



Beef Cattle Marketing Alliances

Curriculum Guide

I. Goals and Objectives

- A. Become familiar with the types of beef cattle alliances that are available and how they differ.
- B. Learn some of the factors to consider when analyzing the costs and benefits of a beef cattle alliance.

II. Descriptions/Highlights

- A. Alliance is defined by Webster as "an association to further the common interests of the members." In the past ten years, numerous efforts have been made to secure marketing agreements with beef packers on behalf of producer groups.
- B. 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 which excel in red meat production with acceptable quality grades.
- C. Breed association endorsed carcass alliances were 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.
- D. Several breed associations offer direct access to carcass pricing devices that are at least partially negotiated by association personnel.
- E. Certified Angus Beef (CAB, established by American Angus Association, 1978) is one of the oldest and certainly the best known of the BCAs. This program is different from most breed association programs. Rather than pricing cattle directly on a grid system, CAB provides an identification of carcasses that meet several criteria for CAB designation and allows other value-oriented marketing programs to use CAB as a valuation tool.
- F. 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.

- G. Most of the alliance arrangements within the commercial carcass sector are designed for high-quality beef target and/or the red meat yield target. Most of these firms carve their niche between cattlemen who are likely to produce certain types of carcasses and beef procurers who merchandise that type of beef. The firms/alliances that put those relationships together typically are paid for this service with fees for feedlot performance information and/or carcass quality information paid by the cattle producer.
- H. 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. Discounted semen or bull purchases from carcass-proven sires, members-only replacement heifer and feeder cattle sales, and listings of "approved" feedyards are some of the additional services provided by various programs.
- I. All-natural, implant-free programs, which usually aim for the red meat yield target, have seen great increases in business in recent years. Common features of these marketing programs are prohibitions against various commonly used medications or growth enhancers.
- J. In addition to price enhancement strategies, services to enhance other aspects of beef production may become more available in the future from alliances. Under the broad category of input costs, some alliance managers are developing connections between seedstock producers and commercial cow-calf operators who market cattle through their alliance.
- K. The Future of BCAs: While most alliance managers report increasing numbers of cattle enrolled in their programs, it is worth noting that the number of head currently slaughtered under these alliance programs represents a very small portion of the total slaughter.
- L. One issue with the continued expansion of natural/implant-free BCAs is the trade-off between "all-natural" beef production (higher price, lower production) and feedlot performance (lower price, higher production).
- M. An important development in this arena are USDA mandates that require entities which claim to market a source-verified product to file and maintain a Product Quality Control protocol. This requirement could affect BCAs that market breed-specific products.
- N. Maintain Production Flexibility: One fact upon which most producers can agree is that formula pricing systems, whether red meat yield or quality grade driven, are constantly changing. The average producer will only turn six or seven generations in their cowherd in their lifetime. Cow-calf producers cannot be expected to constantly change the genetics of their cowherd with hopes of hitting some specific marketing program that may or may not exist in the future.
- O. In short, producers might be best served to develop cowherds that are capable of

producing slaughter progeny for either the high quality target or the red meat yield target as situations dictate. With a minimum of a two year lag between making breeding decisions and marketing finished steers and heifers, it is apparent that a producer must possess a sound understanding of industry trends and directions.

- P. Alliances and Risk: With grid pricing systems, premiums and discounts are not assessed until the live cattle have been processed and carcasses can be evaluated. While a producer does receive premiums for desirable traits, he must remain cognizant of the discounts that are imposed on carcasses that possess undesirable traits.

III. Potential Speakers

- A. Extension economist
- B. Breed association representative

IV. Review Questions

- A. What issue could affect BCAs that market breed-specific products?

Answer: The USDA mandate that requires entities which claim to market source-verified product to file and maintain a Product Quality Control protocol. Breed association-sponsored BCAs are more likely to have the ability to verify parentage of individual animals. All BCAs that market this type of product will have to develop a system for documenting the sources of their participating cattle.

V. For More Details

Ernest E. Davis, James McGrann, and James Mintert. Retained Ownership Strategies for Cattlemen, RM1-3.0, Risk Management Education Curriculum Guide. Texas Agricultural Extension Service, August 1998.

Ted C. Schroeder and Ernest E. Davis. Fed Cattle Grid Pricing, RM1-11.0, Risk Management Education Curriculum Guide. Texas Agricultural Extension Service, December 1998.



! An alliance is defined as an association to further the common interests of the members.

! Types of Beef Carcass Alliances

- ☞ Breed association-sponsored
- ☞ Commercial
- ☞ Natural/Implant-free
- ☞ High quality grade targets with acceptable muscled carcass
- ☞ Red meat targets with acceptable quality grades



! Breed Association Alliances

- ☞ Were once dominated by British breeds
- ☞ Now Continental breeds most prevalent
- ☞ Target high quality beef production
- ☞ Certified Angus Beef (CAB) - carcass ID and value oriented
- ☞ Also offer feeder cattle listings
- ☞ Also sponsor group marketing ventures



! Commercial Alliances

- ☞ High quality beef target
- ☞ Red meat yield target
- ☞ Cattlemen to merchandiser links
- ☞ Access to beef processor's pricing mechanism
- ☞ Fees for services
- ☞ Other services:
 - ✓ Discounted semen/bull purchases
 - ✓ Member-only replacement heifers
 - ✓ Other

! All-Natural/Implant-Free Beef

- ☞ Increase in use
- ☞ Red meat yield target



- ☞ Prohibits medications/growth hormones

! The Future of BCAs

- ☞ Increasing enrollment in BCAs
- ☞ Still very small portion of total slaughter
- ☞ Trade-off between all-natural and feedlot performance
- ☞ USDA requirements for source-verified products
- ☞ Constantly changing formula pricing systems
- ☞ Producers cannot change genetics overnight
- ☞ Must understand industry trends/directions
- ☞ Maintain as much production flexibility as possible



! Beef Carcass Alliances and Risk

- ☞ Grid pricing systems
- ☞ Performance risk
- ☞ When premiums/discounts are assessed
- ☞ Must be aware of discounts
- ☞ Know the details of the pricing system
- ☞ Base price & base grades
- ☞ Know how your cattle will perform
- ☞ Weight benefits vs. costs
- ☞ Extension programs for feeding performance/carcass quality