



Know What You're Selling When Using AMAs

By Curt Olson

About 10 years ago the beef industry in earnest embraced the idea that consumers wanted branded products that delivered a guarantee. To get the supply to make those products, companies started dangling premiums in front of cattle producers who had taken a recent beating in the commodity market. That drive for branded beef increased the use of alternative marketing arrangements (AMAs).

Today, about 47 percent of the meat case consists of branded beef, according to Randy Irion, NCBA director of retail marketing.

AMAs helped beef marketers guarantee themselves a consistent supply of cattle that can meet their needs. This demand helped create alliances that stretch back through all segments of the marketing chain to create and deliver a desired end product.

While the promise of being paid for quality is alluring, it's not a risk-free marketing step. If you aren't using an AMA and choose to do so, don't expect business as usual.

First, it is likely that you will give up some independence, such as when you want to sell or, perhaps, management techniques. With AMAs you can trade some risk for some assurances or hopes of finding a more predictable cash flow or better profits.

A 2007 USDA study on alternative marketing arrangements found they are used more by larger producers. They believe AMAs provide them with the best means to get the best price for their cattle.

Likewise, smaller cattle operations surveyed in the study felt

Alternative Marketing Arrangements

A USDA study identified these transactions as AMAs: forward contracts, marketing agreements, marketing contracts, production contracts, packer-owned farms, custom feeding and custom slaughter.

the cash or spot market gave them the best ability "to buy at lower prices and sell at higher prices." About 85 percent of these operations sold this way, saying these methods gave them "independence, flexibility, quick response to changing market conditions." This is the channel through which most cattle still are sold.

As opposed to the spot or cash market where price is discovered through open bidding, many AMAs figure the settled price differently. Formula pricing uses various bases, including the spot market, to formulate the final price. Carcass formulas, which include value-based grids, can contain premiums or discounts for hitting, or failing to hit, certain quality and yield grade criteria. If you sell this way, you must know how your cattle will perform on that grid before you sell them or risk taking severe discounts.

Carcass formulas also may include cattle sold on a dressed weight basis.

Other forward contracts may guarantee a price minimum or define a basis that will help determine the final price. Contracts may also specify a sale or delivery weight, with an adjustment built in to compensate

for cattle that fall outside those parameters.

Finding AMAs

Ask. The auction barn or feedyard is plugged into the beef marketing system, as are your neighbors. Dave Nichols, an NCBA member and seedstock producer from Bridgewater, Iowa, says the first step should be to join NCBA, where you can meet people who have experience with these programs. Then subscribe to *Drovers* and *BEEF* magazines to get their annual lists of alliances. And contact the breed associations. Many of them also have specialized marketing programs.

Being able to go into one of those programs doesn't mean it's the best idea for you right away, especially if grid pricing is used. Premiums can be offered in this system because cattle that don't hit the specifications are discounted, sometimes steeply. It sounds great to be paid for quality on a grid until you learn your cattle didn't hit the quality or yield grade.

That's a deliberately loud message that says they aren't of value in that channel, which usually is created to hit specific consumer preference targets. Too big, too small, too tough, too many vaccines (sometimes just one will do) — too bad. There are plenty of ways to fail to make the grade. That's why this decision isn't entered into overnight.

First, you have to know how your cattle do once they leave your farm. Do they gain well in the feedyard? Are they healthy, age or source verified? And how do they grade?

If you don't know the answers, you might want to enter some cattle in a feedout program. Many

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universities and breed associations do these so find one convenient for you.

The data will help you determine how you move ahead with using some of these AMAs, if at all. You may learn you need to change the herd genetics or adapt new management styles. And remember, all grids and all marketing agreements aren't identical. Know what you are getting into before using it. If you are going to use any kind of formula pricing, make sure you fully understand how that price will be figured so there are no surprises when it is time to sell.

Whether you sell your cattle with an AMA, through the auction market, video sale, or order buyer, each person uses what he believes is best for him. Every system has its advantages.

Shipping Overseas?

These Web sites will link you to programs that list criteria for Quality System Assessment programs, a requirement for many exports, export to Japan and certified beef programs

- www.ams.usda.gov/lsg/arc/qsap.htm
- www.ams.usda.gov/lsg/arc/evjapan.htm
- www.ams.usda.gov/lsg/certprog/certbeef.htm

No Guarantees for Even Good Ideas

As the beef industry embraced developing end products for specific markets, Dave Nichols, a seedstock producer in Bridgewater, Iowa, sought to fill one of the niches. About 10 years ago he set up a marketing agreement to meet the needs of a 13 restaurant chain in the Midwest.

The step added value to his core business, and more importantly for him, helped his customers stay in business and be profitable. "I can sell semen or bulls but I can't sell them to someone who doesn't have cows," he says.

New branded beef ventures such as Nichols Farms carried a deceiving "can't miss" aura in the press — supply and demand, farmers working to give consumers exactly what they want.

What these programs did guarantee was a lot of hard work. Dave learned that being a supplier was more demanding than just selling some beef when he had it. The restaurants wanted a



guaranteed supply that hit specific carcass specifications. The chain needed a couple semi-truck loads of cattle per week and that meant supply and quality management.

Filling this marketing agreement required steps for producers. The cattle had to be sired by Nichols Farms bulls, come from one of his customer's cattle and grade Choice, Yield Grade 3.5 or better with a carcass weight of 750-900 pounds.

And the program worked — until Tyson bought IBP in 2001. Dave lost his slaughter facility as the packer ended its custom killing program. He couldn't find any affordable alternatives.

Since his venture, he says the larger packers have increased their branded offerings. "Entrepreneurs and visionaries always start stuff," he says. "Giants move slowly. The packers today are doing a whole lot better job in branding beef than they were five or six years ago."

Cattle Information Sheet

Everyone wants to know what they are buying, and information adds credibility to any sale. Before you sell your cattle, go into your record books, pull out information and make it available to buyers. Some of the key information is:

- Number of cattle on offer or consignment — categorize by sex and breed
- Approximate weight of cattle — categorize by sex and breed
- Estimated weight variation — even or uneven
- Frame of cattle — small, medium or large
- Fleshing condition of cattle — thin, medium or fleshy
- Breed description — cow herd breed, sire breed

- Color — percentage for each
- Horns — percentage of or lack thereof
- Calving date
- Weaning date
- Feeding background
- Health background — vaccinations: date administered and product; dewormer: date administered and product; implant: date administered and product; castration: date and method; confirmed open heifers: date and veterinarian signature

Source: Alfredo DiCostanzo, PhD, Chad Zehnder, University of Minnesota Animal Science Department