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STRATEGIC ALLIANCES: HOW CAN SEED STOCK PRODUCERS HELP?

Roger Dieter
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The reason I have been invited to speak about Strategic Alliances at the Range Beef Cow Symposium is because of our involvement with a couple different Alliances the past two years. As a type of introduction I feel it may be beneficial to provide you with background information about our alliance experiences.

Our first involvement with any type of alliance format was as a participant in the Strategic Alliance Project that was sponsored by the National Cattlemans Association in 1993. The Strategic Alliance Project was, in part, a follow up to the National Beef Quality Audit, a project also sponsored by the NCA. The National Beef Quality Audit revealed a startling \$280.00 loss for every steer and heifer slaughtered in the United States due simply to non-conformities. Money that basically slipped through the cracks and was recovered by no one. The main goal of the Strategic Alliance Project was to determine how much of this \$280.00 could be retrieved if there were a coordinated effort on the part of everyone involved from the producer on through the feeder, the packer, and the retailer. This was a project the NCA devoted a tremendous amount of time and capital investment in. We were one of fifteen ranches who represented the producer portion of the alliance. We all delivered a pot load of preconditioned weaned calves to Decatur County Feedyard in Oberlin, Kansas, which is owned and operated by Warren Weibert. Our packer participant was Excel. These three entities were equal partners in ownership of the cattle involved in the field study. Our retailer participant was Safeway Stores Inc. who marketed the finished product through their chain of stores. Without going into a lot of detail the end result of the field trial revealed that \$63.00 of the \$280.00 lost was recovered when all segments of the industry worked together.

One of the major inefficiencies of our business, in my opinion, is the fact that we are so segmented. I think this segmentation will be a major obstacle on the road to making our industry more profitable. Unfortunately, but in most cases the rancher, who sells his calves off the cow, is very apathetic toward the backgrounder who takes them from 500 pounds to 800 pounds. The backgrounder who sells 800 pound feeders really doesn't care if the finishing feeder makes any money with them. The feedlots that sell finished cattle really don't care if the packers make any money, and the packers really don't care if the retailer makes any money. The pork and poultry business have some real efficiency advantages over us because they are more integrated. There are fewer ownership changes. This scenario will be difficult to overcome, but if it is possible to unify the segments, alliance type formats may be the answer.

Our second alliance involvement was a spinoff from the Strategic Alliance. Warren Weibert, the owner-operator of Decatur County Feedyard, encouraged our participation in a project they were working on which involved electronic tracking and sorting through the feedlot phase. Monfort was to be the packer participant this time. With the assistance of ultrasound measurements and electronic identification, we hoped to be able to provide Monfort with a

consistently lean, high yielding product that they could market through their Tech 21 program. We provided approximately 2,000 feeder cattle to Decatur County for this project, all of which had some genetic similarities. The cattle that were delivered to Decatur County were accumulated by means of an alliance type situation between ourselves as the seedstock producer, our bull customers as commercial producers and some local background feeders.

Why the sudden need for alliances? The question is very pertinent as nearly every paper you pick up these days has space devoted to different alliance formats.

I'll try to convey some of the thoughts and opinions of us at Deiter Brothers as to why alliances can be useful to the seedstock producer.

We believe there will be major changes in the seedstock business in the near future. In my opinion here are what some of those changes could be.

1. I think our commercial bull buyers will continue to demand more from us as seedstock producers. There is so much new technology on the horizon. In addition to all the standard measurements of weight and linear measurements that the commercial producers seem to demand, we will have to keep abreast of all the new things that are happening. DNA testing and gene mapping for different traits will be a reality one day. Rib-eye size is an important component in some formula pricing. Ultrasound testing for rib-eye size and marbling will be commonplace among the successful producers. Carcass EPDs will become more important. There are new things happening in embryo transfer, with the new freeze and thaw procedures that allow direct transfer. All of these things take a tremendous amount of time and dedication. I personally don't think all of our present seedstock producers will be willing to keep up with these innovations and consequently will be left behind.
2. I think, for a couple of reasons, the successful seedstock producers will be those that are large in numbers. Number one, the fixed costs of a seedstock operation are incredible. When you factor in all the promotion, the travel, all the extra breeding expenses, embryo expenses, labor and so on, you simply need a lot of numbers to absorb that overhead. Number two, I think the commercial buyers will be turning to the breeders offering a minimum of 100 bulls on their production sales. It seems like there is a trend toward buying bulls from one place. Bulls that are bred alike or in some cases litter mates.
3. I believe that in the years ahead of us we will see fewer bull producers. There were a lot of bull sales last year that were not very good. There were many private treaty bull offerings that had a lot of bulls left over. We probably have a year or two of depressed prices to suffer through yet. Some of these people will cut back in numbers. The end result of this may be that the high fixed cost will lead to their demise. Others may just give up and go back to producing feeder cattle. I think over time there will be about the same number of bulls produced, but they will be produced by fewer breeders. I really believe this is consistent with the fact that fewer farmers are farming the same acres. Fewer feed companies are selling the same amount of feed. Fewer law firms are

providing the same legal services. Consolidation of small companies into big companies is commonplace in all types of business.

4. I think the commercial bull buyers will be turning to the programs that offer a network of services rather than just genetics. The programs that can assist their customers with their marketing needs or offer a retained ownership program or some combination of such programs will have a real advantage.

What does all of this mean? I think it means the seedstock producers who don't have the ability or the willingness to do these things and provide the services I've mentioned will be overrun by those who do.

In my opinion this is where alliances with existing successful enterprises can assist seedstock producers to provide some of these services.

Becoming a service oriented seedstock operation is easy to talk about, but is a huge undertaking. Tackling it independently would take a rare combination of know how, dedication, determination and financial backing. Stop and think about what may be involved. You first have to stay on top of your breeding program and continue to improve on your seedstock operation. Then you have to be on the road following up on sales, staying in touch with your customers and assisting them with their marketing needs. You may want to assist your bull customers with selection of their replacement females or help them set up a program that will allow them to breed their own. Then you have to oversee a feeding operation large enough to facilitate your customer base. Finally you have to have an outlet for your end product or negotiate with a packer, and hopefully come away with a premium price for your premium product. How many cattle breeders have gone broke trying to break into the feeding business or the meat business?

I think an alliance with ongoing successful operations will allow each enterprise to concentrate on the business they know best and consequently be more successful.

What are some of the keys to successful alliances?

In order for an alliance to be viable, it obviously must be financially rewarding for all the participants. The alliance members have to understand that and be willing to share profits with their partners.

One of the obvious purposes of an alliance is for the participants to achieve results that they could not attain by themselves. Each member must be able to make a contribution and provide their expertise in the field in which they excel.

Like any successful partnership or joint venture there has to be mutual trust and respect by all the participating members.