



Dollars & Sense

► by Vern Pierce, beef economist, University of Missouri-Columbia

Adapt with change

There is no shortage of information available pointing to the many changes that are on the horizon for beef cattle producers. We have always lived through changes in the industry, right? The question this time is whether this process is really any different than at any other time in our history.

Across the board

Seasoned cattle producers will tell you that we have been in a state of change since time began, and they are correct. We have transitioned through several marketing systems — from cattle drives to terminal markets and, finally, to auction markets. We went from the days when producers essentially had no information about market price and took whatever was offered when the drive was over to the mandatory price reporting we have today.

We have traversed the spectrum of health protocols — from none at all to prescribed systems determined by value-added buyers and alliance programs. We are moving from anonymous cattle marketing to source- and process-verification systems.

However, have we ever been in a situation where the rate of change to new innovations in one area of the business is dwarfed by the number of systematic changes we are making across all areas of the business simultaneously? I think the answer is no. The uniqueness of this situation suggests we consider whether our traditional skills, industry programs and government intervention will sustain the industry and the family farms that allow it to be maintained.

Plan to adapt

Beef cattle operations are facing the result of changes in several market forces that are being driven by consumer demand changes, reduced market power, concentration in the packer and retail sectors, and measures to prevent food terrorism. We are not used to adapting to change in so many areas all at once. The plan must be a combination of private entrepreneurial efforts, industry initiatives and public programs. The plan must include aspects of rural development, food safety, farm management, homeland security, animal health monitoring and building marketing relationships.

The combination of these forces are causing cattle producers to face challenges to their ability to be competitive — challenges unparalleled in the history of the industry. Some of these challenges are coming from concentration in the industry, some from changes in consumer demand, some from the demands of food safety concerns, and even more from government regulations looming on the horizon stemming from biosecurity and food terrorism concerns.

The commonality between these market forces and government-imposed challenges is that even the best managers will be hit with all of the attacks on the status quo at the same time. The potential outcome of all of these forces hitting at once could result in widespread financial crisis in rural farm communities.

Be prepared for change

Oftentimes, these crises arise from unpredictable marketplace dynamics and hit without warning and consequently without preparation by the producers, their communities or the government. We have an opportunity to recognize them as a whole and be proactive, instead of looking at each piece and hoping for the best.

Specifically, the following forces are at play.

Concentration — Accelerated concentration in the packer and retail sectors will require many producers to redefine their business and marketing plans, focusing on how they will fit into a marketing system with declining public market information.

Consumer demand — The beef industry has accelerated its move to branded beef products at the retail level. This has been driven by consumers demanding consistent, quality products. Producers wishing to participate and capture the value they add in this new system will require a new understanding of how the system works and how they can compete successfully in it.

Source and process verification — The presence of bovine spongiform encephalopathy (BSE) and the potential for food-borne illnesses in the United States, the possibility of food terrorism, and a discriminating marketplace increasingly demanding traceability have drawn increased attention from the U.S. Department of Agriculture (USDA) and will lead to mandatory identification (ID) of all animals in the near future. This is being driven by the federal government in its passion to maintain the safest food supply in the world.

Rural development — The engine behind rural development activities has focused on jobs created or maintained by providing an atmosphere conducive to business profitability. Many communities have ignored the benefits that the local cattle operations sustain in this regard and, thus, have reduced the attention paid to that sector in their development activities and associated incentives to promote cattle production.

Marketing relationships — Producers may be able to see a premium in the marketplace today for efforts in relationship marketing. Knowing where your cattle end up and in what type of products will provide the basis for getting information back from the supply chain. That way, you can either improve your offering in the future or learn the characteristics that you are providing to maintain value. As the number of alliances grows and producers evolve to a system in which the expectation is that producers and all the buyers in the chain know each other and can provide feedback, the premiums will become negligible and eventually disappear as this becomes the standard, rather than the exception.

Programs have never been developed to provide workable solutions that focus on helping producers help themselves through so many challenges at once. The difference is, this time we can see it coming and prepare.

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