The State of Seedstock Marketing

Challenges exist, but with perseverance and planning there are opportunities for seedstock marketers going forward.

by ***Kindra Gordon***

It's an age-old question without a surefire answer: What will the world be like 10 years, 20 years or 50 years from now? And more specifically, for those of us in the cattle business, what does the future hold for our industry? What will it take to be successful in the seedstock business in the decades ahead?

There are many philosophical quotes that hint at the answers sought for the future. "The only constant in life is change," said Greek philosopher Heraclitus. "The future belongs to those who prepare for it today," said civil rights activist Malcolm X. But perhaps most appropriate for the beef seedstock sector are the words of British Prime Minister Winston Churchill, who claimed, "Difficulties mastered are opportunities won."

Indeed. Most people will concur that where challenges exist so do opportunities. With that said, *Hereford World* asked three beef industry specialists to weigh in with their views on the state of the U.S. seedstock business and to provide advice on marketing strategies to help seedstock cattle operations stay competitive in the future. Offering their viewpoints are Bob Weaber, Kansas State University professor and cow-calf Extension specialist; Matt Spangler, University of Nebraska professor and Extension beef genetics specialist; and Jason Ahola, Colorado State University professor of beef production systems.

Challenging realities

While raising and marketing seedstock cattle has never been "easy," this trio agree that in today's environment, it has become even more challenging to run a profitable beef seedstock operation than at any prior time in history.

Weaber notes the dramatic increase in operating costs — for both seedstock and commercial operators. "Feed, fuel, labor, and equipment all cost more than in the past," he states. "The cost of genotyping sale bull and replacement female candidates must also be considered, and marketing and performance testing costs have also increased — with more traits to measure like carcass composition, feed intake, docility, calving ease, sustained fertility and others."

Spangler concurs with those cost concerns and also cites the increasing complexities for producers to interpret the data being collected. While he believes the transition to single-step genetic evaluation that has occurred over the past 18 months within the Hereford, Angus and other breeds represented by International Genetic Solutions (IGS) is bringing more accuracy in genetic prediction to the beef industry, there is still a need to distill the information for commercial cattlemen in order to prevent information overload.

Spangler also expresses concerns about the future exchange of data within the beef cattle sector. Currently, there is more data on traits of economic importance within commercial beef enterprises than within any breed association. To aid and to enhance future genetic selection, Spangler asks, "Will data collected in feedyards and large packing plants get back to seedstock and genetic suppliers? If so, what exchange or compensation will be required?" He believes those data are going to be a mounting issue in the next few years.

As an additional future challenge facing seedstock operators, Ahola points to the increased competitiveness that exists today among breeds and breeders. He notes those who are involved in the seedstock industry — and who are most successful — "must seek continuous improvement, whether it be in genetic quality [i.e. performance] or value [i.e. accuracy of genetic prediction] of the cattle they are selling, or in additional services they provide, such as calf buy-back programs, free delivery, or warranties and guarantees."

Weaber adds commercial cattlemen are increasingly expecting such services. "They expect seedstock breeders to extensively evaluate the genetics on offer, and many

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U.S. seedstock producers are tasked with developing the highest quality bulls in the world to propel the cattle industry forward.

expect a fairly high level of service including warranty/breeding guarantees and calf buy-back programs. Those are not unreasonable expectations, but those services come at a cost as well," he says.

Upping the ante

In spite of these increased challenges, there is still optimism and opportunity to be found in the seedstock business. Ahola points out, "The U.S. beef seedstock industry produces the highest quality/value bulls in the world, hands-down." This is an important competitive advantage for the U.S. beef industry over the rest of the world — especially as global demand for high-quality beef continues to expand due to growth in population and wealth.

Additionally, Ahola notes extreme competition in the seedstock segment can be credited with fueling the continual advancement of high-quality genetics. As the saying goes, "Competition breeds success."

Looking to the future, Ahola believes the competitive seedstock environment will continue to prompt operators to "sharpen their pencil" on rate of genetic improvement, methods and costs of marketing, and services offered to buyers. "Successful seedstock operations are not sitting on their past reputation to carry them through, but rather are seeking out how to distinguish their operation and cattle from the sea of high quality seedstock bulls for sale every year," he says.

Likewise, Weaber says, "The uber successful [seedstock breeders], in my view, have all the pieces in play: a solid breeding program, excellent records and data collection, great marketing skills or programs and outstanding customer service. Missing any piece of this formula compromises your opportunities for success. Into the future, I don't think seedstock marketing will look markedly different than what we see among the successful breeders of today. More breeders will have to reach that bar, though, to stay competitive."

Actionable advice

Looking ahead, Ahola offers this advice: "To survive and thrive in such a marketplace, seedstock operators will need to maximize their use of tools and resources to create a unique product and differentiate themselves from other bull suppliers; market a substantial number of bulls to allow economies of scale — but avoid losing money by offering too many bulls vs. demand; generate enough revenue to support a sales staff member at some level; provide services to bull suppliers to help with their marketing and management decision-making; and have a well-known reputation to their buyers."

For those seedstock operators unable to embrace these aspects, Ahola says, "They may be able to survive for the short-term, but it is unlikely that they will be able to continue to profitably sell bulls for the long-term. The U.S. beef seedstock industry is simply too competitive and managed by such highly skilled industry leaders that continuous improvement is a trait that is now required among seedstock operators."

Weaber has a similar outlook. He anticipates the next few years will be challenging for seedstock breeders as commercial calf prices stagnate or decline with the cattle cycle. Thus, he advises, "It'll be more important than ever to build a great product and stand behind it. Seedstock breeders, like any marketer of products, will need to work aggressively to maintain their customer base."

Specifically, Weaber suggests producers differentiate their product through customer service and personal relationships, especially if they are small breeders.

He is also adamant about managing expenses and income by controlling development and marketing costs and making sound investments where they make sense. "Historically bull sale prices will average near the sum of the value of four or five weaned steer calves," he says. "As you figure your floor prices and marketing goals, don't forget to account for the costs of phenotyping and genotyping associated with cull animals that were incurred along the way. Often the sale animals will have to bear the costs of one or two other animals that didn't make it to the sale. Building a production system that produces a high percentage of quality, marketable bulls helps spread the fixed costs of production, development and marketing over more animals decreasing the breakeven of each sold animal."

Weaber stresses the importance of optimizing marketing strategies for cull animals, whether those are sold as market steers, feeders, premium-quality commercial replacement heifers or strategically marketed cull cows. "The annual bull sale is important, but capturing dollars from the sales of other animals can make the system profitable," he states.

Remain pragmatic

Spangler's outlook is that cattlemen's success lies in practicality while always keeping genetic selection top of mind and evaluating if those genetics produce what consumers want from the end product.

To that, he says, "I think one could argue that we certainly have cattle being produced today that do not meet the needs of what the consumer wants."

To rectify that discrepancy, Spangler advocates using genetic selection tools, developing partnerships with entities in other sectors and developing clear breeding goals. "There would be tremendous efficiencies gained in the beef industry if producers would do that."

From the producer's perspective, Spangler says, "The American Hereford Association and other breeds should be applauded for the work done in migrating to single-step genetic evaluation and modifying selection indexes to benefit commercial beef production.

"The single-step transition also included updating heritability estimates, revising selection indexes and modifying models used to calculate [expected progeny differences] for carcass traits," he adds. "The weekly genetic evaluations give more up-to-date information and the single-step methods and indexes work. The changes mean more accuracy — producers should be excited."

Spangler is also a proponent of more collaboration among seedstock producers using similar genetics and then marketing together regionally or aligning with a larger seedstock conglomerate and running satellite herds. There are pros and cons to these options, but Spangler says, "There are benefits to the industry in creating larger groups of cattle with

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similar goals in mind." He notes these systems would also offer the advantage to more specifically differentiate use of terminally oriented versus maternally oriented bulls.

"Regardless of seedstock marketing avenues, either by single breeders or with the transition to conglomerates and alignment of cooperator herds, the industry needs to capitalize on genetic information through to the final product," he says. "It offers one avenue to ensure genetic decisions meet what consumers want."

While Spangler is a proponent of genetic consistency and uniformity, he also advocates differentiation and succinctly concludes, "There is a need for breeds to define what they are and what they are not. We will continue to need diversity between breeds so that we can produce efficient females and cattle that fit different environments."

All told, change is afoot. But the question remains: What will the world be like 10 years, 20 years or 50 years from now? HW

Editor's note: Kindra Gordon is a freelance writer who grew up on a South Dakota ranch and has been writing about the beef industry for 20 years. She and her family live near Sturgis, S.D.

Cooperator herd tradeoffs

Becoming a cooperator herd for an existing seedstock producer may be a viable option for some seedstock producers as they plan for the future — or for small or new producers to find opportunity within the beef industry. But it is a decision that comes with pros and cons.

Colorado State University's Jason Ahola, professor of beef production systems, notes cooperator arrangements typically include supplying bulls of similar genetic makeup and selection principles to a larger entity that sells the bulls in one sale under that ranch's name.

While that tactic provides a market for the smaller producer, Ahola points out the tradeoffs include giving up some independence and relying on the selection priorities, marketing efforts and decision-making of the larger operator. Depending on the agreement, it may also mean relinquishing a significant "fee" or percentage of income to the larger entity.

Ahola has seen some cooperator situations where high quality bulls have fared well, yet average-and low-quality bulls become financial losses when a cooperator markets them through a larger entity, eventually limiting the percentage of bull calves the cooperator can sell as seedstock bulls.

However, looking at cooperator strategy from another viewpoint, Kansas State University Professor and Cow-calf Extension Specialist Bob Weaber acknowledges the cooperator arrangement most often puts most of the bull development and marketing responsibility in the hands of the "brand" owner or management team. But he counters some producers prefer that arrangement, as it frees up time and resources for the smaller breeder to concentrate on breeding and cow herd management. Or, it is an arrangement that can work well for small breeders who have off-farm jobs.

Ultimately, before deciding to become cooperator herds, producers should map out their own goals and determine if the cooperator arrangement matches those objectives. Effective communication between the cooperator and the larger entity is also integral. HW