

# ***ONA REPORTS***

*published in*

***THE FLORIDA CATTLEMAN AND LIVESTOCK JOURNAL***

**October 2002**

## **Beef Marketing Alliances and Economies of Scale**

**Dr. Tom Anton**

*University of Florida*

*Range Cattle Research and Education Center*



For questions or comments regarding this publication contact

[Dr. Tom Anton](#)

In the May and August issues, I discussed the basic economics of beef cattle marketing alliances. Generally, the alliances attempt to accomplish two goals; one, adding value to the product through brand identity and efficiency, and two, improving the transfer of information across the stages of production. Many efficiencies are gained through economies of scale. In this article, I will discuss these economies and how they affect producer participation.

The concept of economies of scale is simple. It is the ability to produce a higher quantity at a lower per unit cost. For packers, there is a clear set of economies of scale, and feedlots can gain from such efficiencies as well. By aligning with alliances, these entities can achieve more uniform distributions of cattle that keep the facilities running as closely to full capacity as possible. When producers can produce truck loads of cattle with uniform weights, additional value is created as the feedlots have what they desire. The uniform loads allow the feedlot to be more efficient in the management of cattle, and time is saved by both the feedlot and the packing houses.

How does this benefit a Florida cow-calf producer? The truckloads of uniform cattle provide the efficiencies that are desired as stated. Feedlots are willing to pay premiums to gain those efficiencies. Producers have the opportunity to add value to their herd with uniform and conditioned truckloads of cattle that are shipped directly to the feedlot often through some sort of marketing alliance.

What about smaller producers that are not able to produce truckloads of cattle? Small producers feel that they may be precluded from many of these opportunities, and in many cases, they may be right. However, there are potential opportunities for small producers to participate in these types of arrangements. The key is in joint marketing. Organizations

have formed in other states that pool smaller producers together to effectively create a large producer like situation. These groups are using traditional marketing channels, such as auction barns, as conduits for the arrangement. There, cattle from several producers are commingled in a way that the uniform truckloads desired by the feedlots are obtained.

Efficiencies create value by reducing costs. Alliances attempt to take advantage of these situations and create additional value in the marketing system for the cattle producer. This value then creates incentive for producers to manage their herd in a way that achieves the most value towards their bottom line. These incentives are designed by the alliance to address the desires of the end consumer. Through creative organizational arrangements using traditional marketing channels, smaller producers are able to take advantage of the situation as well. The future of beef marketing still remains to be determined, but it is clear that incentives to producers must be put in place to best meet consumer demand and desires. For the individual producer, careful planning and management will be the key to future profitability and, ultimately, to survivability.