

# Strategic Alliances—Is an Alliance in Your Future?

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The 1995 National Beef Quality Audit conducted by the National Cattlemen's Association indicated that the number one problem facing the beef cattle industry today was lack of uniformity and consistency in its product. What *is* uniformity and consistency, or—more simply put—*quality*, as it relates to the final product? In reality, the consumer is the final judge of the quality of our final product; therefore, quality not only deals with the eating properties of our product, such as tenderness, taste and palatability, but also with price, packaging, safety and appearance of the retail product. Additionally, producers must be aware of other factors, like flavor, versatility and convenience, ease of preparation, and brand name affiliation that affect consumers' preference for beef. Consistency deals with the repeatability of the desired characteristics of quality, such as eating quality, carcass size, portion size and convenience. The problem the beef industry faces is that no single industry segment can, by itself, guarantee a quality and consistent product to the consumer. On the contrary, it requires communication and exchange of information between all industry segments, including the retailer, purveyor, packer, feeder and cow-calf producer. Traditionally, there has been a great deal of distrust between these segments. These barriers must be overcome so that all segments of the beef industry accept responsibility in assuring the consumer a safe, consistent, and quality product—a product the beef industry can be proud of.

Currently, the industry is attempting to put quality and consistency into its product through **value-based marketing**. Value-based marketing is simply a marketing system that pays for true value of the carcass on a per-head basis and not on the average. The value determinants that make up the value-based pricing system include quality

grade, yield grade, carcass weight, and other carcass attributes. Although this paper does not discuss these factors, the producer must sufficiently understand the importance and relevance of these value determinants in order to predict the overall quality of a carcass. Although many producers dislike the present grading system, currently there is no other tool(s) available that can accurately predict carcass quality and serve as an indirect indicator of palatability and tenderness. So, until further notice, we must accept the pat hand dealt and proceed. **Strategic alliances** have taken the lead in the attempt to implement a value-based marketing system. In part, strategic alliances serve to form associations between segments of the beef industry to allow for multidirectional sharing of information. In a value-based marketing system these alliances serve to enhance the flow of performance information from both the feedyard and packing plant back to the cow-calf operator. In turn, producers must digest the information, take a course of action, and implement any changes necessary to enhance the quality of their cattle. They alone are responsible for these changes.

There are essentially four different categories of alliance in the beef cattle industry today:

- breed associated,
- commercial beef carcass,
- natural/implant-free, and
- vertical-integrated beef cooperatives.

**Breed associated alliances** are endorsed by specific breed associations and are dominated by the British breeds. They have very tight breed specifications, deal with source-verified products, return feedyard and carcass information to producers, and typically market high-quality beef products. The most successful Breed Association Alliance has been Certified Angus Beef. This has

been followed by the implementation of Certified Hereford Beef and Supreme Angus Beef, developed by the Red Angus Association. Other breed associations have started alliance programs, including the Gelbvieh, Shorthorn, Limousin and Saler associations.

The most common type of alliance is the **commercial beef alliance**. These alliances place emphasis on building relationships between industry segments. Their primary function is to transfer performance data from the feedyard and carcass information from the packing plant back to the cow-calf producer, therefore allowing producers to determine true value of their cattle. Breed specifications are variable and differ greatly between alliances. The predominant target breed is Angus-based, while some alliances target exotic cross cattle. Most alliances exclude dairy- and *Bos indicus*-type cattle. As far as the latter is concerned, the acceptable breed composition for cattle is quite variable; many alliances target cattle with no excessive hump, sheath, and dewlap; hump specifications range anywhere from 2 to 4" on the carcasses. Other alliances specifically state breed requirements ranging from less than 3/8 *Bos indicus* to less than 25% *Bos indicus* (with the remaining 75% British). Interestingly enough, one alliance indicates that it will waive *all* breed specifications if the producer presents a past kill sheet consisting of greater than 65% choice. Commercial beef carcass alliances deal in both high-quality and red meat-yield beef. Several alliances are now utilizing ultrasound at the time of reimplantation to sort cattle into slaughter outcome groups according to body composition.

The **natural/implant-free alliances** are typically well established alliances that market antibiotic- and growth promotant-free products. The most well-known are Coleman Natural Products and Maverick Ranch. One natural/implant-free alliance is attempting to market a product that is fed a forage-based ration or is range-raised. Breed specifications for the natural/implant-free alliances

usually consist of exotic cross cattle with no *Bos indicus* breeding. They typically target the lean red meat-yield carcass. And, like the other alliances, they convey feedyard and carcass data back to the producer for a small fee.

The **vertical-integrated alliances** are regionally based alliances that consist of a few small, established alliances—with a couple of new players coming into the picture. As a rule, these alliances are producer-owned cooperatives. Their primary goal is full control of the product they produce, while returning profits back to the members—hence the name *Ranch-to-Plate Alliances*. Two relatively small cooperatives, B3R Country Meats in Texas and Oregon Country Meats in the Pacific Northwest, have proved to be quite successful. Newcomers include US Premium, located in the High Plains and Midwest area, and Northern Plains Premium Beef, located in the Northern Plains and in two Canadian Provinces. Although neither of the latter two alliances has yet to market its products, both have been receiving considerable attention and public press.

Before producers decide whether a strategic alliance is in their future, they need to ask themselves a few general (and somewhat philosophical) questions. First, are you truly interested in improving the quality of your cattle, if they need it? Remember, your cattle are going to be sold on a value-based system; therefore, you may or may not like the data on cattle performance that you receive back from the alliance. Second, are you sincerely interested in the future of the beef cattle industry from the standpoint of producing a quality and consistent product? Third, does an alliance fit into the short- and long-term business goals and(or) family goals of your operation?

What factors do you need to consider when looking at an alliance? Numerous questions must be asked before becoming involved in an alliance

and, by no means, is this list inclusive. Specific questions address several target areas:

- ▶ What are the requirements of the alliance?
- ▶ Do your cattle fit the target program of the alliance?
- ▶ What type of information do you want back from the alliance and do you need help analyzing the data?
- ▶ What impact will alliance requirements have on the management and day-to-day activities of your operation?
- ▶ What are the risks and rewards involved?

Remember, alliances only offer the *opportunity* to make money, they can not guarantee it.

The first question to be addressed deals with alliance requirements and(or) cattle specifications. There is considerable variation between alliances, which includes such factors as required preconditioning programs, enrollment fees, specific breed-types accepted, specific feedyard(s) and packer(s) used by alliances, formula pricing used, and the alliances' marketing strategies. You need to determine what alliance your cattle fit into, as well as that alliance's marketing options. This may be an easy decision if you already know the type(s) of carcass your cattle will produce, however it can be a difficult question if you do not know how your cattle perform. In the latter case, proceed with caution. Find an alliance that has general enrollment requirements for cattle-types and will help you interpret your data. You may want to send only a small pen of cattle to start with. Select and feed cattle that represent your herd average, not the very top end. Other options include teaming up with a respected seedstock producer who wants carcass data on some of his or her bulls, or getting involved in a state-sponsored carcass evaluation program.

The second question producers must ask themselves deals with the type of feedyard and carcass

information they would like to receive back from the alliance. As far as the feedyard is concerned, do you want individual or pen-average data reported? Other items of interest from the feedyard include average daily gain, total gain, feed efficiency, days on feed, cost of gain, and health records. Other points of consideration include the feedyard's reputation, implant program, whether they sort cattle, and to what specifications cattle are fed. Information from the slaughter floor would include data on condemnations, injection site problems, bruises, and information on uniformity and appearance of the hide. Carcass data would include carcass weight, ribeye area, fat over the ribeye, quality grade (marbling score), yield grade, maturity (lean and bone), and the appearance of dark cutters. Once your data are returned, you must analyze and interpret the data correctly. Many alliances have field technical support to assist you in this area. Additionally, take the extra time to compare your feedyard and carcass data against your cowherd data (if you collect it). Culling and selection decisions on sires used, and evaluation of cow performance can be made accordingly.

Selecting the correct alliance is probably the easy part of this process. Decisions regarding the makeup of your cowherd may prove the most difficult. In a perfect scenario, over 75% of your cattle would receive premiums. In contrast, your cattle may actually receive a greater percentage of discounts, indicating deficiencies in quality. Therefore, are you willing to make the necessary changes in your breeding and(or) management programs that will put quality into your cattle? This is where making decisions starts to get tough. Make sure that you have production, market, carcass, and financial goals in mind to guide you through this process.

Third—and a very important question—what effect will my association with an alliance have on my operation? This includes changes needed to meet alliance requirements, influences on cost of

production, availability of labor resources, and production schedules. Low-input operations may not be able to handle drastic management changes, neither physically nor financially.

And finally, what types of risk are you willing to accept? But remember, the alliance is also exposed to risk. If you want carcass data, you may need to retain ownership of your cattle. However, there are a few alliances that do not require retained ownership, yet will still collect your carcass data for a small fee. Other risks you are exposed to include shipping cost, health and feed cost, uncontrollable market prices, and environmental risks. You may conclude that you are unwilling to accept all this risk. Therefore, you are better advised to make alternative choices with less risk. For example, you can get involved with a marketing alliance that sells *value added calves*, which have been preconditioned. (Dr. Ed Richey has addressed this alternative in his short course topic “Certified Health Marketing Programs for Southeastern Calves.”)

Getting into an alliance is not a simple process, but it can be a very rewarding achievement.

Investment in an alliance requires a great deal of attention to detail, a substantial amount of homework, and solid commitment on your behalf. Be realistic in your expectations, take criticism constructively—not personally—and use it as a learning experience. Alliances serve not only to benefit you as a producer, but as a worthwhile investment in the future and image of the beef cattle industry—the end result of all the hard work being a uniform, consistent, and quality retail product that results in satisfied customers who return for more.

Although I have not included names and addresses of the specific strategic alliances in this manuscript, such information can be obtained through either the National Cattlemen’s Beef Association or Cattle–Fax. Cattle–Fax has a comprehensive listing and discussion of alliances in a 40-page booklet, titled “Marketing Alternatives,” which is available for \$25 by writing to

Cattle–Fax  
P.O. Box 3947  
Englewood, CO 80155-3947  
(Phone) 303/694–0323  
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