Growth and Characteristics of Beef Industry Alliances

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Essential Characteristics of a Strategic Alliance

- A relationship between individuals or firms in two or more adjacent production stages without full ownership of control by one firm
- Participants fundamentally maintain their independence
- Participants share information to improve the flow of products from producers to consumers

Objectives

- Review the motivation for beef industry alliances
- Provide information about alliance characteristics
- Address the future of alliances
- Provide suggestions for producers regarding how they decide whether or not to join an alliance

Motives for Forming Strategic Alliances

- Improve the exchange of information among beef industry participants
- Decrease segmentation and improve linkages in the vertical channel
- Reduce adversarial relationships between buyers and sellers
- Work jointly toward mutually beneficial objectives
**Additional Motives for Forming Strategic Alliances**

- Enhance the move toward value based marketing and clearer price signals
- Coordinate production with demand, especially for cattle/beef quality
- Enable quicker and more correct response to consumer demands

**Information Sources**

- OSU study (1998-99) - 27 Participating groups
- Beef Yellow Pages (2002) - 34 Consumer-based programs
- Alliances keep changing
  - Almost half of respondents in the OSU study were not in the Beef list
  - More than half in the Beef list were not respondents in the OSU study

**Participating Alliances - OSU and Beef**

- Angus America
- Angus Gene Net
- Certified Angus Beef
- Certified Hereford Beef
- Coleman Natural Products
- Country Natural Beef
- Decatur Beef Alliance
- Farmland Supreme Beef
- Gelbvieh Alliance
- Lean Limousin Beef
- Maverick Ranch Natural Lite Beef
- Nebraska Corn-Fed Beef
- Red Angus Feeder Calf Certification
- U.S. Premium Beef
- Western Beef Alliance

**Additional Alliances - Beef 2002**

- B3R Country Meats
- Beef Advantage Project
- Brangus Gene Net
- Caprock STAV
- Charolais Gene Net
- ConAgra Better Beef
- Five-State Beef
- Future Beef Operations
- Glacier Beef
- Iowa Quality Network
- Nolan Ryan’s Tender Aged Beef
- Painted Hills Natural Beef
- Performance Plus - Retained Ownership
- Performance Plus - Sale Barn
- Power Genetics
- Ranchers Renaissance
- Red Oak Farms Premium Hereford Beef Program
- WRB All Natural Beef
- Western Grasslands Beef
Collected information and examined selected characteristics of alliances. Characteristics chosen were based on those thought to be important to producers interested in joining an alliance.
Selected Characteristics

- Organizational characteristics
- Input requirements
- Marketing programs
- Information exchange

Organizational Characteristics:
Stated Objectives

- Objectives for over half of the alliances mentioned one or more of the following …
  - a customer focus
  - improved communication or exchange of information
  - value-based marketing
  - product improvement

Organizational Characteristics:
Stages of Coordination

- Over three-fourths of the alliances spanned three or four stages, such as
  - Retailer or food service firm
  - Packer
  - Feeder
  - Cow-calf or seedstock producer

Organizational Characteristics:
Commitment

- Types of Commitment
  - Formality of arrangements
  - Quantity commitment
  - Capital requirements

- About one-third of the alliances had various forms of licensing agreements, certification affidavits, non-participation penalties, exclusive agreements, and investment/membership fees
Minimum Head Requirement

- 1 Head
- 2 Heads - Load lots
- Load lots or more

Number

Alliances

Input Requirements: Breed Specification
- Over half of the alliances identified a specified breed or breed group
- Specifying genetics is increasing in importance

Required Genetics

- None
- Some/Specific

Number

Alliances

Input Requirements: Source Verification
- Just over half of the alliances had some type of source verification requirement, but the degree of verification varied considerably
Input Requirements: Management Practices

- With a few exceptions, alliances were about evenly divided between those with optional or general management practices and those with no specified management practices.
- Examples include vaccination-weaning program, specific feeds, specific implant program, etc.

Required Practices

- Examples include vaccination-weaning program, specific feeds, specific implant program, etc.

Retained Ownership and Potential Returns to Cow-Calf Producers
Marketing Programs: Branded Beef Programs

- Over three-fourths of the alliances targeted one or more packer or retailer brand programs

Marketing Programs: Pricing Method

- Virtually all alliances used grid pricing
  A few alliances were linking prices to retail programs or wholesale prices
  Over three-fourths of them used a base price tied to cash fed cattle prices or plant-average costs

Type of Grids

- Number
  - Quality Grade
  - Yield Grade
  - Both

Marketing Alignments

- Number
  - Packers
  - Retailers

Alliances
### Example of One Price Grid

($/carcass cwt.)

<table>
<thead>
<tr>
<th>Choice YG3 525/950# Base Price</th>
<th>????</th>
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</thead>
<tbody>
<tr>
<td>Prime-Choice Spread</td>
<td>+10.00</td>
</tr>
<tr>
<td>CAB-Choice Spread</td>
<td>+2.00</td>
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<tr>
<td>Choice-Select Spread</td>
<td>-6.50</td>
</tr>
<tr>
<td>Select-Standard Spread</td>
<td>-8.50</td>
</tr>
<tr>
<td>Light Carcasses</td>
<td>-17.00</td>
</tr>
<tr>
<td>Heavy Carcasses</td>
<td>-17.00</td>
</tr>
<tr>
<td>YG1</td>
<td>+6.50</td>
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<tr>
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<tr>
<td>YG4</td>
<td>-17.00</td>
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<tr>
<td>YG5</td>
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### Example Grid in Matrix Form

($/carcass cwt.)

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<tr>
<th>Quality Grade</th>
<th>Prime</th>
<th>CAB</th>
<th>Choice</th>
<th>Select</th>
<th>Standard</th>
<th>Light carcasses (&lt;525)</th>
<th>Heavy carcasses (&gt;950)</th>
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<tbody>
<tr>
<td>Prime</td>
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<td>---</td>
<td>+10.00</td>
<td>---</td>
<td>---</td>
<td>-17.00</td>
<td>-17.00</td>
</tr>
<tr>
<td>CAB</td>
<td>---</td>
<td>---</td>
<td>+2.00</td>
<td>---</td>
<td>---</td>
<td>-15.00</td>
<td>-17.00</td>
</tr>
<tr>
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<td>Base</td>
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<td>-17.00</td>
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<td>---</td>
<td>---</td>
<td>-32.00</td>
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</table>

### Premium Cells in the Grid

($/carcass cwt.)

<table>
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<th>Quality Grade</th>
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### Discount Cells in the Grid

($/carcass cwt.)

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<th>Heavy carcasses (&gt;950)</th>
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</thead>
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<td>---</td>
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<td>-7.00</td>
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<tr>
<td>CAB</td>
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<td>+2.00</td>
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<td>-15.00</td>
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<td>-15.00</td>
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<tr>
<td>Choice</td>
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<td>+2.50</td>
<td>Base</td>
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<td>-17.00</td>
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<td></td>
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<td>-23.50</td>
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<tr>
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<td>-32.00</td>
<td>-32.00</td>
<td>-32.00</td>
<td>-32.00</td>
</tr>
</tbody>
</table>
Information Exchange: Carcass Data

- Sharing information is essential to increased vertical coordination throughout the beef production-marketing channel
- Data and information are *not* the same
- Essentially all alliances provide *some* assistance in interpreting carcass data for management decisions

Summary Profile of Alliance Programs

- Objectives focus on customers, improved communication, value-based marketing, product improvement
- Coordination spans three or more production-marketing segments
- Substantial commitment is required by some
- One or more breeds are specified
- Some degree of source verification is required

Summary Profile (continued)

- Only general or optional management practices are specified by many
- One or more branded beef programs are targeted
- Grid pricing is used
- Carcass data are interpreted for management decisions in some programs

The Bottom Line?

- Are alliances returning more to producers than it costs them to participate?
Participation Cost per Head

Average Premium Paid Per Head

Distribution of Alliances by Average Premium Paid Per Head

Estimated Total Premiums Paid for CAB Carcasses by the Four Largest Packers

Participation Cost per Head

- 0 to 5
- 5 to 10
- 10 to 20
- 20 to 30

Average Premium Paid Per Head

- Less than $20
- $21-40
- $41-60

Distribution of Alliances

- Less than $20
- $21-40
- $41-60

Estimated Total Premiums Paid for CAB Carcasses

- 1998: $4.17
- 1999: $7.69
- 2000: $25.92
- 2001: $28.61
**Average Grid Premiums Paid by US Premium Beef**

- 1998: $36.39
- 1999: $57.14
- 2000: $42.53
- 2001: $48.71
- 2002: $22.39

- Average Premium
- Top Quartile Premium

**Average US Premium Beef Stock Price**

- 1998: $54.87
- 1999: $55.13
- 2000: $64.87
- 2001: $93.25
- 2002: $108.94

**What Are the Implications for Smaller Producers?**

- Alliances represent an opportunity to participate in a larger “system” - under certain conditions
- Producers must be committed to the alliance “program”
- In return, producers can receive information useful for improving cattle quality
- Costs tend to be on a per head basis, making participation size neutral

**What about the Future for Beef Industry Alliances?**

- Expect to see growth in volume
- Expect to see new alliances (defined broadly) formed and some current ones dissolve
- Expect to see alliances continue contributing to enhanced coordination in the beef industry
Participating in an Alliance: Your Initial Decision

- Do you match your current production to an alliance with comparable objectives and characteristics?
- Or, do you change your production to participate in a specific alliance?

Evaluating Your Participation in an Alliance

- Know the quality of cattle you have - feedlot performance and carcass performance
  - OK Steer Feedout, Ranch to Rail, others
    - You need data to make informed decisions
- Do your cattle “fit” a specific alliance? How much investment is required to change your cattle quality?
- Ultimately, will an alliance return enough to compensate you for the increased investment?

The “Fit” or Carcass Target Varies

- Top-of-the-line restaurants - USDA Prime
- Upper end restaurants - Upper Choice programs
- Family restaurants - Low Choice or Select
- All-you-can-eat buffets - Select
- Fast food restaurants - Ground beef
- Full-service retail stores - Upper Choice to Select and natural brands
- Self-service retail stores - Select

Breeding Programs to Target Alliance Programs

- Can you afford to base breeding selection on carcass traits alone? No.
- Can you afford to reduce selection emphasis on maternal and fertility traits? No.
- You must produce live, healthy calves!
**One Recommendation**

- Develop cowherd genetics that are appropriate to your resource base and environment
- Use bulls that have a high probability of producing calves suited to a specific alliance program
  - Look for positive (+) EPDs for marbling, REA, Retail percent
  - Look for negative (-) EPDs for fat thickness

**Conclusions**

- Information here represents a snapshot over a few years of a dynamic process
- Alliances generally are enhancing or improving coordination in the beef industry
- There are considerable differences among existing alliances, even though generally they are moving the industry in the same direction
- To effectively participate in an alliance, producers must do some homework