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MARKETING FOR ADDED VALUE

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“Value Added Calf” is a phrase that has been around the beef cattle industry for several decades. In short, value added marketing is taking a commodity and creating additional value through management practices, and then marketing that commodity in such a way as to be paid for the additional value created. Although producers may have taken a number of steps to create that added value, it is all for naught if the product is not marketed in such a way as to capture that additional value.

Added value can be created through quite a number of production steps. Breed selection may qualify animals for certain valued added programs. Basic management practices like castration, weaning and pre-conditioning may be the basic price of admission for other programs. Documented health protocols, such as the Pfizer SelectVAC program, may be another factor in added value. Documented feedlot performance and carcass data may also attract buyers to a set of calves. The aforementioned attributes have become standards for value-added marketing. These attributes are essentially required to establish a set of animals as being more than just commodity cattle.

In recent months, a new set of “credence attributes” (those attributes that are not apparent and may require third party verification) are in demand in the marketplace. These attributes include age verification, source verification, naturally raised, organic, humane handling, and Non-Hormone Treated Cattle (NHTC). In the global marketing environment in which the US cattle industry competes, these new attributes are becoming as important as pre-conditioning programs. Age and source verification are required for access to Asian markets. NHTC certification is required for access to the European market. Naturally raised beef is perhaps the fastest growing (on a percentage basis) segment of the beef industry. According to a 2007 shopper survey by Food Marketing Institute / American Meat Institute, 21.2% of shoppers purchased natural/organic meat or poultry in the past three months, up 17% from the 2006 survey. (Meatingplace.com February 19, 2007) Consumers at home and abroad are becoming more interested in how animals are raised, elevating the importance of verifiable animal handling protocols. Whole Foods’ CEO John Mackey told Fortune magazine, “We’re upgrading our animal welfare program, and in London we have introduced our five-step animal welfare process. It’s coming to the US soon.” (Fortune, July 23, 2007)

With these new markets available, how does a rancher take advantage of this new found opportunity? Dr. Bill Mies, Elanco Animal Health, offered excellent advice in an interview with BEEF magazine published in September 2007. “Do the marketing first and the

production second. Know where and how you will sell the calves you intend to produce, and maybe even who you'll sell them to. Then go back and create the calves that market wants in a way that makes economic sense to you." Having a marketing plan is obviously the first right step. Knowing how you will market your calves certainly helps narrow your choices and ensures that you have the potential to reap a reward for your added work. (Dr. Bill Mies, BEEF, September 2007)

Producers must also market their animals into a marketing channel that rewards the additional work, giving the producer the opportunity to capture the added value he helped to create. Adds Mies, "To realize value, you must market value. It does no good to do all the right things and then throw the calf to the marketplace as a generic product...The only reason to do anything to increase the value of a calf is because you intend to market the calf to realize the increased value." (Mies, BEEF, September 2007).

Marketing options abound for the producer willing to be more assertive in their marketing approach. Many local or regional livestock auction markets feature value added calves, hold premium calf sales, or work aggressively to market value added calves for their customers. Joplin Regional Stockyards in Carthage, MO, is but one such market creating opportunities for their consignors through special calf sales. Likewise, order buyers and video/internet marketing firms have built substantial business around value added calf marketing. For example, Superior Livestock Auction sold over 320,000 head of calves in a single week during 2007, with fully 30% of the eligible calves selling as age and source verified (75,000 of the eligible 250,000 calves selling). (CattleNetwork.com, October 10, 2007)

Will these new value attributes alone increase the value of the cattle? Likely not. Few buyers are interested in cattle of questionable health, or those that fail to perform on feed or in the meat, even if they happen to be verified for source and age. According to Mies, the basic determinants of a calf's value are:

- Healthy and stay that way
- Can convert feed to gain efficiently
- Are able to quality grade at least High Select with Yield Grade no worse than 3
- Carcass weight in tolerance (550 – 950 lbs)

Jim Norwood, Director of Cattle Procurement for Meyer Natural Angus, offers similar advice. "As a buyer, I look for the same kind of cattle that I try to raise. I want cattle that stay healthy, gain efficiently and have a high % of Choice with minimal YG 4's. When we find those cattle, we want to form a relationship with the seller and have the calves come back each year. Just like the corn-belt feeder you hear about that buys the same calves for 30 years, both the buyer and seller can strive to create that same type of relationship with 'reputation cattle'." (CattleNetwork.com June 25, 2007)

After the basic value determinants are achieved, producers then have the opportunity to "stack" additional attributes. For example, start with a calf that qualifies for natural, NHTC, as well as age and source verification. If the calf must be treated, he is still NHTC and age and source qualified. If market conditions dictate, the calf can still be implanted in the

feedyard and remain age and source qualified. In this “stacked” approach, a calf potentially has multiple market channels for which he could be produced and sold.

A rancher also has to become more diligent in record keeping in order to participate in many of the new value added programs. Age and source verification requires participation in a USDA-approved Process Verified Program (PVP) or Quality Systems Assessment (QSA). AgInfoLink offers a PVP program for ranchers and feeders to qualify their animals for eligibility for Export Verification to Japan. Both PVP and QSA programs require producers to maintain written procedures for determining calving dates and how animals are identified. Although individual calving dates may not be required, some minimal level of group calving information must be documented (bull turn out dates are not sufficient documentation). Naturally raised requirements vary based upon the company specific program, but all require minimum record keeping ensuring that animals meet guidelines. NHTC certification is much more rigorous yet. Keeping good records is the common thread among all programs. Says Mies: “The more records you have on the cattle, the more opportunity you have to increase their value.” (BEEF, September 2007) The types of records that should be maintained include vaccines, lot numbers, date of administration, animal health protocols and dates, BQA certification, history on feedlot and carcass data from previous years calf crops, performance information and sires, and more. Karl Hoppe, extension livestock specialist with North Dakota State University says producers who opt to raise their cattle the natural way need to keep accurate records of which animals receive antibiotics or implants and separate them from other cattle going to market as naturally raised cattle. Treating a few cattle with antibiotics does not keep the rest of the herd from being sold to the natural beef market as long as producers have adequate records to verify the practices they implemented.” (Greg Lardy, NDSU Extension, CattleNetwork.com, May 21, 2007).

All of this additional work and record keeping does not come without a cost. So what should a producer expect in return for this added burden? Potentially plenty in premiums or avoided discounts can be available.

Independent research at Colorado State University provides guidance on added value for each attribute. Research was based upon sale data from seven Superior Livestock auctions analyzing over 422,000 cattle from May to September 2006, and isolated the value of age and source verification apart from the value of preconditioning, natural, or other claims. Premiums of over \$7.60 per cwt were documented for complete preconditioning programs (\$38/head on 500-pound calves). The value of the age and source verification factor alone was \$1.77 per cwt, or \$8.85 per head on 500 pound steers. Jim Kelley, Business Manager for Superior Livestock, estimates that the age and source premium seen in 2007 will be closer to \$2-3 per cwt. (Jolley, CattleNetwork.com, August 31, 2007)

Premiums aren't just limited to large video sales. Researchers at Iowa State University, working with USDA market reporters, collected data from 105 Iowa sales between October 2005 and February 2006. They evaluated sale prices on over 20,000 lots of cattle, with an average lot size of five head. Among other factors, they looked at the value differences between five levels of preconditioning ranging from no weaning or vaccination claims to certification of vaccination and at least 30-days weaning. Based on estimated costs for

weaning and vaccinations, the researchers estimate the additional pay weight and premium for third-party verification result in a \$35 per head profit advantage. (Source: Drover's Alert by Drover's Journal)

Another Iowa State University Study found that "preconditioned calves certified through a third-party-verified program and weaned at least 30 days commanded premiums of \$6.15 per hundredweight over the base. Calves with uncertified claims of vaccinations and at least 30 days weaning received \$3.40 per hundredweight over the base. This data shows that preconditioning calves does pay a premium, especially with third-party verification. Of feedyard managers surveyed, nine out of 10 said a signed veterinary certificate is a significant advantage over non-certified programs." (Dr. Van Ricketts, Director of Program and Corporate Accounts for Merial, CattleNetwork.com, June 25, 2007).

As producers ready for the 2007 marketing season and for 2008 production, there are a number of factors that may influence their production and marketing plans. Here are some "realities" to consider in making your value added plans (Mies, BEEF, September 2007):

- Weight – In 2007 and early 2008, heavier calves will have higher value due to higher price of corn. Fewer heavy discounts.
- Premium breed-based programs – CAB & CHB need more supply
- Preconditioning – "Increased number of calves going to grass first (because of high corn prices) increases the demand for calves that won't get sick...Anything that reduces labor or the amount of skilled labor increases value."
- Source Verification – Alone not worth much, but mandatory COOL could change that.
- Age Verification – Asian age requirements have been worth about \$2.50/cwt on feeder calves. Fed cattle premiums have averaged \$25/hd from most packers in 2007, but 2008 is uncertain.
- Natural – Growing market, but know your increased production costs before getting involved.
- NHTC (for EU) – Fed cattle that qualify are bringing \$8-\$10/cwt over market, but it is the most costly value-added characteristic to provide.

In summary, the term "Value Added Calf" is broadening and can mean different things to different producers and buyers. The value of an animal can be significantly influenced through documented management practices such as castration and preconditioning health programs. New "credence attributes" such as naturally raised or age and source verified also offer additional value add if associated with appropriate third party verification. Opportunities exist for ranchers to create added value for their production. More importantly, ranchers also have the opportunity to capture the value they help create through assertive marketing programs with their marketing professional of choice.