

Cover Story / By Marcia Zarley Taylor

Let's Partner

A Kansan profits in numbers

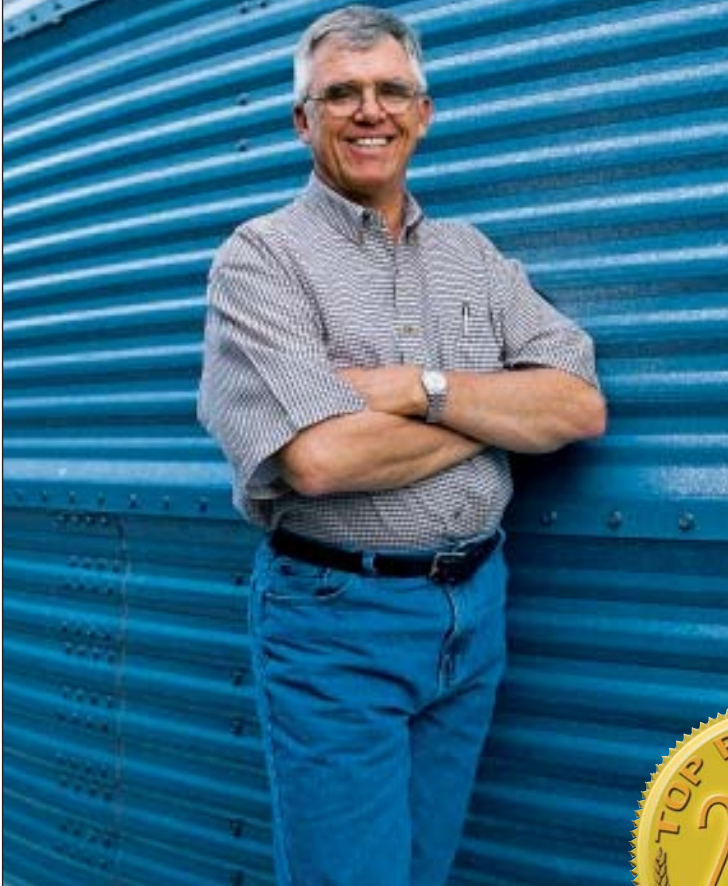


PHOTO: ADAM JAHIEL

Family partnerships defined the first generation of Irsiks. Now Steve Irsik Jr. is multiplying the model.

Kansas farmer and rancher Steve Irsik Jr. knows that most of you prefer to operate solo. The monumental failure of some farmer-owned value-added ventures in the last decade have left such a distaste for joint investing in North Dakota, for example, that farmer cooperatives or limited liability companies can't raise a nickel for new ethanol plants or grain processing ventures there today.

But if you're in the commodity grain or livestock industry and competing with the likes of South American plantation-style farmers, the magazine's Top Producer of the Year believes you have no choice but to partner for profits.

"You have to be continually stretching the rope," says Irsik. "Growing \$2 corn and being big doesn't necessarily mean you'll stay alive in global agriculture." And that's from a man who—along with backing from four brother investors—manages more than 20,000 acres of crops and grass, owns a premium Angus herd and holds stock in a string of off-farm businesses.

"Every time I listen to a grain market adviser's gloomy outlook for 2005 crops, I'm more convinced this value-added approach is the right course," the Ingalls, Kan., producer says.

Marshall your resources. What distinguishes Irsik, say his admirers, is that while he possesses the economy of scale to farm solo, he has instead chosen to partner with family members and others to leverage their joint power in the food chain. "Steve and a handful of other Kansans were the first to challenge the independent notion in agriculture and to experiment with how to add value to commodity agriculture," says Lance Woodbury, a principal with the accounting firm of Kennedy & Coe of Goodland, Kan. "A big piece of his success is his ability to bring influential people to a room, put their egos aside and focus on their strengths. In a lot of other businesses, we don't see people who say 'Let's do this together.'"

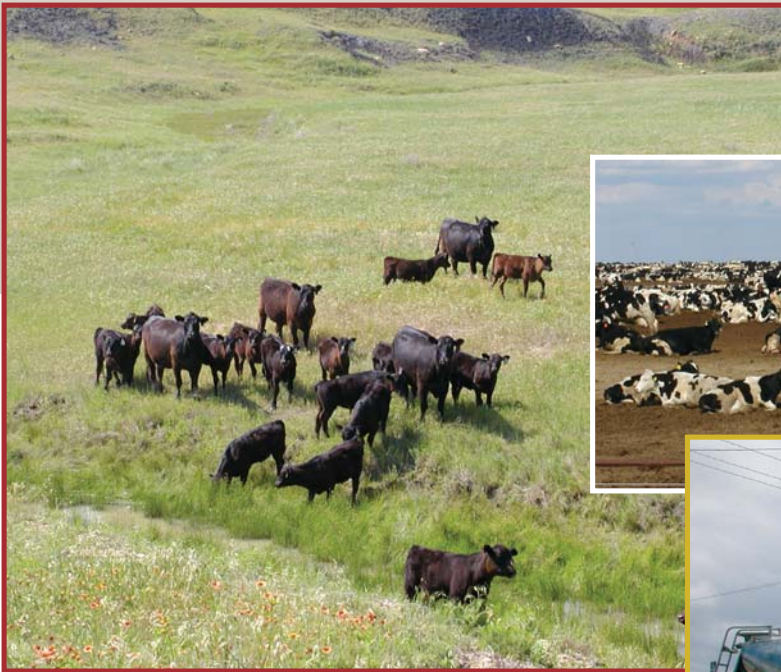
Partnering is an Irsik family value, something Steve's father imbedded in his sons' psyche almost from birth. One reason was the value Steve Irsik Sr.'s brothers proved to him throughout a lifetime as business partners.

"Dad had established a partnership with his elder brother prior to World War II," Steve Jr. says. "When he was discharged from active duty, his older brother welcomed him back as if it was business as usual.

"Other veterans lost their jobs, and came home with no work, no wives and no livelihood," he remembers his dad saying. "He was forever grateful that his brother didn't squeeze him out."

Perhaps the most lasting legacy has been the success of another Irsik family venture. In 1961, Steve Sr., his two brothers, Norb and Clarence, and two other partners (Fred and Loren Doll) each invested \$25,000 in a cattle feedlot in Ingalls, just outside Dodge City. The five partners weren't





Three value-added ventures add sustainability to Irsik's generic crops: With top-notch genetics, his Angus herd commands bonuses. A dairy offers the highest returns for grain and water, while 21st Century Grain hopes to reward investor-growers for identity-preserved wheat and corn flour.



PHOTO: STEVE IRSIK

the first to construct feedlots on the High Plains, but their technological innovations and their blood bonds helped build what would later become Irsik & Doll, the nation's 11th largest cattle feeding operation, with about 170,000 head capacity. Today, that operation is a closely held business, run by non-family management.

The second generation of Irsiks continue to see strength in numbers. Disgust with low grain and beef prices motivated Steve Jr. and his brothers to partner with local and out-of-state investors in a 7,000-cow dairy three years ago. The Irsiks were also founding members in a significant cooperative launch: The 21st Century Alliance, a sort of venture capital club originally involving only Kansas farmers, but that spawned a number of farmer-owned food companies, including 21st Century Grain Processing, a flour milling and food corn business with facilities in New Mexico, Texas, Nebraska and California. Steve serves on the board of directors.

Steve's leadership also was an early influence in the founding of U.S. Premium Beef, another 21st Century Alliance spinoff. When it was launched in the mid 1990s, the top three beef packers controlled 80% of the market and rarely passed rewards for premium beef back to producers. Since its start barely seven years ago, USPB has attracted 1,900 investors, rocketed stock from an average of \$55 to \$160 a share and averaged \$26/share annual dividends. That also doesn't count premiums paid for the high quality beef the Irsik brothers consistently yield from 1,500 head of Angus cattle.

Irsik, who trades fleets of the year's top grade bulls as frequently as others lease automobiles, typically captures premiums for prime, which have been running \$14/cwt. In contrast, USDA choice earns \$5/cwt. and certified Angus \$4.50/cwt. "If you're in the beef business and not participating in USPB, you're missing the most revolutionary thing to happen to beef in my lifetime," he says.

Shortages in cattle due to the Canadian border closing means packers like USPB have been losing millions of dol-

lars a month. But Irsik sees those losses as a temporary phenomenon, one that well-capitalized agricultural enterprises should be fit to weather. "The company will be fine if we can live through this down turn," Irsik says. "We know the borders will open, and the Japanese market will come back sooner or later."

Staying power. "My philosophy about these joint ventures has changed pretty radically over the years," Irsik admits. "When I started, I thought you could take large groups of farmers and they'd have business skills and commitment to follow through. But I've learned that when some people hit the first obstacle, they don't have the vision and commitment to stay hooked."

He believes that the \$5,000 investments typical of ethanol plants aren't enough to inspire commitment. "Maybe \$50,000 or \$100,000 is better, but there aren't so many takers. The bottom line is if I can grab five people I know and put together a \$1 million deal, we can make things happen. I know if we have capital calls, they'll be there."

Terryl Spiker, co-president of the First National Bank in Syracuse, Kan., sees Irsik's willingness to stay the course as the kind of enduring strength more growers need to emulate.

The Irsiks' entrance into the dairy business was rough, thanks to herd management issues and a collapse in milk prices to \$9/cwt. less than a year after launch. One month, the partners lost \$500,000, other months only \$200,000.

Steve substituted as a temporary herd manager, reporting for dairy duty each morning at 6 a.m. One of his investor

partners, James Bahan, visited Irsik during what had to be an owner's worst moment—a near blizzard at the dairy, just at the bottom of a price cycle. “Steve was as focused as anybody could be,” says Bahan, a retired California dairy farmer. “With his determination, and all of our resources, I knew we had a winner. It was just a matter of time.”

Amazingly, none of the partners bolted. “When there is a problem, Steve doesn't get out, he writes a check,” Spiker notes. “Other dairy investors who didn't come up with the extra capital in 2003 lost the whole dairy.” This year, dairy survivors are enjoying \$15 and \$16 milk and the cheapest corn in recent memory.

Can wheat repeat? Unlike USPB, Irsik's grain milling venture has been slower to show returns. Because it was a start-up venture, rather than an investment in an existing processing plant, 21st Century Grain Processing took six years to make money. Half a dozen similar flour mill ventures launched the same year as 21st Century Grain flopped. “Flour is quite different than beef, because there are no USDA standards to provide for prime or choice grade. The market doesn't want to pay for quality,” Irsik says.

Thanks in part to the Atkins diet, Americans eat 10 lb. less flour per person than they did in the early 1990s. That's meant over-capacity in the milling business and shrinking margins. “When we started, we thought we'd be able to pay 10¢ to 15¢ per bu. premiums, but the industry just won't allow us to do that without going broke,” he says.

Efforts to interest bakers in identity-preserved systems that track wheat back to the field have also fallen flat. “We are a little bit like ethanol plants,” says Irsik. “Yes, we are adding value to raw grain, but in the end, we just entered another commodity business.”

With typical Irisk diligence, though, Steve has a plan B. In fact, he believes one viable option is to expand 21st Century Grain Processing into a more diversified food company that can compete on a scale with industry giants. To do that, the farmer-venture would outgrow its 100% farmer capital and would need to explore sharing ownership with institutional investors.

“It isn't enough to own the wheat,” he has learned after a decade of experience in value-added ventures. “You've got to acquire scale, too.” In other words, it's just another reason to partner. ■

Steve Irsik Jr., 58 Ingalls, Kan.

FAMILY: Wife Kay is an advisor, cheerleader and counselor. A son works with Steve, and a daughter and son-in-law are becoming involved.

OPERATION HISTORY: When Steve returned from the Air Force in 1973, he joined a traditional 3,000-acre Kansas grain and cattle operation. Today, the family partners have grown into a diverse food production business including more than 20,000 acres of crops and grass, an Angus herd, interests in a 7,000-cow dairy and stock in U.S. Premium Beef and the 21st Century Grain Processing, a flour and food corn processor.

OWNERS: Steve manages the operation and shares ownership and strategic decision-making with four brothers—Max, Mike, Bob and Ron. The next-generation of Irsiks are becoming stockholders. All partners hold off-farm jobs.

EMPLOYEES: Hire talented, dedicated people. “If I never stepped foot back on the ranch and dairy, I would not worry about either business. The managers and staff do a better job than I would do.”

PUBLIC SERVICE: Steve spent 16 years as a county commissioner. In the early 1990s, he chaired the Ogallala Aquifer Task Force and conducted a study of issues, priorities and solutions to the depleting water sources in western Kansas. Currently, he serves as chairman of the Kansas Water Authority, a coordinating agency for state water policy.

TECHNOLOGY: A unique relationship with Gardiner Angus Ranch gives the Irsiks access to the latest beef genetics and

earns them top dollar premiums with their packer. “Gardiner is like the GM factory for us,” says Steve. “We buy a ‘fleet’ of 40 bulls a year, use them for 12 months, and then resell them. Every year I get to drive new ‘Cadillacs’ in my Angus herd. You can argue we're on the front-end of the kind of genetics packers pay premiums to get.”

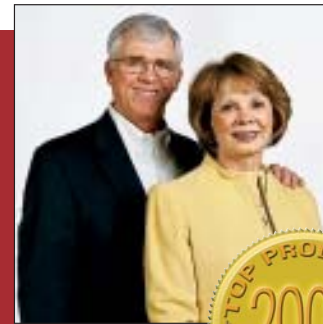


PHOTO: GRANT KESSLER

BEST LIFE LESSON: “Our dad said you can do whatever you want, but don't get over-extended,” Steve says. “So if we invest in something, I have plan B, C and D in my pocket or significant reserves to tap if something goes wrong. It's like poker, if you want to stay in the game, you never put everything on the table.”

KEEPING INVESTORS HAPPY: “Partners need a common vision. You have to be able to grow a business to an efficient size to pay dividends. The moment you quit growing, you've lost the race.”

HANDLING ADVERSITY: “Never raise your voice or point a finger. Partnerships are never about trying to get a leg up.”

BEST INVESTMENT: “Dairy is still a young industry here, but for someone who has land, capital and water, it is probably the highest value-added business in the High Plains, on an ongoing basis. There's far more profit than in feedlots, and the margins aren't even comparable to grain. Best of all, it's a great economic development engine: If you want to save a school, build a dairy because you get a tax base and the kids to fill it.”