Finding Power in Numbers

Partnerships between industry segments open doors of opportunity, but admission comes at a cost.

Story by
WES ISHMAEL

(PHOTO BY SHAUNA HERMEL)

There aren't many secrets left in the beef industry. The ruts worn deep from doing business as usual are so predictable that you can see the future by looking in the rearview mirror.

Take a quick look. Everywhere the eyes gaze, individual producers and feeders work independently to build and market a product to the next segment of the industry, with little regard for the needs or wants of that segment.

See that steady stream of people cutting to the left? Those are more dissatisfied customers heading toward the competition because beef failed to live up to their expectations 25% of the time.

See that ever-present shadow dogging the trail? That's the deadweight that always has been along for the ride. It's all of the mediocre product fueling beef's declining market share while being subsidized by the quality in an average-based marketing system.

Look really close. You may see a light in the distance that seems to be getting brighter. It's a fire of change being fanned by a growing number of producers, weary of the same old ride to nowhere.

Partnering up

"If you can work together as a team — commercial and seedstock producers, feeders, and packers — and make the product better and better so consumers demand it and retailers are almost required to carry it, you can get in a stronger situation price- and profit-wise," says Jim Norwood, Farmland Supreme Beef Alliance (FSBA).

In a nutshell, that's the essence of the partnerships between industry segments, often referred to as industry alliances. The term is generic, however, because there are as many specific definitions as there are alliances. For the purpose of this discussion, think of them as any partnership between seedstock and commercial producers, which may also include relationships with cattle feeders, packers and retailers.

While specific goals depend on the partnership, all seek to add more value to a product by consistently meeting specific consumer expectations, then retrieving more value for going to the trouble.

As different alliances seek to achieve their specific goals, most revolve around a couple of key elements. First, they look for ways to document, then share, feeding and carcass performance with producers so they can more effectively hit the targets of the alliance. They also seek to build enough volume to command premium prices from buyers.

The bottom line — these partnerships offer cow-calf operations of all sizes the same opportunities as the industry's largest, most integrated players to gather information and retrieve added value.

"Unless people are working together like alliances are trying to accomplish, an individual has no clout; but, working in a program that can reach the consumer, you can make an impact," says Norwood.

"To me, an alliance includes everything from working with the local sale barn to working with the four major packers," says Galen Fink of Fink Beef Genetics, Manhattan, Kan. Since 1993 Fink has participated in and created several alliances.

"We realized business as usual wasn't going to cut it. If we expected our customers to get more than average prices for their genetics, we had to help create markets," says Fink.

All shapes and sizes

Although there is no way to arrive at an inclusive number, there are at least 30 formal industry alliances today. Most of these aim cattle toward specific carcass targets and include opportunities for both carcass data collection and added-value marketing.

Additionally, there are a seemingly infinite number of private alliances, everything from feeder-calf sales built around genetics and health protocols to partnerships between commercial producers and cattle feeders.

For instance, the Fink program is a select seedstock supplier for FSBA, which feeds alliance cattle at Agri Beef's Supreme Feeders in Liberal, Kan., harvests the cattle at Farmland National Beef Packing Co., then markets qualifying carcasses through several branded programs. While participants aren't required to use genetics from select suppliers, these genetics have been road-tested to meet the carcass specifications of the program and to earn a premium on their marketing grid.

Fink also was one of the first seedstock producers to join Angus America — formerly Scotch Cap Angus Alliance — in 1996. It, too, offers participants the opportunity to aim genetics at a specific target by feeding the cattle, then marketing them on a specific value grid that Angus America (AA) has negotiated with Excel, the nation's third-largest packer.

In the integrated systems with which Fink is aligned, participants can document the carcass and feedlot performance of their cattle, which some producers view as more of an incentive than specific economic premiums.

"We can't compete with pork and poultry on a commodity basis, so I feel strongly that we must have a quality, consistent product in the marketplace," says Doug Hoff of Hoff's Scotch Cap Angus Ranch near Bison, S.D. The necessity of tracking feeding and carcass performance to create consistent quality is one reason he founded the Scotch Cap Alliance in 1995.

"I felt producers weren't getting paid for their high-quality genetics, and I thought that it was logical to put similar groups of cattle together so producers could have more marketing power and possibly get a premium," he explains. About 60,000 head have been marketed through Angus America for premiums of $20-$50 more than the average cash market.

Of course, the idea of partnering up to satisfy customers isn't original. The alliance concept was probably born the first time a seedstock producer helped a customer get an extra bid on calves. While some alliances like FSBA and AA form a bridge between all production sectors, others are aimed at helping producers work together to get the top price for their calves, as an example, but still get a feel for how they perform beyond the ranch gate.

In integrated systems, participants can document carcass and feedlot performance, which some producers view as more of an incentive than specific economic premiums. (PHOTO BY JAMI STUMP)

A consistent market

"We want a consistent market for our product; we want our customers to have a consistent market for their product; and we all want to be profitable," says Stacy Butler of Spring Cove Ranch near Bliss, Idaho. Registered Angus cattle have grazed Spring Cove's pastures since 1919, and cattle still pay the bills of the four generations of Butlers living on the ranch.

"With the market as volatile as it is, every step along the way, a producer has to commit themselves to adding to the quality of the product," says Stacy. The Butlers began adding proven carcass genetics to their selection criteria in 1985. By 1987 they were already helping customers capitalize on the carcass merit of the bulls.

Stacy's husband, Art, would call feeders he knew and let them know when a customer's calves were heading to town. He could tell them about the customer's cows and the bulls they were using. After the calves sold, Art would then put the customer in touch with the buyer to see about getting back feeding and carcass information on the calves.

In sum, serving as an information relay, the Butlers were able to help customers get more bids on their cattle and to help some start documenting feeding and carcass performance. Today the Butlers use the same approach by compiling information about customer calves and sending a feeder-calf directory to feedlots. Stacy explains, "It has created for us long-term relationships with customers committed to our bulls."

Although the Butlers have experimented with formal alliances, Stacy says, "We're going back to the grassroots approach of, 'What can we do to help our customers?'" For them that means establishing a structured sire evaluation program and helping customers defray the cost of progeny testing and carcass data collection. They offer customers the opportunity to sell bred replacement females through their annual bull sale.

Likewise, a few years back Fink began offering bull customers the chance to sell commercial calves sired by Fink genetics through an annual calf sale. So far, more than 4,000 head have sold through the sales, with steers bringing $3-$10/cwt. more than the average cash price of the day, and replacement-quality females bringing $8-$17/cwt. more than the average. Customers can also sell open and bred females sired by Fink bulls in Fink's annual bull sale.

Along with marketing calves, Fink works to help customers interact with buyers to track their calves through the feedlot and down the rail.

Of course, the same approach works with more breeders involved. The Idaho Angus Association hosted its first feeder-calf sale last fall, based on the request of customers. "Talking to commercial bull customers the last couple of years, they were saying they would continue using black bulls but thought they could get more bull for the money by going to other breeds," says state president Mike Patton of Sawtooth Cattle Co., Gooding, Idaho. "We thought we had to do something to make our cattle worth even more to them."

The first sale featured about 1,100 calves. "On average, the steer calves were 2¢ to 5¢ higher than the average market, and some heifer calves were as much as 7¢ higher," says Patton. Once again, beating the average had everything to do with the power of numbers. "Buyers could sit there, buy smaller groups, and still have a load at the end of the day," says Patton. In other words, the producers bringing a few head did just as well as those selling a few hundred.

Along the way, alliances like these also come with lots of added customer service, like help interpreting data and matching genetics. "I think we live in a service economy, and that means the services a seedstock producer has to offer customers will keep him in business. There are so many places people can go for quality genetics," says Hoff.

The potential

If you ever wondered about the power of alliances, just consider the Certified Angus Beef (CAB) Program. It still serves as the most stunning example of what can happen when producers, feeders and packers all aim at one target defined by consumers. While the rest of the beef industry has lost market share for 20 years, the CAB Program continues to post staggering growth — some 411 million lb. of *Certified Angus Beef*™ product were sold in 1998. In fact, the only limitation to Program growth appears to be creating enough supply.

"There are so many more opportunities available out there that weren't available just two years ago," says Mark Nelson, coordinator for Angus America. "You see packers opening their doors with carcass data collection and feedyards willing to bend over backwards to build their clientele." That's not saying everyone in each segment wants to play the alliance game, but there are partners to be found in each segment.

"I think alliances have sorted themselves out. Ranchers won't continue to do things that won't work for them. … Just by having alliances survive over the last several years is testimony that they're working," says Nelson.

Certainly alliances do offer some economic incentive, as illustrated in the previous examples. More than anything, though, the information provided by them may offer producers ammunition needed to survive in the future.

"I think alliances will be a growing part of the business, simply because, if we are going to be competitive with other proteins, we have to get a handle on quality and consistency," says Fink. "Alliances provide a window for people to breed cattle and to say, 'Here's our target. If you breed those kinds of cattle, here's what's on the other end.'"

For instance, producers sending cattle to FSBA know they have to bring Choice and Prime cattle to ring the cash register. Since FSBA began, about 200,000 head have gone through the program and earned an average premium of $15/head.

"I don't know the time period, but I can see a time coming when programs like ours will probably publish production standards: Here's what we want and what it takes to be a part of our program, laying out a production scheme where cattle are designed for a specific program," says Norwood.

As specifications tighten, many expect commodity beef to be worth less and less, while branded beef is worth more and more.

Eugene Berges of the Berges Ranch near Onaga, Kan., says, "If you're going to be in this business a long time, in a cow-calf operation you only have four or five chances to make an impact in your herd. If you don't collect this data [feeding and carcass], you don't know which way you're going over the years." His point is that if a cow lasts 10-12 years, the entire herd will only roll over a handful of times in a lifetime, so each opportunity has to count.

Berges and his son, Jon, run a commercial cow-calf operation. They typically market 30%-40% of their calves at weaning time and retain ownership through the feedlot on the remainder. They began trying to collect carcass data about six years ago.

For his efforts, Berges has seen the economic power that emanates from genetics with carcass and feeding history by selling market calves and replacement females through Fink's sale.

Moreover, Berges fed and marketed cattle through a formal alliance for the first time last year. Although he saw premiums, he believes the real power for producers comes in being able to identify cattle that won't work past the pasture. "I think as time goes by, and I think it's coming fast, buyers will realize there is a difference in the performance of the cattle. I'm hoping this investment of $4 to $6 per head [for carcass data collection] will pay."

In fact, Fink says, "I'd say in five years if you don't have the health on your cattle and have genetic identification, and you sell through a sale barn, you'll be in trouble — and should be."

The risk

Obviously, there never has been an opportunity created that doesn't involve some risk. Alliances are no different. For commercial producers and feeders, the best illustration of risk comes when considering integrated programs. Reaping economic rewards farther up the line means retaining ownership in the feedlot.

While that in itself is a gamble, the only reason premiums are possible in value-added grid marketing is that there are also severe discounts for cattle that don't meet the specifications. In plain English, you can get your head torn off and handed to you if you don't know what you're doing or how your cattle will perform heading into a grid.

"The risk is there the first year or two, but if you've killed your cattle and know how they will grade, you've really taken the risk out of it and will know if you should sell on a grid," says Hoff. There are a number of opportunities available to producers to sample the feeding and carcass performance of their herds, such as a state ranch-to-rail program or working with buyers to collect the data once calves are sold.

Even if you can avoid the discounts, some participants argue the premiums aren't large enough to assume this risk.

G.E. "Jerry" Anderson owns Flying A Cattle Co. near Red Oak, Iowa. The operation includes cow-calf operations in the Nebraska Sandhills and a 5,000-head feedyard in Red Oak. Besides feeding their own cattle, Anderson develops bulls, then leases them to his customers with the notion of getting their calves into the feedyard — calves he knows have the genetics to perform.

He started working with seedstock suppliers several years ago, adding carcass traits to his selection criteria. He even bought an ultrasound machine to fine-tune his decisions. Anderson still believes genetics will dictate future beef consumption, at least to some extent, so he's still focusing on carcass merit. He's been disappointed with his alliance experiences thus far, however.

"We've done a lot of work getting carcass characteristics into our herd, and we're simply not getting paid for all of our research and development time and effort," says Anderson. "You can sort up cattle and get a premium on a few of them, but what do you do with the rest of them?" He explains, packer buyers bid the rest of the show list lower, figuring the top-end cattle already have been marketed.

Still, Anderson believes alliances are going to be necessary for survival.

Alliance operators don't dispute the fact that incentives are still too low to encourage more participation. "The incentive, to me, right now isn't big enough," says Hoff. "I'd like to see it higher, but when you work with packers and feeders and see the marginal profits they sometimes deal with, you begin to understand that the program has to work for everyone involved."

There are no guarantees. When AA began, it was working with Beef America, which had to close its doors last year. Now AA is partnered with Excel.

Of course, there is also plenty of risk if producers decide to keep doing business as usual.

"We've always thought that beef was king; but when you think about it, if someone waved a magic wand, and there was no beef tomorrow, no one would go hungry. Consumers have a lot of choices," says Hoff.

Editor's Note: *A related story follows on the next page.*

INSIGHT:

Are alliances for you?

If producers embrace the need for alliances for product positioning today and economic survival tomorrow, there are a number of questions they should address before diving into one.

"The whole definition of value-added marketing is meeting or exceeding the buyer's expectations," explains Dennis Smith, manager and chief executive officer of Western Ranchers Beef (WRB) in Cedarville, Calif. That means, whether you're selling calves through a program building value on calf health or marketing into an integrated system creating branded beef products, you have to know up front whether or not your product is capable of satisfying alliance customers.

WRB is an open cooperative serving five Western states. It was started in 1996 as a way for producers to build more value into the cattle they sold at auction and via video. At the time, WRB began certifying and marketing calves based on adherence to a specified vaccination and health protocol. This past year about 8,000 head sold as WR-B™ Certified Feeder Calves, commanding a $25/head premium over the average cash price. Along the way, WRB also has partnered with Bradley's B3R All-Natural Premium Beef in Texas, giving members the chance to participate in a fully integrated program with a branded beef product on the other end. They're now at work on a certified sire program for members.

"If you want to put your cattle into a program for which you will receive a premium, can you deliver cattle that deserve a premium? And can you get in a program that can earn a premium for the cattle?" says Smith.

Not surprisingly, reality is often different from the expectation. Jim Norwood of Farmland Supreme Beef Alliance (FSBA) says, "We've not met a producer yet who didn't produce better-than-average cattle, in their own mind. Half of the cattle out there aren't better than average. When producers find that out, it's a shock and it can create mistrust."

That's why Norwood encourages producers to move slowly with alliances. "Stick your toe in the water first. Don't send your entire calf crop to a program to see what they're doing," advises Norwood. Instead, he suggests producers take advantage of a number of low-risk opportunities to sample the calf crop and get a feel for how they feed and how they hang on the rail.

For instance, there are a number of state ranch-to-rail programs, and sometimes producers can work with buyers of their calves to get the carcass data back by paying the collection fee. Even folks willing to step up to the plate to retain ownership can do so on a portion of their calves.

As an example, Norwood says last year cow-calf producers could have made money on two-thirds of the calf crop and still had a snapshot of feeding and carcass performance by selling the heavy end off the cows, sticking the light end in the feedlot, and retaining the middle cut to graze on wheat, selling them later in the winter.

"We encourage them to start slow with us. It's not like this is the last year they have to do something. As they take this step, it's the first year they can start learning what they're doing," says Norwood.

It does require a step, though, and it does require knowledge. "Regardless of breeds, they have to know what they're really producing. They need to find that out and identify a program that fits them and start gearing their program toward it," says Norwood.

For perspective, Norwood explains if a producer has a herd that already builds a high percentage of Prime and Choice carcasses, it makes little sense to try gearing them toward a marketing system that rewards yield more than quality. Conversely, a producer with a herd short on marbling may be money ahead to gear cattle toward a yield-based market rather than try to change their stripes.

Once producers know how their cattle will perform, they're in a better position to start sorting out specific alliance opportunities. The next question is obvious. "What's it going to cost me?" says Mark Nelson, coordinator of Angus America (AA). "That's a valid question; but most alliances out there are competitive, or they wouldn't still be in business."

Alliances charge varying fees for varying services that range from marketing to carcass data collection to about anything you can imagine. As an example, producers can expect to spend in the range of $2-$5/head for carcass data, depending on whether they want standard information like quality grade and yield grade or measured data like fat thickness and ribeye size.

There can be other indirect costs as well. For instance, some alliances require participants to use specific genetics, to feed at certain feedyards or to use specific products. Smith says it boils down to asking, "Am I willing to get into a program that may require some regimentation and change, or am I looking for a program that wants my cattle just the way they are?"

Next, producers have to understand the potential rewards for participating in an alliance. In coordinated systems, especially, the principles can seem like Greek to anyone who hasn't fed cattle or marketed finished cattle. There are grid basics like base prices, plant averages, premiums and discounts that participants should understand before they ever consider committing cattle. "There are a number of grids. I would encourage a producer to take the time to analyze them and try to understand this end of the business," says Nelson.

Other questions remain. What about the integrity of the program itself? How long have they been in business? What are the odds they will be in business tomorrow? Perhaps even more important, if you're building cattle to hit the target for a specific alliance, and it folds, will those cattle still fit the target of other alliances?

Of course, these and other questions should come after the one all producers should ask themselves: What are my goals? That answer, more than any other, should help producers decide whether playing the alliance game will help or hurt them.

Galen Fink of Manhattan, Kan., has worked with Fink Beef Genetics customers to participate in and create a number of alliances. He sums it up this way: "They need to ask if they want to assume the risk of retained ownership and the risk of finding out what their cattle really do on the rail, because they may be surprised.

"And they need to ask what their long-term goals are for their breeding program, where they really want to be in five to 10 years." After all, in genetic terms, if you pick a target now, it could take that long to create a product capable of hitting the bull's-eye — if you start today.