

CREATING AND BEING REWARDED FOR VALUE IN CALVES

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INTRODUCTION

If you are involved in the beef industry, it is hard to forget the date of December 23, 2003. The discovery of BSE that day may very well have changed the way the US beef industry conducts business evermore. Even though the industry understands and has done a good job of explaining the science behind BSE, the days of expecting our customers to blindly trust us are over (Saunders, 2005). I for one believe that to be a good thing; to help us focus on our end customer and not only what we are producing... but also how we are producing and being appropriately rewarded for meeting their demands.

We have long talked, and in many cases sought out and implemented marketing strategies to add value, or as I prefer, capture the true value of our calf crop. Due to the BSE incident in the U.S., the beef industry lost access to valuable export markets. Although good progress has been made in restoring those markets, it has been a slow, tedious process. The U.S. beef industry has yet to develop markets that are equal to the value prior to the BSE discovery. Many foreign markets that have re-opened have imposed stringent requirements upon the suppliers to verify age as well as the source or origin of the animal.

In addition, the continued expansion of domestic marketing campaigns and branding of meat case products increased the need for verifying the claims being made on the product label. We are all familiar with brand labeling such as “all natural,” “corn fed,” “raised in the Midwest,” “grass fed,” “organic” and genetic or breed-specific claims. These claims sprung from the effort to meet specific consumer needs and consequently be rewarded appropriately. The challenge with these claims was the lack of standards and an inability to compare programs.

Consumers, international as well as domestic, are requiring more standards and better verification behind marketing claims. The Agriculture Marketing Service (AMS) of USDA initiated a process to ensure companies and their suppliers could verifiably deliver products to consumers that met their respective product claims. AMS created a system that would standardize practices, ensure compliance, and provide a verifiable marketing tool for companies.

This system, the Process Verified Program (PVP), and later the Quality System Assessment (QSA) are quality management systems that help ensure product characteristics. They

provide suppliers of agricultural products or services the opportunity to assure customers of their ability to provide consistent quality products or services, or simply... “prove that you are doing what you claim to do.” For example, the claim “corn fed” changed from simply a couple of words on the package to defining a verifiable process that cattle were fed a diet of corn for a minimum number of days at specified levels. (For additional information see <http://processverified.usda.gov/> and <http://www.ams.usda.gov/lsg/arc/qsap.htm>)

THE BEEF INDUSTRY RESPONSE

A review of history evidences that nearly every major change in the production of U.S. beef has been market-driven (Rhinehart 2007). A two-tier marketing structure has evolved: one marketing channel for cattle meeting PVP or QSA specifications for age and source verification for export markets and the other for cattle not meeting those requirements. Cattle qualifying for the first group are in demand and in many cases have commanded a premium.

The same can be said for cattle meeting specifications for varied domestic branded beef programs. Brands not only link the consumer to the retailer (supermarket/restaurant) but also to the supplier (producer/feeder/packer/purveyor). Brands shift responsibilities to the retailer and supplier for: safety; wholesomeness; quality; palatability; consistency; and how the animal was raised and handled (Smith 2007). The old adage of--with responsibility comes accountability--comes into play here as well. In order to qualify for market premiums, the attributes claimed by the brand must be verifiable.

Some export markets have enacted requirements on beef shipments from the U.S. USDA has established Beef Export Verification (BEV) procedures to meet those requirements. A prime example is Japan and Korea. Both have placed age and other restrictions on imported beef in efforts to minimize potential BSE exposure.

Verification of an animal’s age required by some international markets can be assessed using dentition (an evaluation of the maturity of the teeth) post mortem (at harvest). However, this is only acceptable by some export markets. The main guideline for age verification in a QSA program or PVP for broader market access is that cattle presented for processing must be traceable to live animal production records to verify age.

No one, except the person who calved the animal, can make the true claim of age on that animal (Fox, 2006). Although either individual animal or group age verification may be used, the cow-calf producer is the only link in the supply chain that can factually verify source (origin at birth) and age. This gives the cow-calf producer a tremendous marketing advantage should they wish to provide the documentation required. The key is the documentation of your record-keeping methods that give you the ability to make claims in the marketplace.

WHAT PROGRAMS ARE RIGHT FOR YOU?

Producers must consider a number of factors when deciding whether to develop their own QSA program or PVP, become part of an “umbrella” program, or even to get involved at all.

For the vast majority of cow-calf producers developing a new, unique QSA program or PVP may be very cost prohibitive. The development costs for a USDA approved and audited QSA program or PVP is estimated by industry and government contacts to be about \$8,000 for a relatively simple plan. In addition, QSA programs require bi-annual audits performed by USDA, and PVPs require an annual audit. These audits are completely user-funded by the company owning the QSA/PVP, so there are ongoing costs as well. These costs will prompt most cow-calf producers to enroll in an umbrella program. (Mark 2006)

A producer should seek out and evaluate participation in an umbrella QSA or PVP that matches their management practices, but is offered by another entity (product or service supplier). An advantage to participating in an umbrella program is that it does not require a large outlay of money, nor does it require extensive training. If producers elect to use an umbrella program, they should carefully select the program within which to enroll their cattle. Some programs are less flexible than others as to how cattle maybe marketed. A producer should choose a program that meets their marketing objectives, while fitting their management capabilities.

The decision to enroll in a particular QSA program or PVP will also depend on whether a producer wants to provide verification assurances other than age or source. Other market channels provide incentives for cattle that have **not** had antibiotics, growth hormones or implants, ionophores, have received certain pre-& post weaning vaccination protocols, or even specify minimum percentage of pigmentation in the hide (Mark 2006). Some QSA programs and certainly PVPs may, in addition to providing the age verification necessary for export, verify assurances related to these specific production practices or quality attributes.

SHOW ME THE MONEY!

That memorable quote from the 1996 movie “Jerry Maguire” (shouted repeatedly in a phone exchange between Rod Tidwell and Jerry Maguire) certainly has application as we talk of value added marketing programs in the beef industry. Whether PVP, QSA, or a multitude of branded program participation; for the cow-calf producer, it all comes down to “**Show me the money!**” or return on investment.

There have been documented reports of cattle with age and source verification selling at a premium of \$25/head or more in many markets (Daly 2006). This premium is **by no means a guarantee**, and is subject to many variables, but depending on the market demand and potential buyers, may represent a tangible way to capture a greater value from a calf crop.

While premiums for beef eligible for export to Japan and other countries could be sufficient for producers to enroll in a QSA program or PVP, such premiums could erode as more producers participate. In order to remain competitive in the long run, producers may need to differentiate their product based on additional verifiable quality attributes. Thus, selection of a QSA program or PVP that offers additional verification claims complementing the producer’s production methods and cattle type could be beneficial.

What does all this mean to producers who wish to be rewarded for the additional value they have created for their cattle? What these programs do is enable you to leverage the

documented management of your cattle in the marketplace in exchange for additional revenue. What the buyer's likely response is "**Show me the documentation!**"

RECORD KEEPING – THE HANGUP OR ADVANTAGE

Many cow-calf producers likely have the necessary records to document age of cattle. Much of the focus in the QSA program or a PVP is on transfer of that information with the animal through commerce involving several markets, owners, and processes. It is not difficult to comply with many of the verification requirements of these programs (Johnson 2006). Many producers currently sign affidavits attesting to the age and source of their calves at marketing. These affidavits may be used as part of a QSA program or PVP, however production records and validation of those records are required to back them up. For their own protection, producers are also required to have a designated location to store those records for three years.

For **group age verification**, groups of animals typically are assembled according to birth date (i.e., born during the same birthing season). Records must identify the actual date of birth for the first calf born from the group. The age of the rest of the calves will be assumed to be the same as the oldest calf born within the designated group. Date of first breeding and other breeding records may be used as additional verification for the oldest possible age of animals within the group. These records can be as simple as first calf birth date recorded on a calendar. (Mark, 2006)

For **individual animal age verification**, animals must have a unique, individual ID. The type of ID used to identify the animal must comply with the guidelines established by the respective QSA program or PVP. The main requirement is that records be able to trace the individual animal back to their birthplace. Importantly, these records must include the actual date of birth for the animal and the birth records must accompany the animal through the supply chain (Mark, 2006). These records can be as simple as a calving book, or as detailed as a computer spreadsheet or even a commercial computer program.

A producer should carefully evaluate what current record keeping practices are in place. What management practices dictate, as well as what resources are available should also be considered. Then a true assessment can be made to determine what programs fit their record keeping potential, and what additional value can be captured from those records.

My contention is that for producers who are currently capturing calf birthdates for individual cows on an annual basis there is intrinsic value that may be hidden in those stacks of calving booklets. If we can summarize that yearly birth date data, we can obtain a simple but effective measure of reproduction efficiency – Average Calving Interval. This information could be an important tool for consideration if you are selecting replacement females. This is a simple example of using the current information being collected for participation in a marketing channel, and leveraging it for additional management value in your operation.

What traits are important to your operation? What is necessary to measure them? Mark Enns, at Colorado State University advocates the need to evaluate the importance of traits that hold economic relevance specific to our cowherds. According to Enns *et al.* (2005), "the

economically relevant traits (ERT) are the traits that are directly related to the costs or the revenues from production. If performance in these traits is changed one unit, there is a direct effect on either cost or income.” Simply put, if a cow-calf producer sells calves at weaning the traits having an effect on percent of calf crop weaned and weaning weights of those calves are ERTs that would be important. On the other hand, if a cow-calf producer is marketing cattle through a retained ownership relationship with a feedlot, feedlot performance and carcass characteristics may be economically relevant traits for additional consideration (Lowe 2006).

CONCLUSION

What information are you currently recording to make management decisions? What information is required for participation in a QSA, PVP or Branded marketing program? Is there overlap with other information you are collecting... of which you may not be capturing the full value? What ERTs are important to your operation? How will you measure them? How will you record these measurements? How will you sift through the data recorded to distill it into useful management information? All these questions are important to assist you in deciding what information you will need to collect and how it should be stored.

How you will use the information collected is the next decision. Whether that is with paper and pencil or with a computer, the true value of that data can only be fully realized if it is analyzed and implemented in the management of your operation. Is your current record keeping system returning the management information necessary to fully capture the value of the data you are collecting?

There are a number of resources available to assist you in answering these questions. Your local Extension Educator and Beef Extension Specialists in the audience today are a great resource. Your local Veterinarian, feed suppliers, bankers, feeders, auction markets, industry associations, and service providers particularly those that maybe providing QSA, PVP or Branded Marketing programs are all valuable sources to assist as well. If you are currently using a commercial herd management software program, certainly the resources available to you from those providers should be tapped. If you wish to consider a herd management software, many companies like ours, will provide a free demonstration copy. A comparative report including many of these products can be found at the Oklahoma State University Extension website below (Lalman *et.al* 2007):

<http://pods.dasnr.okstate.edu/docushare/dsweb/Get/Document-1926/CR-3279web.pdf>

Beef producers who wish to keep various market opportunities (export as well as domestic branded programs) for their cattle an option, are advised to evaluate the cost and return of a QSA program, PVP, or Branded Market program. What management changes, if any, will be necessary and the associated costs to meet the requirements should also be considered. What are the record keeping requirements? How else can you use this information to make more informed management decisions? All this has to be weighed against what premiums the market is willing to pay.

The best place to start is by visiting with the people with whom you normally do business. Whether you customarily sell directly off the farm/ranch, through a livestock market or video auction, or retain ownership through the feed yard; many of these have access to QSA

programs or PVP. Early and frequent communication with potential buyers is important to determine if there is profit to be made (Richards 2007).

For those of you that are Cow Sense users you have a tremendous advantage as you have adopted the tools to make participation in many of these marketing programs simple! Remember; start early as it takes time to meet the respective program requirements to qualify cattle.

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