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Beef Cattle Marketing Alliances

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Ever-tightening profit margins and recurring cyclical downturns in cattle and calf markets have forced many cattle producers to search for ways to make their operations more profitable. Of course, cutting the costs of production is one way. However, a new concept called “strategic alliance,” a way to increase revenues through vertical affiliations, is being widely discussed as a route to a more financially stable ranching operation.

Alliance is defined by Webster as “an association to further the common interests of the members.” In the past 10 years many producer groups have worked to secure marketing agreements with beef packers. Many of these agreements, or alliances, are available to many beef cattle producers.

Beef carcass alliances (BCAs) can be grouped into three broad categories: breed association-sponsored, commercial, and natural/implant-free. In addition to these categories, two types of beef carcass targets have emerged. One is a high quality grade target with an acceptably muscled carcass. The other target includes animals that excel in red meat production with acceptable quality grades. BCAs will be identified here by category and the appropriate carcass target.

Carcass Alliances Endorsed by Breed Associations

Several purebred cattle associations have established programs to encourage commercial cattlemen to use their breed’s bulls by providing additional marketing angles for their progeny. This category was dominated by British breeds (Angus, Hereford, Red Angus) for several years; recently, however, some Continental breeds have entered the field. Most of these programs target high quality beef production.

The American Hereford Association (Certified Hereford Beef), American-International Charolais Association (Beef-Charolais), Red Angus Association of America (Red Angus Feeder Cattle Certification Program/Supreme Angus Beef), American Gelbvieh Association (Gelbvieh Alliance), and North American Limousin Foundation (Limousin Grid) all offer direct access to carcass pricing devices that are at least partially negotiated by association personnel. (For a sample carcass pricing grid and a more detailed introduction to the concept, please see “Fed Cattle Grid Pricing,” RM1-11.0 in this series.)

Certified Angus Beef (CAB, established by the American Angus Association in 1978) is one of the oldest and best known of the BCAs. This program is dissimilar from most breed association programs in that CAB doesn’t directly price cattle on a grid system. Rather, it identifies carcasses that meet several criteria for CAB designation and allows other value-oriented marketing programs to use CAB as a valuation tool.

In addition to fed cattle marketing programs, most beef breed associations have developed commercial marketing programs that range from listing feeder cattle for sale to sponsoring group marketing ventures such as special sales. Judging from the proliferation of marketing services launched in the past few years, stiffening competition among

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breeds for commercial bull buyers will ensure a healthy array of options in the future.

Commercial Carcass Alliances

Many firms now offer BCAs to cattle producers. These firms offer grids or marketing arrangements that fit the high quality beef target and/or the red meat yield target. Most of these firms create their niche with cattlemen who are likely to produce certain types of carcasses and beef procurers who merchandise that type of beef. The firms that put such alliances together are usually paid for this service by producers, with fees for feedlot performance information and/or carcass quality information.

Firms/alliances in this category include Angus America, Angus GeneNet, Farmland Supreme Beef Alliance, HiPro Producer's Edge, U.S. Premium Beef, and Western Beef Alliance. In addition to providing access (for a fee) to a beef processor's carcass pricing mechanism, some of the firms/alliances offer other services to members. These include discounted semen or bull purchases from carcass-proven sires, members-only replacement heifer and feeder cattle sales, and listings of "approved" feedyards.

Natural/Implant-Free Carcass Alliances

BCAs that target all-natural, implant-free beef production were among the first programs. Many of them have been in existence more than 10 years. Their business has greatly increased in recent years and many of their innovations have been adopted by other programs. While these alliances are all offered by commercial interests, their "all-natural" orientation places them in a different classification. Generally, these agreements aim for the red meat yield target. Examples of these alliances are Coleman's Natural Meats, Laura's Lean Beef, Maverick Ranches Beef, and B3R Country Meats.

Common features of these marketing programs are prohibitions against various commonly used medications or growth enhancers (implants). Some programs also ban the use of ionophores and other feed additives.

Targeting health-conscious consumers, the grid pricing structures encourage the production of lean carcasses. Significant premiums are given for Yield Grade 1 and 2 carcasses. Some programs even discount carcasses that grade USDA Prime.

What Else Could Alliances Offer?

While most alliances have concentrated on marketing and price enhancement strategies, producer groups might also organize input procurement, production cost analysis, performance

data analysis, and improved herd management programs. Producers might work together to cut production costs and effect an even greater change in profitability. For example, some alliance managers are developing connections between seedstock producers and commercial cow-calf operators who market cattle through their alliances. One program has offered bonus coupons worth \$3 per head for each source-verified animal, consigned and fed on a retained ownership basis, that grades Prime and/or qualifies for the Certified Angus Beef program. Those bonuses can be used toward the purchase of bulls at an alliance-affiliated seedstock sale. Services such as these will likely be common in the future.

The Future of Beef Carcass Alliances

One difficulty with natural/implant-free BCAs is the trade-off between "all-natural" beef production and feedlot performance. The producer who joins one of these BCAs must weigh increased animal morbidity and mortality (because of the prohibition of antibiotics) and decreased feedlot gain and feed efficiencies (because of the lack of growth-promoting implants and/or feed additives) against potential carcass premiums for the cattle that actually fulfill alliance specifications.

USDA has recently mandated that entities claiming to market a source-verified product must file and maintain a Product Quality Control protocol. This requirement could affect BCAs that market breed-specific products. Breed association-sponsored BCAs would seem to have the upper hand in verifying the parentage of individual animals. In time, BCAs that require (or limit) a certain percentage of different breeds or breed types will have to prove to the USDA that they can verify the sources of their participating cattle.

Although the number of head currently slaughtered under alliance programs is a very small portion of the total slaughter, most alliance marketing managers report that the number of cattle enrolled in their programs is increasing. BCAs that consistently return higher prices than cash markets to participating producers will most likely continue to expand. However, most, if not all, BCAs rely on the regular production of sufficient quantities of cattle that meet narrow live and carcass specifications and, in turn, satisfy supply quotas with the packer. If a producer is to prosper in the long run by marketing cattle under these types of premium and discount schedules, he must be able to fine tune the genetic makeup of the cowherd to "hit the specs" with a degree of regularity while maintaining flexibility in the cowherd to adjust to

changing trends. More consistent, improved genetics does not come without a cost, and producers must weigh these costs against the potential benefits of participating in these programs.

Advice to the Producer: Maintain Flexibility

Many producers have the attitude that they will produce specific cattle for specific carcass targets if, and only if, there are clear economic incentives. Other producers are refining their herds' genetic makeups with full faith that carcass price premiums already exist. One fact upon which all producers can agree is that formula pricing systems, whether based on quality or red meat yield, are constantly changing. Genetic change, however, does not happen quickly. The average producer will turn only six or seven generations in his herd in his lifetime. Producers cannot be expected to constantly change the genetics of their herds in hopes of hitting some specification marketing program that may or may not exist in the future.

Producers must maintain flexibility while developing the herd genetics that appears to be the most economically viable in the short term. In short, producers might be best served by developing cattle that can produce progeny for either the high quality target or the red meat yield target, as situations dictate. This is not contradictory. On the Great Plains, for example, a producer could develop a cowherd of moderate framed, Angus x Hereford Black Baldy females selected for maternal and fertility traits. On the Gulf Coast, a producer could develop a Brahman x Hereford or Brahman x Angus based herd. If market trends indicate premiums for high quality targets, either producer could breed those cows to British bulls with high marbling traits. If the signals indicate premiums for cattle that excel in lean, red meat production, the producers could breed the same cows to heavy muscled, Continental sires. With at least a 2-year lag between making breeding decisions and marketing finished steers and heifers, it is apparent that a producer must have a sound understanding of industry trends and directions.

Beef Carcass Alliances and Risk

Under grid pricing programs, performance risk lies with the cattle feeder/seller. That is, premiums and discounts are not assessed until the live cattle have been processed and carcasses evaluated. Sound risk management dictates that producers have some idea how their cattle are likely to perform, both in the feedlot and at the carcass level, before enrolling a significant portion of their production in an alliance. There are Extension programs across the country that can help producers send sample calves through feedlots and get information on feeding performance and carcass quality. While no sample is perfect, many producers have learned a lot about the cattle they produce through such programs. This could be the first step in determining whether you have the type of cattle to fit certain alliance programs and their pricing grids.

When comparing different pricing structures, remember that different grids use different base prices (for example, plant average prices versus USDA-reported regional prices) and different base grades (for example, one grid uses USDA Choice as a base and discounts cattle that grade USDA Select, while another grid uses Select as a base and awards premiums to cattle that grade Choice). Examine the pricing structures and make sure you are making accurate comparisons.

The same performance and financial risks faced by a producer considering traditional retained ownership programs also face a producer considering a BCA. Please consult "Retained Ownership Strategies for Cattlemen," RM1-3.0 in this series, for more information.

Many breed associations and commercial entities maintain listings of alliance program contact information on their web sites. One such site is <http://www.beefshorthornusa.com/logo/beef.html>. This is the official site of the American Shorthorn Association.

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