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Connecting the Chain - Industry Alliances

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Possibly one of the most popular buzzphrases in U.S. Industry today is Strategic Alliances. Perhaps, we should take a minute to define what a Strategic Alliance is because we are seeing some indiscriminate use of the phrase.

**Definition.** Two or more independent parties combine their respective strengths such as their assets, resources, and management, which are synergistic with one another to form a vertically integrated alliance with the common objective of creating a much stronger and more competitive enterprise, which in its combination minimizes the risk that each entity has in operating separately.

I believe that in order to make such an alliance successful that you must first have a need. Let's have a State of the Union assessment of the beef industry to see if such a need exists.

Over the past three years, there has been 3 significant studies which probably best revealed the major problems facing the industry. The first was the report issued by the Value Based Marketing Task Force. The second was the National Beef Quality Audit, and the third was the National Beef Tenderness Study.

The Value Based Marketing Task Force, which was jointly sponsored by the Beef Industry Council and the National Cattlemen's Association, was a first in several respects. First of all, it was history precedenting, by having each sector of the Beef Industry represented as a Task Force seeking common objectives. The Task Force membership was made up of Seed Stock Purebred Producers, Cow Calf Producers, Cattle Feeders, Packer-Processors, Purveyors, and Retailers. I was privileged to be one of the Cattle Feeders Representatives. There was enough sensitivity as to the makeup of the Task Force that an Anti-Trust Lawyer was present at most of the meetings to keep us out of trouble.

The first of several meetings was probably one of the more interesting ones because it was very revealing that there was a lot of ignorance, sector by sector, as to what the other sector's business was all about.

But probably the most disturbing was not just the ignorance, but the indifference, that each sector had for another sectors problems and impediments. I would like to think that we even had a little taste of a Strategic Alliance by the time we published our report. A remarkable metamorphosis occurred within the group where each sector representative had a better appreciation of the other fellow's business.

We, Cattle Feeders on the Task Force found out that meat packers really weren't all that evil, and Retailers learned that rib roasts just didn't happen, but instead were an end point of a
very complicated production and processing chain that was plagued with all kinds of problems and impediments in its effort to produce a desirable product for the consumers at a reasonable cost. The Purebred Breeders found out that maybe there was another breed of cattle, other than the one that their family has been breeding for three generations, and just maybe it might have better carcass characteristics than the breed their Grandfather's started with and the showring really didn't mean much and could even be a detriment.

The Task Force report identified the clearly state objective:

"To improve production efficiency by reducing excess trimmable fat by 20% and increasing lean production by 6%, both by 1995, while maintaining the eating qualities of beef".

In addition, the report listed 8 consensus points that serve as specific research areas or priorities that are necessary to accomplish the objective.

All of the consensus points were developed to correct specific impediments which were retarding progress in attaining the stated objective of the winning war on Fat. We have won some victories in this war and unfortunately we are still waging some serious battles.

Probably one of the more notable victories was Consensus Point #2, which was "Closely-trimmed box beef should be an option in the market place". All three of the leading packers plus others are now offering their own versions of subprimal cut trimmed to a quarter inch or less and the market acceptance is overwhelming. With the advent of the closer trimmed cuts, the packer now has the incentive to seek out the higher cutability cattle and yield grades have taken on a new meaning to him. Hopefully, being able to distinguish and quantify these value differences will result passing on some pricing incentives to the Cattle Breeder and Feeder to produce these higher value cattle.

The National Beef Quality Audit was the second effect on the part of the N.C.A. and the Beef Board to focus on improving quality as an industry goal. Colorado State University and Texas A&M University conducted the audit and not only identified the inefficiencies in beef production, but also quantified the costs that were associated with them. The bottom line was that we were losing approximately $280. per fed steer in value because of these problems.

I think that most of us would agree that price is a problem that beef has in competing with the other meat proteins. I do not know of many people who do not enjoy the taste of beef, but I do know of a lot of people who cannot afford to eat as much beef as they would like to.

All of my life there has been an all out effort on the part of the American Cattleman to spend his money trying to find ways to get more money for his product through promotion and advertising instead of spending at least a portion of those funds to find ways to produce it cheaper. The popular answer to this dilemma has been, "I can't reduce my costs. Everything that I buy to operate my business is increasing in price." Labor cost, taxes, fuel and supplies keep going up." The National Beef Quality Audit has gone a long way in changing that attitude.
Let's look at what the National Beef Quality Audit quantified in lost opportunities in capturing additional value or lowering costs, however you want to call it. We said earlier that the report documented about $280 in lost opportunities or costs for each fed steer or heifer and it is broken down as follows:


2. Taste. A total of $28.81 with $2.89 for inadequate overall palatability (especially inadequate tenderness), $21.68 for insufficient marbling, $3.80 for maturity problems and .44 for uncastrated bulls and pregnant females.

3. Management. Total of $27.267 with $17.00 for hide defects; $2.26 for condemned offal; $1.74 for injection site blemishes; $1.00 for bruises; $5.00 for dark cutters and .38 for grub damage blood splash, and finally

4. Weight problems. $4.50/too heavy or too light carcasses, not meeting specs. I ran some figures on discounts which we experienced during the recent period of July 3 to August 11. Out of a total of 14,000 cattle shipped during this period, 1,051 cattle had discounts totaling $184,519.60 or $175.56 per head for discounts mainly in lites or heavies and dark cutters.

It doesn't do any good to talk about problems unless we can come up with some solutions. So what are we going to do about it?

First of all, in my opinion, nothing very exciting is going to happen as long as the average live price method of selling prevails. There is not a way that we can attain a value based marketing system for fed cattle until we abandon the live average system and go to a carcass merit system where a feeder gets paid precisely on what he produces. Until the proper price signals are incorporated into the system through discounts and premiums, we are unable to downstream these value differences to either provide the incentives to the Feeder and the Cow-Calf producer to do a better job or to penalize those Feeders and Producers who continue to market the poorer quality cattle.

What can be done to facilitate these changes before it is too late? In my opinion, the quickest and most practical way is to "Connect the Chain" or in other words, develop Strategic Alliances. Promote alliances between Ranchers and Feeders through retained ownership and partnerships, where a Rancher will have an accurate assessment of how his cattle perform in the feedyard in terms of daily gain, feed conversion, morbidity and then take him a step further and market his cattle on a carcass merit basis. With this information the progressive rancher will alter his breeding programs and management practices to capture these lost opportunities, lower his costs, share in the additional value, and produce the type of animal which will make us more competitive with pork and poultry.
We will see an increase in alliances, joint ventures, partnerships between feeders and packers. Feeders are slowly coming around to the realization that the Packer is not the enemy, screwee or screwor, but instead has essentially the same interests and goals that he has if they join together in an alliance where the Feeder plays the role of the raw material producers and the Packer serves as the processor and marketer and both have the opportunity to enjoy the inherent economic advantages of a vertically integrated operation.

I would predict that you will see alliances between Packers and Retailers. The old adversarial screwee and screwor relationship between these sectors is also melting, and I believe that you will see arrangements that Packer Processors will even play a role in assisting the retailer in the management of his meat case. Most of this will revolve around being able to bring more efficiencies into the system and subsequently lowering costs; creating uniformity and increasing the quality of the product.

REFERENCES

