

## **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

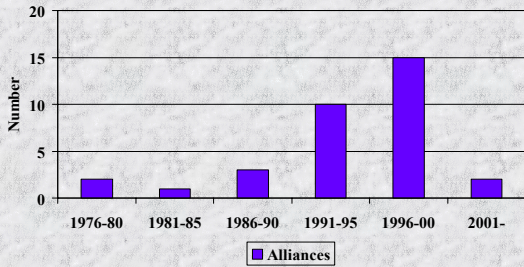
## Participating Alliances - OSU and Beef

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

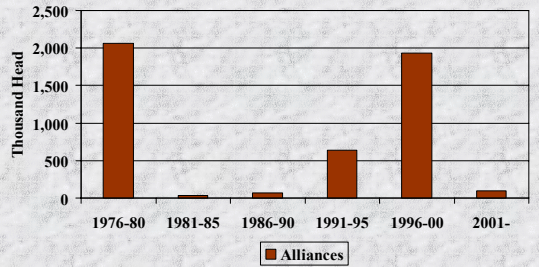
## Additional Alliances - Beef 2002

B3R Country Meats	Painted Hills Natural Beef
Beef Advantage Project	Performance Plus - Retained Ownership
Brangus Gene Net	Performance Plus - Sale Barn
Caprock STAV	Power Genetics
Charolais Gene Net	Ranchers Renaissance
ConAgra Better Beef	Red Oak Farms Premium Hereford Beef Program
Five-State Beef	WRB All Natural Beef
Future Beef Operations	Western Grasslands Beef
Glacier Beef	
Iowa Quality Network	
Nolan Ryan's Tender Aged Beef	

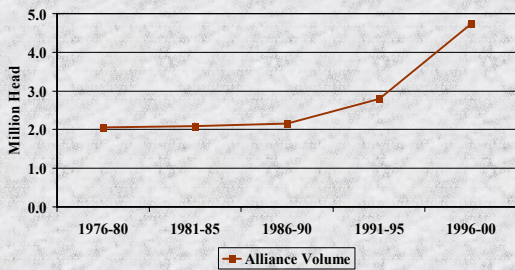
### Alliances By Beginning Dates



### Alliance Volume By Beginning Dates



### Cumulative Alliance Volume by Beginning Dates



### OSU Study

- 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
- Stated objectives
- Stages of coordination
- Commitment
- Breed specifications
- Source verification
- Management practices
- Branded beef program
- Pricing method
- Carcass data

## 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

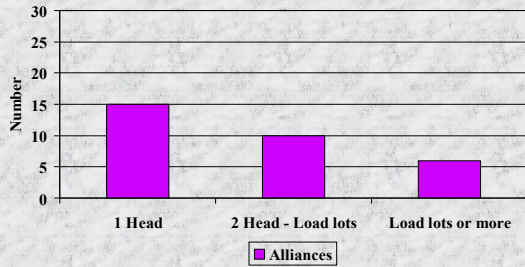
## Organizational Characteristics: Stages of Coordination

- 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

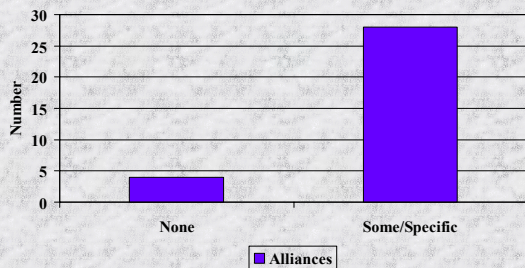
## Minimum Head Requirement



## Input Requirements: Breed Specification

- Over half of the alliances identified a specified breed or breed group
- Specifying genetics is increasing in importance

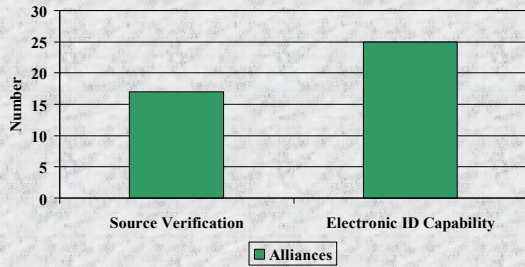
## Required Genetics



## Input Requirements: Source Verification

- Just over half of the alliances had some type of source verification requirement, but the degree of verification varied considerably

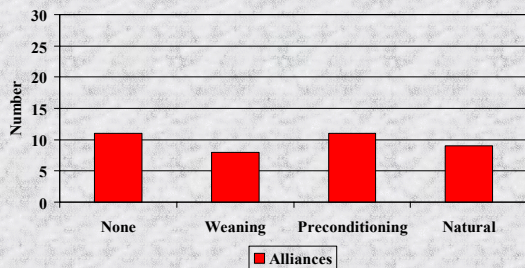
## Source Verification and Electronic Identification Capability



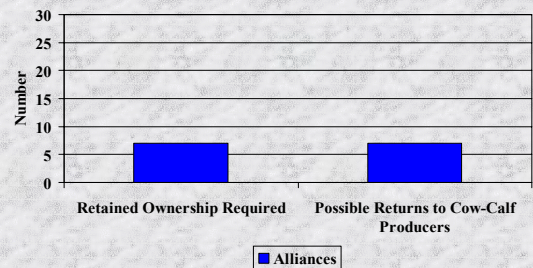
## Input Requirements: Management Practices

- 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



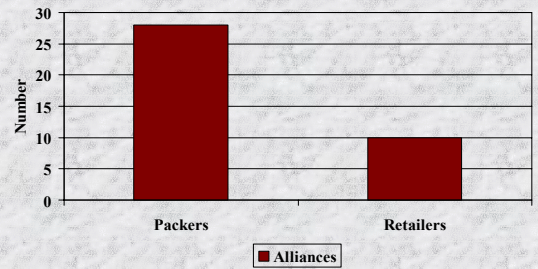
## Retained Ownership and Potential Returns to Cow-Calf Producers



## Marketing Programs: Branded Beef Programs

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

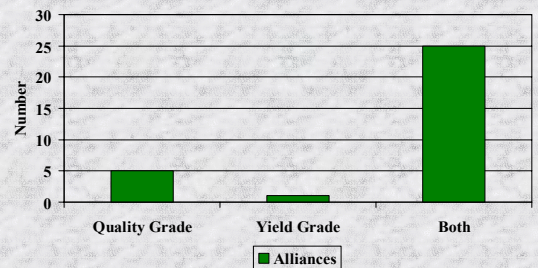
## Marketing Alignments



## 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



### Example of One Price Grid (\$/carcass cwt.)

Choice YG3 525/950# Base Price	?????
Prime-Choice Spread	+10.00
CAB-Choice Spread	+2.00
Choice-Select Spread	-6.50
Select-Standard Spread	-8.50
Light Carcasses	-17.00
Heavy Carcasses	-17.00
YG1	+6.50
YG2	+2.50
YG4	-17.00
YG5	-17.00

### Example Grid in Matrix Form (\$/carcass cwt.)

Quality Grade	Yield Grade				
	1	2	3	4	5
Prime	---	---	+10.00	---	---
CAB	---	---	+2.00	---	---
Choice	+6.50	+2.50	Base	-17.00	-17.00
Select	---	---	-6.50	---	---
Standard	---	---	-15.00	---	---
Light carcasses (<525) -17.00					
Heavy carcasses (>950) -17.00					

### Premium Cells in the Grid (\$/carcass cwt.)

Quality Grade	Yield Grade				
	1	2	3	4	5
Prime	16.50	12.50	10.00	---	---
CAB	8.50	4.50	2.00	---	---
Choice	6.50	2.50	Base	-17.00	-17.00
Select	---	---	-6.50	---	---
Standard	---	---	-15.00	---	---
Light carcasses (<525) -17.00					
Heavy carcasses (>950) -17.00					

### Discount Cells in the Grid (\$/carcass cwt.)

Quality Grade	Yield Grade				
	1	2	3	4	5
Prime	---	---	+10.00	-7.00	-7.00
CAB	---	---	+2.00	-15.00	-15.00
Choice	+6.50	+2.50	Base	-17.00	-17.00
Select	---	-4.00	-6.50	-23.50	-23.50
Standard	-8.50	-12.50	-15.00	-32.00	-32.00
Light carcasses (<525) -17.00					
Heavy carcasses (>950) -17.00					



## 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

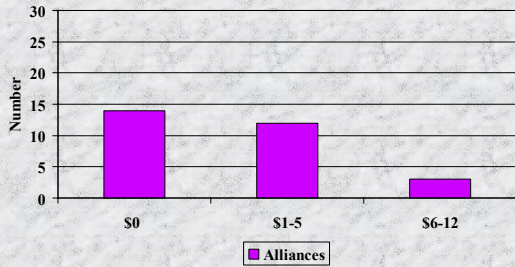
## Summary Profile (continued)

- 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

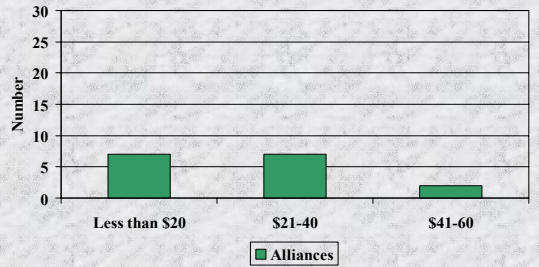
## The Bottom Line?

- Are alliances returning more to producers than it costs them to participate?

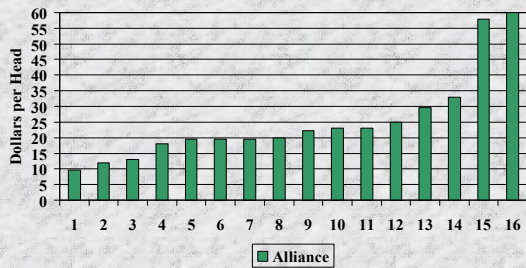
### Participation Cost per Head



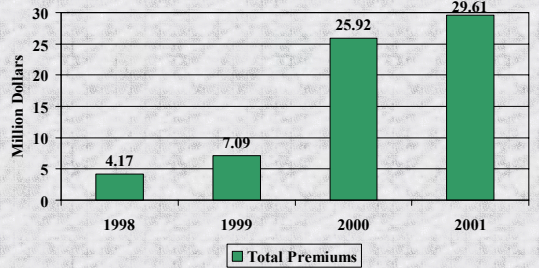
### Average Premium Paid Per Head



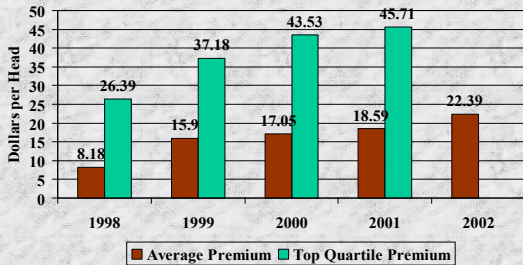
### Distribution of Alliances by Average Premium Paid Per Head



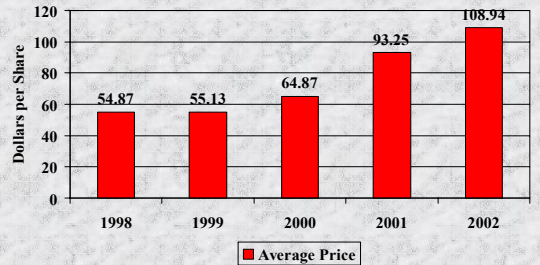
### Estimated Total Premiums Paid for CAB Carcasses by the Four Largest Packers



## Average Grid Premiums Paid by US Premium Beef



## Average US Premium Beef Stock Price



## 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