Meat Institute

Nourishing Today
Sustaining Tomorrow

FACT SHEET: Cattle Alternative Marketing Arrangements 101

The American cattle and beef markets have modernized to allow cattle producer driven innovations called alternative marketing arrangements (AMAs). AMAs allow cattle producers additional flexibility in how to market their cattle, protect themselves against risk and earn better prices.

Common AMAs

AMAs for fed cattle include: forward contracts, formula pricing, negotiated grid trades, and packer-owned transfers.

Forward Contracts:

- A cattle producer signs a contract with a feedlot operator. They agree that in six months, the producer will deliver 100 head of cattle at a fixed price of $1000.00 per head. When the delivery arrives at the lot, despite the current market price, the producer receives $1000.00 per head. This forward contract gives the producer certainty and provides the feedlot operator a stable supply at a fixed cost.

Formula Pricing

- A cattle producer enters a formula pricing arrangement with a small beef packer/processor. The formula determines the price based on the agreed criteria: price per pound for carcass weight. For higher quality grades like “Choice or Prime,” $.10 per pound. It could also include a penalty like $0.05 per pound for below grade carcasses. Formula pricing also provides potential premiums for other value-added production practices that align with consumer demand. When the cattle are delivered, the pricing is calculated based on the formula. This lets the producer be rewarded for investments in the herd like improved genetics and high-quality feed, provides risk management opportunities for the producer, and ensures the processor receives high quality cattle to meet demand. Ironically, USDA has invested significant resources in establishing a cattle market library to support this method of pricing.

Packers pay more for quality and consistency and so does the consumer. In fact, consumer data shows that taste and quality are the number one attributes considered when making a meat purchase.

Global beef demand is greater than ever because beef quality over the past decade has improved. In 2023, beef receiving the two highest quality grades, Prime and Choice, was 84.5 percent. That compares to 73 percent for the same quality grades in 2014. Improved quality has been fundamental in maintaining robust consumer beef demand.

To date, gains in quality have been achieved by the broad adoption of value-based marketing, where producers earn premiums for cattle that yield higher quality beef, and in turn meet consumer demands. The same is true for other attributes consumers desire, such as sustainable production practices.

Unfortunately, USDA is proposing regulations under the Packers and Stockyards Act, which would over-regulate the cattle market and unleash private party litigation, posing a very real threat to reverse the beef industry’s quality improvements and gains in consumer demand. By design, the proposed rules will discourage the use of value-based alternative marketing arrangements, which are the very tools that have helped improve beef quality, as well as efficiency, productivity, and that have provided risk management tools for producers.

Most dangerous, however, is that such a mandate would de-couple the demand signals producers receive from beef consumers, including consumers' willingness to pay. At low points in the cattle cycle, like this year's historically small cattle herd, it puts at risk the value producers earn from sustained beef demand, and as the expansion phase of the cattle cycle begins it would undermine the benefits earned to date from growing beef demand.

Experts Agree and Studies Show AMAs Increase Beef Demand

AMAs have been studied for decades. See studies here: http://www.themarketworks.org/studies