

“Choices or Consolidation”

Christoph E. Weder – SVR Ranch Consulting

Political correctness is an interesting statement for the beef industry..... For an industry that prides itself on the image and persona of the “frontier independent rancher, not afraid to stand up to say what is right or wrong” the 21st century cattlemen is a far cry from that image because most feel most at home in a flock and have more habits akin to sheep. I know that statement will make a few angry but maybe it’s more a habit of our times and culture and I just haven’t figured out to assimilate myself into it.

Why do I keep bringing up this reoccurring theme in these columns? Because this industry needs more rebels and those willing to take up the challenge to steer the boat in a different direction... a direction towards choice and not toward more consolidation.

I have been working on Alberta’s Grain and Oilseed task team for 6 months now, looking at the factors that affect our ability to stay competitive on a global basis. Many issues have been highlighted by the stakeholders and have included themes like lack of investment in research/innovation/value adding, interprovincial transport regulations, aging demographics and Ag Policy that subsidizes stupidity more than it does change. As large as these issues may seem, they are but a symptom of an underlying disease in the coarse grain sector and that is lack of marketing choice. Better translated the coarse grain industry has but one customer and that is the Canadian Wheat Board.

As many may or may not know the origins of the CWB go back to WW1 and it was started in an effort to have guaranteed wheat supplies for the war effort. After the Great War prices declined, which eventually led to the provincial pool efforts by Alberta, Saskatchewan and Manitoba, however by 1929 with the stock market crash these organizations were effectively bankrupt.... the wheat producers had enough and doubting their own abilities to effectively market grain asked the government to revive the Canadian Wheat Board and so it was officially re-created in 1935. Since then all coarse grains for exports or domestic value adding must be sold through this single selling desk monopoly. It may have been right at the time but something that was right 75 years ago may not be what is needed today. Going back to our task team consultations, lack of marketing choice is the root cause of all the other issues that have been highlighted by the grain and oilseed sectors. Companies will not invest in new cultivar varieties if they cannot get the return on the research and innovation, value added will not happen if companies are forced to buy and sell through one organization, finally efficiencies and prices will not be improve if producers do not have choice.

As plain and simple as it is, the resistance to change or the tradition of holding onto tradition has been steadfast by many in Canada’s coarse grain industry, meanwhile the innovation, growth and profitability in the oilseeds which is not under the control of the CWB is a total different tale.

So what does this all have to do with the beef industry? We all know that consolidation in the beef sector; primarily packing side has been rampant for the past 20 years. The unfortunate part is that to turn a live animal into a box it has to go through one and to add the value you have to be able to sell the box. Plain and simple!

For a while during the midst of our BSE Fiasco marketing choice and options was on everyone’s mind, yet the call to arms has died a slow death. Yes I know many had invested

dollars in potential upstarts only to see them being chewed up by feasibility studies and high priced consultants. That said a few brands have emerged from the ashes and are continuing a steady growth. Many look at these brands and plants as small potatoes and compared to the big plants they are.... But I always say an oak starts from an acorn and it takes time... grow too quick and too fast and your roots will not be able to support you.

We are all well aware that prices have taken a significant jump in the latter half of 2010.... They have taken a jump thanks in part to all our ranching friends both domestically and internationally that have decided to leave the business. The prices are climbing not because the big guys that are left have done a better job at marketing the boxes but because there is less beef to go around and so they can tell the customer to either take it or leave it. The result more demand for calves and cull cows coupled with less to go around. This is good for the time being but are we any better off in the long run?

Consolidation is still rampant because the model most seek is the more volume, faster, harder, and cheaper one because it seems to take fewer skills sets than to sell it for a higher price. Long term when we get to the next round of oversupply I think the consolidation model will look even more daunting in Canada with less choice than ever for those that stick to the flock mentality. Perhaps by that time most may just be discount feeder cattle suppliers into the US market.... So much for all the "Canadian Beef Branding initiatives".

There are however options for those who choose to be mavericks and outliers and think long-term. Those options are to become part of the brands and supply chains with those who choose to take the road less traveled. They say repeating the same process over again is the definition of insanity. Let's not make the same mistake as the coarse grain industry did in 1935 by going down the road of single desk selling. The beef industry needs choices and not consolidation and that choice is up to you.

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