nature of products and the “value chain”

The “purchased” product is high quality, natural beef. The 40 full members OCB ranchers have approximately 65,000 cow/calf pairs (all marketed cattle raised from birth) and 2.5 million acres of rangeland. OCB producers are certified by the Food Alliance and are required to manage by Grazewell principles. OCB partners with Beef Northwest in Boardman, Oregon (custom feedlot owned by OCB member rancher John Wilson) for finishing – generally averaging 89 days on the

feedlot after 12-18 months of grazing. The finishing is done with a 30% grain ration as opposed to the standard 80% ration – “as it is ecologically indefensible to feed excessive amounts of grain to fatten up an animal past the point of health both for the animal and the consumer.” They are currently moving 400 animals through the feedlot each week, and have plans to increase to 500 in May of 2004 and 600 by the end of 2004. They target high-select or low-choice grades to get the best mix between taste and tenderness. They have had outside verification of the quality and nutritive content of their beef conducted by Texas A & M University. They strive to produce their beef using feed that is GMO free, antibiotics hormones and/or other growth implants. Products are sold through partnerships with natural foods grocers (such as Seattle-based PCC and Whole Foods) and restaurants. OCB conducted \$18 million in retail business in 2003 without a single legal contract – reaffirming that OCB is a relationship based business with mutual benefit for all partners.

The “non-market” product is the ranch families themselves. OCB is a people based business that markets its products based on trust and relationship. Their emphasis on having each of the member ranch families visit stores once a year is key to their organizational values and marketing strategy.

Economics of the Enterprise

“De-commodify or die!” The economic goal of Oregon Country Beef is to keep ranchers stewarding the land. OCB prefers not to look at economics as how much more money they make than conventional beef producers. They learned early on that the economics of beef is about “cost of production, return on investment, and a reasonable profit.” They have done exhaustive accounting of their costs of production and costs of marketing – and set their prices based on this accounting regardless of “market” prices. If the price they put on their meat is too high for consumers, they believe they would have to get out of the business – because if they can’t meet their costs and a reasonable profit, they would have to stop producing. They have estimated, however, that they have averaged nearly \$120 per animal profit over the market price for the last 10 years. When market prices rose above OCB profits in 2003, they did not change their pricing because they felt it had no bearing on whether they kept ranchers on the land.

In addition to the pricing strategy and marketing efforts, OCB has worked diligently to streamline their production, feeding and slaughter operations. They partner with the feedlot and slaughterhouse and have developed relationships with these businesses that are mutually beneficial to the ranchers and the processors. Washington Beef, the meat packer, has benefited from its business relationship with OCB and considers OCB a valued partner. OCB believes that Washington Beef deserves every penny they earn on the OCB relationship, because of the “costs of production, return on investment, and a reasonable profit” objective.

OCB planned for a whopping 31% growth in demand for its product in 2003. Actual growth in demand was closer to 45%. The difficulty of planning for growth is exacerbated by the fact that it can take over 2 years from the time growth rates are projected to the time a product is ready (conception to birth, rearing the animal, finishing the animal, slaughter – packing and marketing). They have had to turn away potential customers because they are unable to meet this demand, and have even invited in Coleman Natural Beef (a Colorado-based competitor) to help them meet their commitments. In addition, OCB recently became the keystone product of Burgerville USA, a upscale hamburger restaurant chain near Portland, Oregon that values Food Alliance certified products.

In order to meet growing demand, OCB is bringing new ranch families into the cooperative. The capital buy-in for the cooperative is cattle. They attempt to have each new ranch provide one “truckload” of calves in the first year (roughly 60, 800 pound feeder calves) and slowly bring them up to their full capacity. This also enables the new ranch families to get the carcasses in condition suitable for the OCB quality program. Each rancher finances their animal from birth to the retail cooler and commits to retail needs 12 – 18 months in advance of delivery. They do not purchase in feeder steers to meet their commitments. The individual ranchers are responsible for consumer product satisfaction. Administrative costs for the cooperative are kept to a bare minimum, and are assessed per animal sold (i.e. Marketing gets \$25 / head). Whole Foods has been slightly more than half of the business and the new partnership with Burgerville USA has made it possible for OCB to market all cuts of meat.

Key opportunities & challenges engaged

When the USDA released reports of a single case of BSE in a cow slaughtered in Washington State on December 23rd, Oregon Country Beef was one of the first direct market beef companies to respond to consumers with a press release late on December 23rd. The release reassured customers that OCB's quality control standards provided sufficient insurance that the case of BSE was not connected to OCB. Rationale included assurances that OCB cattle are not fed any contaminated feeds and that all OCB cattle are raised from birth to slaughter by the member ranchers.

A second challenge is the need to provide consistent product year round. Finishing the calves at one feedlot with a defined feeding program has helped develop product consistency. However, having calves available year round has forced OCB to background feed on triticale and / or hold some of their calves to deliver them to the feedlot at 800 pounds. The hardest time to meet these needs is winter, when many of the ranches have snow. Also, most of the ranches are based in the high desert and deal with seasonal and annual variability of precipitation.

OCB has not made an effort to gain organic certification because much of the land they manage is BLM or USFS land. The BLM and USFS spray for noxious weeds near roads – and even though the vast majority of the land is free of chemicals, if the animals cross the roads they would lose their certification.

Replicability in other settings

Dramatic growth in demand for sustainable, natural beef creates a tremendous opportunity for growth of Oregon Country Beef. The current 56 member ranches are now maxed out in their cattle and OCB is adding another 15 ranches, including some in Washington, Idaho and Montana. One issue that faces OCB is balancing expansion with their dedication to consensus decision-making and having all members represented on the Board of Directors. 18 years of functioning this way and slowly expanding the membership has made it a very successful strategy, but it is a strategy that requires incredible patience and persistence.

The production, processing and marketing strategies are replicable in other settings. A key to the success of the cooperative has been the minimized administrative costs – and ultimately the low capital approach to establishing the cooperative. The costs and benefits of the strategy are born by and accrue to the individual ranchers.

Connie Hatfield has suggested that there is no reason that every farmer and rancher cannot “de-commodify”, that successfully changing market strategy is as much a mindset as a business model. For instance, she prodded a fellow OCB member to find an alternative way to market his wheat until he became convinced that it was possible. He has now made connections with other grain farmers, such as Karl Kupers, to cooperatively market Food Alliance certified wheat to specialty markets. OCB is also currently helping to broker a relationship between Whole Foods and sustainable pork producers. Connie suggested that OCB is not concerned about competition, because if they were to start losing market share or profitability then “we must be doing something wrong.”

Research, education/demonstration, or policy changes

OCB has been very pro-active in forging new business and marketing strategies. They have capitalized on past research, education and policy work, such as the establishment of Food Alliance by WSDA, WSU and OSU. They have also capitalized on the growing awareness consumers have over the production, safety and quality of their foods. Further research, education and policy changes promoting sustainable agriculture and food systems would be beneficial to OCB and similar strategies. Another example of how they have overcome policy barriers for their market strategy was to form a cooperative that would give them sufficient scale to operate in wholesale markets and meat processing. OCB's feeding, slaughter and processing standards are quite stringent and the cooperative strategy enables them to deal with state and federal meat inspection standards that many smaller beef producers attempting alternative markets struggle to overcome.