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## Not All Beef Marketing Alliances Are the Same: A Review of Alliance Types<sup>1</sup>

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### Introduction

Beef producers will find there are various types of alliances in the beef industry. These alliances have the common goal of creating value for participating producers while producing desirable consumer products. Each type has both pros and cons, and it is important to understand the differences before deciding on how to market cattle. In general, all alliances attempt to capture and create additional value and higher returns for participating producers. Although there are several ways to do this, there are just three distinct categories: cooperatives (usually closed cooperatives), brand licensing organizations, and specialty product marketers (Table 1).

### Pricing Grids

One commonality among nearly all beef alliances is the use of pricing grids. These grids are designed to provide incentives for producers to produce animals that will yield desired carcass traits, which are generally based on quality grades or yield grades. Pricing grids define the premiums paid for desired grades and the discounts levied for undesired grades.

In the beef industry, pricing grids are still based on the market price for the particular animal as if it had been sold on the open market. So by nature, these grids still maintain the variability of the open market. Additionally, they add variability through the premiums and discounts rewarded on a herd as animals will grade differently; each group of calves will likely not perform identically. It is important for producers to examine the grids to determine which grid will help them receive the maximum benefit from the marketing arrangement.

### Types of Alliances

Cooperatives are producer-owned entities (e.g., US Premium Beef). They tend to provide the highest opportunity for additional returns. However, the high returns come at a price. In the case of the closed cooperative, producers must either buy part of the company as stock shares or lease shares from other producers who have excess shares. These shares come with certain rights and obligations. For example, the biggest obligation is to market one head of cattle for each share owned (or leased); failure to meet this obligation will result in a penalty fee. This is how the

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closed cooperative regulates and controls the number of cattle that flows through the program. Like most of the alliances, the closed cooperative currently uses a market-based grid (a combined grid based on yield and quality grades). In addition to the premiums and discounts provided on the grid, closed cooperatives pay dividends on the stock, and some have additional bonuses paid to producers who market cattle through the program. Value is created through a cooperative marketed brand that consumers can easily identify.

Brand licensing organization programs are often breed-based (e.g., Certified Angus Beef, Certified Hereford Beef), although they need not be. These programs require the cattle to meet a certain genetic template. They create value by centering the program around a branded product that conveys a certain standard of quality to consumers. For example, the licensing organization certifies herds (producers must use certified bulls to produce the calves on the certified cow herds) and handles the marketing of the beef produced from the certified cattle. Generally, the arrangements will have cattle sold on a quality- or yield-type grid with a few alliances using a combined grid. The brand licensing organization programs tend to be very loose contractual arrangements with the only obligation being the certification. Thus, producers can choose to sell all or none of their certified cattle through the marketing program. Cattle that do not meet certification cannot be marketed through the program, which generally makes this style of program costly to those whose herds do not meet the requirements.

Specialty product marketer programs are similar in concept to the brand licensing programs, but different in structure. For example, value is added by brand identification while creating a niche (a special, unique market) for their product (such as Nolan Ryan's and Laura's Lean). This is the source of the specialty product term used in describing them. In some cases, these programs will have breed restrictions, but usually they have certain production requirements that stipulate what can and cannot be done to the cattle to qualify them for the program. These stipulations can be as simple as limiting the timing of antibiotic treatments or as complex as to how the veterinary program must be structured. These programs will often use a yield-based grid for

their payout scheme. However, some use a quality-based grid. Many will have a screening process to further limit the number of cattle in the program. Some screening programs use a quality grid to eliminate certain grades that do not meet the desired characteristics of the program. Other screening programs use more technologically advanced methods (such as ultrasound) to screen carcasses for inclusion or exclusion in the program. Many producers find the restrictions of these programs to be burdensome.

## Alliance Participation

It is important to understand the costs associated with participating in an alliance. As noted previously, there are some restrictions on participating producers. Those restrictions can vary from where the cattle are marketed to how the herd is managed. However, in many cases, producers may not notice the restrictions if they elect to participate in an alliance with which their management practices already coincide.

While profitability may be increased by alliance participation, income risk/variability will also increase. This effect is generally a result of the uncertainty of carcass performance. With the addition of the price grid, the producer is exposed to an additional variation in production. In the past, when there was no merit pricing, this variation was usually borne entirely by the packer. By agreeing to take on this production risk (which is considered an economically sound decision), producers are now expecting a higher return.

## Conclusion

There are several key factors to determining which alliance is best for individual producer needs. The most important factor is a herd's genetic makeup and how well it will match the grid of the alliance. Other factors involve understanding how the alliance will achieve goals and being comfortable with the limitations and restrictions an alliance may put on the production process. While participating in the right alliance could be very rewarding, participating in the wrong alliance could be devastating. In addition, unlike the contract production of poultry and swine, cattle alliances allow producers to maintain a great deal of autonomy.

## References

Anton, Tom E. 2001. Financial structure of corn-belt cow-calf enterprises: The impact of alliance participation on producer financial position. Unpublished Ph.D. dissertation, University of Illinois, Urbana-Champaign, IL.

**Table 1.** Some beef industry alliances.

<b>Alliance</b>	<b>Type*</b>	<b>Website</b>
American Salers	Branded	<a href="http://www.salersusa.org">http://www.salersusa.org</a>
Angus America	Branded	<a href="http://www.angusamerica.com">http://www.angusamerica.com</a>
Angus GeneNet	Branded	<a href="http://www.genenetbeef.com">http://www.genenetbeef.com</a>
Beef Charolais	Branded	<a href="http://www.charolaisusa.com/AICA/Commercial_Programs/commercial_programs.html">http://www.charolaisusa.com/AICA/Commercial_Programs/commercial_programs.html</a>
Beef Works	Specialty	None
Cenex Land O'Lakes	Cooperative	<a href="http://www.chslol.com">http://www.chslol.com</a>
Certified Angus Beef	Branded	<a href="http://www.certifiedangusbeef.com">http://www.certifiedangusbeef.com</a>
Certified Hereford Beef	Branded	<a href="http://www.herefordbeef.org">http://www.herefordbeef.org</a>
Coleman Natural	Specialty	<a href="http://www.colemannatural.com">http://www.colemannatural.com</a>
Decatur Beef	Specialty	None
Farmland National Beef	Cooperative	<a href="http://www.nationalbeef.com">http://www.nationalbeef.com</a>
Gelbvieh Alliance	Branded	None
Hi Pro Producers Edge	Specialty	None
Laura's Lean Beef	Specialty	<a href="http://www.laurasleanbeef.com">http://www.laurasleanbeef.com</a>
Lean Limousin	Branded	None
Maverick Ranch	Specialty	<a href="http://www.mavranch.com">http://www.mavranch.com</a>
MFA Health Track Beef Alliance	Specialty	<a href="http://www.mfa-inc.com/livestock/beef/healthtrack/index.shtml">http://www.mfa-inc.com/livestock/beef/healthtrack/index.shtml</a>
Michigan Beef Alliance	Specialty	None
Monfort Integrated Genetics	Specialty	<a href="http://www.nalf.org/commercial/monfort.htm">http://www.nalf.org/commercial/monfort.htm</a>
MoorMan's Value Trac	Specialty	<a href="http://www.moormans.com">http://www.moormans.com</a>
Nebraska Corn-Fed Beef	Branded	<a href="http://www.necornfedbeef.com">http://www.necornfedbeef.com</a>
Nolan Ryan's All Natural	Specialty	<a href="http://www.nolanryanbeef.com">http://www.nolanryanbeef.com</a>
Oregon Country Beef	Cooperative	<a href="http://www.oregoncountrybeef.com">http://www.oregoncountrybeef.com</a>

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<b>Alliance</b>	<b>Type*</b>	<b>Website</b>
Precision Beef Alliance	Branded	None
Premium Gold Angus Beef	Branded	None
Red Angus Feeder Calf Certification	Branded	None
US Premium Beef	Cooperative	<a href="http://www.uspremiumbeef.com">http://www.uspremiumbeef.com</a>
Western Beef Alliance	Cooperative	None

\* Three categories of alliances: Branded = Brand licensing organization; Cooperative = Closed cooperative; Specialty = Specialty product marketer.  
Source: Ward, Clement E., and Tanya L. Estrada. 2001. Beef marketing alliances. *Visions* 72 (2):16-21 (a publication of the Department of Agricultural Economics, Oklahoma State University, Stillwater, OK). Website links added by Tom E. Anton, University of Florida.