

Allied Inputs and Marketing (A.I.M.): Cooperative Producer Efforts to Improve Profitability

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Introduction

The beef industry is a dynamic force in Kentucky agriculture. Approximately 40,000 farms in Kentucky raise beef cattle. Containing 1.060 million producing beef cows, Kentucky's beef cow herd is largest east of the Mississippi and 8th largest nationally. Including calves, Kentucky's 2.4 million head are valued at \$1.2 billion and generate approximately \$650 million in cash receipts annually. Like most states in the Southeast, most (86%) of the beef farms in Kentucky contain less than 50 head of cows. These producers face unique production and marketing challenges that most often hinder their ability to profit. Cost of production is higher for small and medium-sized beef producers. These producers are normally unable to negotiate costs of various inputs and generally are forced to pay retail for items such as vaccine, dewormer, mineral, and preconditioning feed. Costs of supplemental feeds are also higher because small producers are unable to purchase and store large enough quantities to enable them to purchase the commodities at prices offered to larger producers. Small producers are also at a marketing disadvantage. Currently, only 4% of all beef producers in Kentucky are large enough to market calves in load lots. These large producers are able to capture the added value of vaccination and backgrounding programs. Small producers often are unable to capture the added value of their calves because their marketing opportunities are more limited. With these inequities in mind, the University of Kentucky Beef Team developed a program to aid small and medium-sized producers to better compete in the marketplace.

The Allied Inputs and Marketing Program

The purpose of the Allied Inputs and Marketing (A.I.M.) program is to encourage the formation of local alliances or cooperatives to enable producers to lower input costs of production and create a greater demand for their product. Our goal is to provide producers with information to help them organize and develop collective production and marketing plans.

The A.I.M. concept was first proposed to help producers capture the added value of their product. The A.I.M. concept encompasses the entire beef production process. For example, for years beef producers have known the benefits of vaccination and preconditioning programs, yet small and medium-sized producers are slow to adapt these value-added management practices because they fail to receive a premium for their calves at the stockyards. They were unable to capture the true market value of their calves because they are selling a small number of calves of unknown value to order buyers. The A.I.M. concept encourages producers to form a county- or area-based alliance. Producers in each alliance or cooperative would work together to develop a production plan that would hopefully include breeding, nutrition, health and marketing plans. Producers would then begin to produce and market "like beef". Two main advantages can be obtained by cooperation between producers: 1) bulk purchasing; producers can take advantage of the economies of size by purchasing feed, mineral, vaccinations, etc. in bulk. Thus production costs can be dramatically reduced, 2) mass

marketing; producers can more readily obtain true market value for their calves because they can sell in larger, more uniform truck load lots. Additionally, alternative marketing plans like retaining ownership and grid marketing could be developed to capture even more of the “hidden” value of in high quality cattle.

It may appear that the A.I.M. program is for commercial cattleman only. However, one of the strengths of this program is that no producer is left out. Backgrounders are included because not everyone may want to precondition calves before marketing them. Also, a steady supply of calves for marketing may be needed. Stockyards are also involved because no matter what the marketing plan is for an alliance, a central collection and processing facility is vital. Also, the stockyards can provide real-world marketing expertise to the alliance. Therefore, all individuals in a community can be involved to produce higher quality beef.

In summary, the A.I.M. program is designed to promote the formation of local beef production cooperatives to enable producers to lower production costs and capture the true market value of their product. The production of a higher quality, more uniform product is consistent with the quality assurance changes currently occurring nationally in the beef industry.

Working Alliances

Currently two A.I.M. alliances are functioning in Kentucky. Together they encompass 137 producers who own 7,937 cows. Herd sizes range from 4 to 427. Each alliance established independent goals and each functions differently.

Washington County Beef Cattle Alliance

The first group to develop an alliance is located in Washington County, Kentucky. This alliance currently consists of 30 producers that own 1700 cows. The Washington County Beef Cattle Alliance (WCBCA) encompasses both production and marketing efforts. The WCBCA submits bid packages to all local vendors for the purchase of vaccine (clostridials, respiratory disease complex, Leptospirosis, Vibriosis, and H. somnus), dewormer (all major labels), commercial medicated pre-conditioning feed, melengestrol acetate, and mineral. After submission of the bids, vendors are chosen and contracts are signed. Each member of the alliance is required to purchase their vaccines and dewormer immediately. Feeds and mineral are purchased as needed during the year. The purchasing program has resulted in tremendous immediate savings. Purchased costs of these products were from 20-30% lower than available over the counter. Financial analyses has indicated that production costs were reduced \$45 per cow in the first year alone.

Cooperative marketing efforts have also been successful. The WCBCA conducts an annual feeder calf sale that has generated a \$5-12 / cwt. premium over other cattle sold in Kentucky that same day. The cooperative marketing has increased net returns per cow by \$28.

The most fascinating aspect of the WCBCA is that these producers are also establishing consistent breeding seasons and breeding programs. Bull turn-out dates ranged from April to July at the beginning of the program. Producers are trying to narrow this window in order to facilitate a more uniform set of calves to market. Also, the producers chose to only use Angus, Hereford and Charolais breeds in an attempt to decrease breed representation and

increase uniformity.

Certainly, formation of the WCBCA has resulted in immediate returns to these producers. Once common breeding and management practices are achieved, even greater profitability may be realized.

Hardin County Beef IRM Group

The second A.I.M. program established in Kentucky is in Hardin County. This alliance is huge and contains 107 producers who own 6,237 cows. The Hardin County alliance has only a purchasing component at present. Like WCBCA, the Hardin County Alliance (HCA) submits bid packages to all local agriculture vendors (see appendix). Costs were 18-26% lower on inputs purchased through this program (Table 1). Unlike the WCBCA, members of the HCA are not required to purchase all products. Last year, 61% of the members purchased something through the alliance and 35% made regular (3 times per year or more) purchases. The most popular choice for purchase was the mineral as 43% of the members purchased the

mineral. Additionally, 37% of the members purchased the health products (vaccines, dewormer, etc.) while only 5% purchased the pre-conditioning feed. Although no financial analyses are available, it's quite obvious that this program had a tremendous effect on lowering production costs of these producers. The HCA is currently planning to expand into a marketing alliance as well.

Conclusion

The Allied Inputs and Marketing Program is a new concept that has greatly impacted beef profitability of producers in Kentucky. The most dramatic effect of this program will be to empower small and medium-sized beef operations and enable them to take advantage of economies of size. The cooperative purchasing component of A.I.M. is capturing the interests of many counties in Kentucky and its impact on beef production sustainability could be tremendous.

Table 1. Comparisons between bid price of items (vaccines, dewormer, implants, and mineral) and the retail price at local vendors.

<u>Item</u>	<u>Company</u>	<u>Size</u>	<u>Bid Price (\$)</u>	<u>Retail Price (\$)</u>	<u>Savings (%)</u>
Fortress 7	Pfizer	10 ds	3.57	4.49	25
Fortress 7	Pfizer	50 ds	17.85	22.49	26
Virashield + HS	Grand Labs	10 ds	11.02	13.76	20
Triangle 9 + HS	Fort Dodge	10 ds	12.96	15.55	20
Synovex H	Fort Dodge	100 u	65.00	76.90	18
Cydectin	Fort Dodge	1 L	116.38	145.95	25
Cydectin	Fort Dodge	2.5 L	251.37	309.95	23
Custom Mineral	Southern St	50 lbs	8.37-9.70	13.50	32

**APPENDIX: Hardin County Beef IRM Group Page 1 of 4
2001 BEEF INPUT PRODUCTS BIDDING PACKAGE FORMS**

Bid Submitted by: _____

Group A: Clostridium Vaccines

<i>Brand Name</i>	<i>Company</i>	<i>Size</i>	<i>Bid Price</i>	<i>Comments/Terms/Ordering</i>
1. Vision 7	Bayer	10 dose		
2. Vison 7	Bayer	50 dose		
3. Vision 7 - Somnus	Bayer	10 dose		
4. Vision 7 - Somnus	Bayer	50 dose		
5. Fortress 7	Pfizer	10 dose		
6. Fortress 7	Pfizer	50 dose		

Group B: 4-Way Viral (IBR, BVD, PI₃, BRSV) - KILLED, with and without Lepto and H. Somnus Vaccines

7. Vira Shield 5	Grand Labs	10 dose		
8. Vira Shield 5	Grand Labs	50 dose		
9. Vira Shield 5 + VL5	Grand Labs	10 dose		
10. Vira Shield 5 + VL5	Grand Labs	50 dose		
11. Vira Shield + Somnus	Grand Labs	10 dose		
12. Vira Shield + Somnus	Grand Labs	50 dose		
13. Triangle 9 + HS	Fort Dodge	10 dose		
14. Triangle 9 + HS	Fort Dodge	50 dose		
15. Triangle 4	Fort Dodge	10 dose		
16. Triangle 4	Fort Dodge	50 dose		

Bid Submitted by: _____

Group C: 4-Way Viral (IBR, BVD, PI₃, BRSV) - MODIFIED LIVE, with and without Lepto Vaccines

<i>Brand Name</i>	<i>Company</i>	<i>Size</i>	<i>Bid Price</i>	<i>Comments/Terms/Ordering</i>
17. Pyramid MLV 4	Fort Dodge	10 dose		
18. Pyramid MLV 4	Fort Dodge	50 dose		
19. BoviShield 4	Pfizer	10 dose		
20. BoviShield 4	Pfizer`	50 dose		
21. Pyramid 9	Fort Dodge	10 dose		
22. Pyramid 9	Fort Dodge	50 dose		
23. BoviShield 4 + L5	Pfizer	10 dose		
24. BoviShield 4 + L5	Pfizer	50 dose		

Group D: Pasteurella haemolytica Vaccines

25. One Shot	Pfizer	10 dose		
26. One Shot	Pfizer	50 dose		
27. Presponse SQ	Fort Dodge	10 dose		
28. Presponse SQ	Fort Dodge	50 dose		

Group E: Implants

29. Synovex C	Fort Dodge	40 dose		
30. Synovex H	Fort Dodge	100 unit		
31. Synovex S	Fort Dodge	100 unit		

Group F: Commercial Medicated Pre-Conditioning Feed

32. Minimum Specifications: 13% CP, 1% Crude Fat, .4% Ca, .3% P, 1% K. Maximum Fiber 25%. No NPN. Medicated for respiratory diseases.	None Specified	50 lb. Bag	(Note: \$/Ton)	
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Bid Submitted by: _____

Group G: Commercial MGA Medicated Feed for Suppression of Estrus in Heifers

<i>Brand Name</i>	<i>Company</i>	<i>Size</i>	<i>Bid Price</i>	<i>Comments/Terms/Ordering</i>
33. With Melengestrol Acetate (MGA)	None Specified	50 lb. Bag		

Group H: Bulk Soyhulls

34. Minimum Specification: 9.0% CP. Delivered with a 3 Ton minimum.	N/A	Bulk	(Note: \$/Ton)	
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Group I: Wormers

35. Cydectin	Fort Dodge	1000 mL		
36. Cydectin	Fort Dodge	2.5 L		
37. Cydectin	Fort Dodge	5.0 L		
38. Ivomec Pour-on	Merial	1 L		
39. Ivomec Pour-on	Merial	2.5 L		
40. Ivomec Pour-on	Merial	5.0 L		
41. Ivomec Eprinex Pour On	Merial	1 L		
42. Ivomec Eprinex Pour On	Merial	2.5 L		
43. Ivomec Eprinex Pour On	Merial	5.0 L		
44. Dectomax Pour On	Pfizer	1 L		
44. Dectomax Pour On	Pfizer	2.5 L		
45. Dectomax Pour On	Pfizer	5.0 L		
46. Dectomax 1% Injectable	Pfizer	100 mL		
47. Dectomax 1% Injectable	Pfizer	250 mL		
48. Dectomax 1% Injectable	Pfizer	500 mL		

Bid Submitted by: _____

Group J: Mineral

<i>Vitamin/Mineral Level</i>	<i>September - January Feeding Period^a</i>	<i>February - April Feeding Period^b</i>	<i>May - August Feeding Period^a</i>
Salt, %	25 - 28	15	25 - 31
Magnesium (Mg), % (From MgO)	2	15	2
Calcium (Ca), %	12	12	12
Phosphorous (P), %	6	7	6
Potassium (K), %	1	0.0 - 0.5	1
Copper (Cu), ppm (No CuO, with 25% from Chelated Cu)	1,200	1,200	1,200
Zinc (Zn), ppm	3,000	3,000	3,000
Selenium (Se), ppm	53	30	48
Iodine (I), ppm	48	48	48
Cobalt (Co), ppm	10	10	10
Vitamin A, IU/lb	200,000	150,000	200,000
Vitamin E, IU/lb	400	300	400
Chlortetracycline (CTC), mg/lb	- 0 -	- 0 -	800
Manganese (Mn), ppm	2,000	2,000	2,000

Additional Notes:

No added Iron. Is to be formulated with and without Rumensin.

^a Distillers Dried Grains (40 lb/ton), wet molasses (20 lb/ton), and mineral oil (20 lb/ton)

^b Distillers Dried Grains (100 lb/ton), wet molasses (20 lb/ton), and mineral oil (20 lb/ton)

46. Mineral without Rumensin in 50 lb. Bags (\$ per Ton)			
47. Mineral with Rumensin in 50 lb. Bags (\$ per Ton)			
<i>Comments, Terms, Ordering</i>			

NOTES: