Quality versus Price

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The beef industry is divided by the controversy over producing a product that should be more price competitive, versus one that is higher in quality. Opinions are strident on both sides of the argument. Each side is sure that its analysis is correct and is mystified as to why the other side cannot see its point of view. These arguments generate firefights over USDA quality grading, industry structure, marketing techniques, genetic selection, futures markets and almost every other internal dispute in the beef industry.

The conflict can mark a starting point in the mid 1980s with the Shue-Johnson report. Four eminent economists looked at the beef industry from a viewpoint of pure economic theory and concluded that high beef prices accounted for 99% of beef's lack of competitiveness. Their sole recommendation to the industry was to lower cost of production. This recommendation was used to justify a maximization philosophy that called for production of pounds at every stage in the industry, regardless of quality. The industry was thus given a hunting license to find genetics for growth rate at every stage in the production chain.

During the last ten years, the market share for beef has gone down 10%, which matches the decline of the previous ten years. During the last ten years, the price of beef relative to poultry has been more favorable, yet we have lost market share. This was not supposed to happen. In a purely economic world, we should be gaining on poultry if we are improving our cost relationship. Something else must be at work in the marketplace that affects our success.

"Quality" is the issue that has expressed itself in our market. We produce a higher-quality product than any of our competition. Our consumers have a higher level of expectation for our product than our competition's. If we fail to deliver up to a customer's expectation, we have a dissatisfied customer who will turn to our competition. If you analyze any consumer product today, the issue of quality is usually the first consideration. Advertising sensitizes people to quality. Everything is advertised to be of "The Highest Quality." The word *quality* is used in a subliminal way in almost every advertisement. Close your eyes as you listen to advertising and count the number of times the word *quality* is used. The producers of major consumer items use slogans with the word *quality* as the focal idea. Advertising executives explain the concept with the phrase, "In the 70s and 80s, sex sold the product; today, 'quality' sells."

> *Any industry that produces a consumer product that is made by producers in the industry who are intellectually or economically unconcerned about the quality of the product is doomed to failure.*

In the beef cattle industry, the argument for price and maximum production is made by ignoring the fact that the product has to be consumed by someone, someday. This leads to indiscriminate use of genetics, overuse of implants, failure to provide information to other segments of the industry, failure to use all available technology to insure quality post-harvest, and adversarial relationships between industry sectors. In other words, the problem is short-term thinking. Producers ask, "When will someone *pay* me for investing in higher quality?" The producer expects this return on the first set of calves produced under the higher-quality system. The answer is that most of the return may be in reversing the downward spiral and eventual failure of our entire industry. These are not doomsday predictions made to win an argument. Rather, this is an analysis of an industry that has been in decline for twenty-plus years and does not show any signs of healing itself.

The producers with the most at risk are those who would like to leave a healthy beef industry to their children. The long-term survival of the industry is dependent upon each segment of the industry understanding that the highest quality must be produced at the lowest price possible. This is the only philosophy that will allow the beef industry to survive into the next generation. Thus, the answer to the “Quality versus Price” question is that there must be *both*. We must deliver a high quality product at a competitive price in order to meet our consumers’ demands. I do not claim that this is simple, nor easy. It will be difficult, and it will take time and money. It will involve producers taking responsibility for the product they produce and recognizing the desires of the retail customer in planning their production programs. It will require each producer to understand that he is not in the *cattle* business—he is in the *BEEF* business.

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