

Opportunities and Management Strategies for New Mexico Beef Cattle Producers Considering an Organic Transition (part 1 of 3)

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ORGANIC BEEF MARKETING BASICS

INTRODUCTION

Developing a marketing and management strategy based on the characteristics of an individual beef cattle operation is crucial for a sustainable business. Producers in New Mexico may employ various protocols based on factors like market conditions, time of year, production costs and practices, ranch enterprise goals, and/or traits of their cattle such as quality, condition, age, and lineage.

Identifying a viable market based on a cattle operation's capacity, capabilities, and goals is a key first step for determining practices and strategies. Producers in New Mexico need to carefully consider various factors to make informed and profitable decisions when raising and selling cattle in a specialty market such as organic. Regional variation in production systems, beef cattle types, and industry culture add to the diversity across cattle markets² and the nature of the state's cattle industry presents some challenges. Without a plan, a producer's hard work could result in losses at market. Producers considering an organic transition should assess their unique business attributes, the various factors that could influence their adoption of these marketing and pricing strategies, and then build a plan with the help of this guide. USDA and NMSU have cooperatively developed an extensive online resource called Tools for the Beef Industry (TOBI)⁷ which can be used to access additional data and guidance for the topics outlined in this paper. Some considerations for organic beef markets are outlined below.

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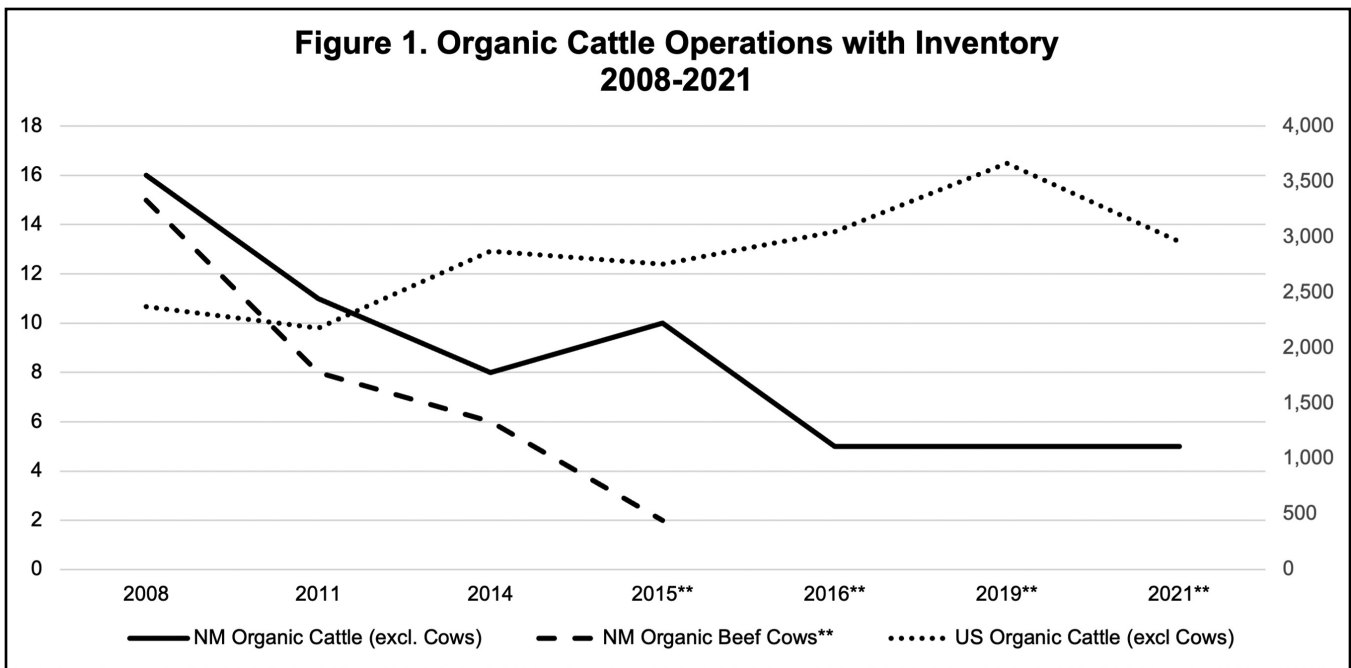


Figure 1. Organic Cattle Operations with Inventory. 2008-2011¹⁹

**No data these years.

ORGANIC BEEF MARKETS

Specialty beef products have particular characteristics that differentiate them from commodity beef, such as management practices and input restrictions. Organic beef targets a market segment that values these attributes and is more exclusive than commodity beef. It is worthy to note that conventional beef production is deemed healthy and safe, even though there are often claims about the superior nature of organic products. Higher prices for organic beef products are the result of the extra costs in production, which can be highly variable.

Commercial or commodity beef producers have a few ways to maximize the premiums for their cattle but are generally price takers who have very little to no control over the market that they supply. Producers that participate in organic markets can differentiate their cattle to meet consumer preferences and have more control. These markets have been expanding since creation of the “USDA Organic” label designation and strengthening of third-party verification and certification entities. Almost 90% of consumers recognize the USDA Organic seal, more than any other certification in food markets. That familiarity is also reflected in public trust in the products that are so labeled. The Organic Trade Association asserts that the USDA Organic seal is the most trusted of any agricultural label, and the second-most trusted food label behind the American Heart Association’s checkmark.⁹

To determine whether to undertake an organic beef operation, producers need to understand the potential added

costs and the price elasticity of demand for their products.¹⁴ High-input beef production systems can significantly reduce profitability, so a beef cattle operation that provides high quality animals to the supply chain while reducing costs can have financial returns when properly managed. Grazing cost, harvested forage, and purchased supplemental feed can often be the largest part of a cattle operation’s budget. Producers can often minimize these costs by managing for optimal grazing with minimal use of hay and supplemental feed. This is a prevalent management element of marketing products in the organic beef category.¹¹

Some producers in New Mexico use practices that are close to meeting the criteria for USDA organic, but for most producers, operational changes will be necessary in both production and recordkeeping to comply with regulations.⁶ Consider the following factors and evaluate if organic beef cattle production is a suitable option.

ORGANIC CERTIFICATION AND OPPORTUNITIES

The USDA National Organic Program (NOP) certifies organic products. Compliance challenges exist. Producers should understand certification standards and be familiar with the specific requirements of the USDA NOP program. Regular review and updates to production practices are required to meet possible changes to certification standards.

The “USDA Organic” label is awarded to producers who adhere to rigorous, standardized processes, verified by USDA-accredited certifiers to ensure full compliance with organic practices. Livestock raised on certified organic farms

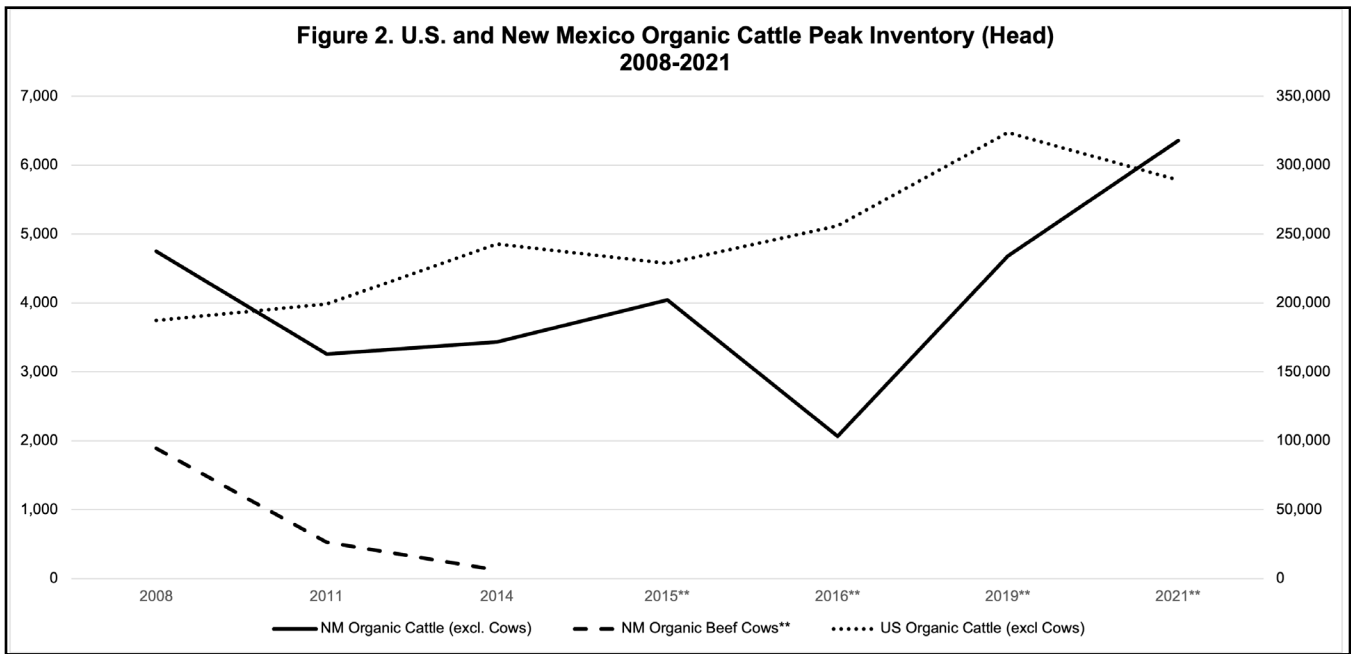


Figure 2. US and New Mexico Organic Cattle Peak Inventory (HEAD). 2008-2021¹⁹

**No data these years.

must meet strict animal health and welfare standards, which include prohibiting the use of antibiotics and growth hormones. Additionally, these animals must be fed a diet consisting entirely of certified organic feed, free from synthetic additives or genetically modified ingredients. Another core requirement is that animals must have access to outdoor areas that promote their natural behaviors and well-being. This label assures consumers that organic livestock production adheres to high environmental and ethical standards.

Transitioning from conventional cattle production to organic is a process and not every producer will have the same timeline or experience. The National Organic Program (NOP) (www.ams.usda.gov/nop) criteria can be found in the USDA publication titled Guide for Organic Livestock Producers. This is a great resource for those seeking more information about the processes of organic certification and production.

It is important to note that there are different markets and production systems even within organic beef. Grain finished organic beef uses production practices similar to conventional beef, starting with cows and calves grazing in organic pastures until weaning. Calves can then be fed with organic grain feedstuff to maximize gain and achieve a desired grade of finish, or they are kept on a stocker/backgrounding operation until ready for finishing. Organic grass-fed or grass-finished beef is brought to a desired weight and yield grade with a forage-based, non-grain diet.¹ Organic beef marketers often utilize labeling to differentiate these finishing methods to meet customer demands.

The USDA standardized organic food labeling in 2001 to make it easier for consumers to be aware of the type of organic components in a product. The four categories include: 100% Organic, Organic (consisting of at least 95% organic ingredients), Made with Organic Ingredients (70% or more organic ingredients), and Less than 70% Organic (organic ingredients listed in the ingredients panel only). These labels define the type of organic product a consumer is buying and are an important part of marketing beef and educating consumers.¹³ Organic certification is a great tool for producers because those that want to take part in organic markets have clear guidelines for their businesses. They can utilize the product differentiation to meet customer demands and the customers have confidence that the standards have been met. Additionally, beef cattle operations that follow NOP standards and have less than \$5,000 in annual sales can be exempt from certification and may use the term “organic,” but not the “USDA Organic” seal.¹⁴

Before the USDA implemented national organic standards, many States and most organic distributors required third-party certification to ensure adherence to production practices¹⁷ and, in 1997, there were only 4,429 certified organic beef cows in the country. The market for organic meat was expected to grow after the USDA permitted national organic labeling in 1999, and it did.³ Between 1997 and 2001, organic certified pasture doubled and allowed the organic livestock market to also grow and kickstart the organic beef sector.

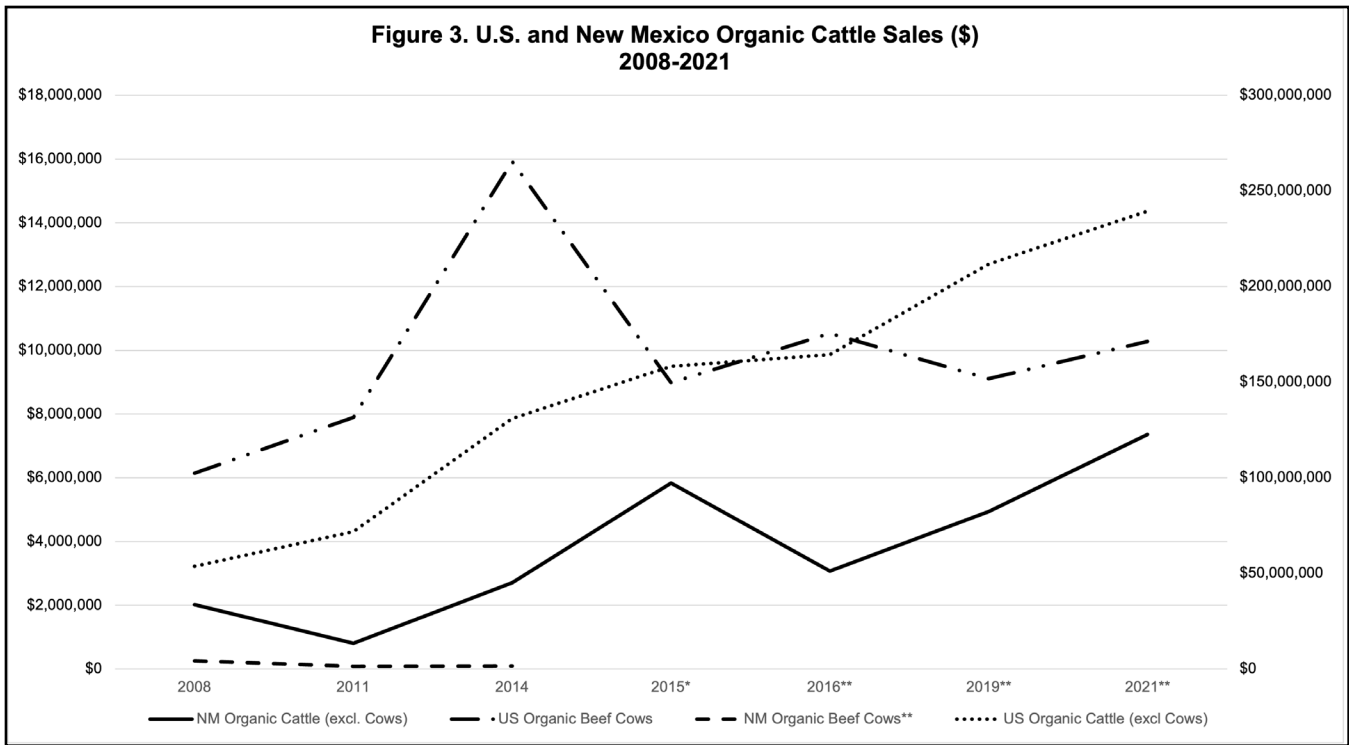


Figure 3. US and New Mexico Organic Cattle Sales (\$) 2008-2021¹⁹

*Withheld to avoid disclosing data for individual operations. **No data.

By 2008, the U.S. had 713 NOP USDA Certified Organic Beef Cow operations with 44,779 animals, 382 NOP USDA Exempt operations with 4,167 head, and the sales of Organic Beef Cows totaled just over \$6.1M.

Besides Organic Beef Cows, the USDA recognizes and reports on a second category of organic cattle, Organic Cattle (excl. Cows). This category includes replacement milk heifers, beef calves, and bulls. In 2008, Organic Cattle (excl. Cows) inventory was over 187,000 while sales totaled almost \$54M.

The second category is larger than that of Organic Beef Cows and is important to use for comparison. It can suggest larger trends in organic markets since it includes bulls for breeding and calves that will eventually add to the totals in the first category.

In 2021, the number of NOP USDA certified Organic Beef Cow operations dropped to 442 and Organic Beef Cow inventory was also less at 36,123. The inventory of the Organic Cattle (excl. Cows) grew to 289,226 and sales more than quadrupled to \$239M (Figures 1, 2, and 3).¹⁹

The New Mexico Department of Agriculture (NMDA) received accreditation in 2002 from the NOP for crops, wild crops, livestock, and handling as the New Mexico Organic Commodity Commission (NMOCC). Since that time, producers in the state have been able to attain certification and use the USDA Organic label. The NMOCC was

an independent State agency which was decommissioned in 2011 and incorporated into the NMDA.²⁰ The NMDA stopped providing organic inspection or certification services for producers in our state in 2021, but still supports the organic industry with education, marketing, and development consultation services. Prospective organic cattle producers should contact NMDA with questions about transitioning and can find an organic certifier when they are ready to begin the process. A list of NOP certifiers for New Mexico is available on the USDA's Organic Integrity Database Certifier Locator tool.¹⁰

An NMSU Range Improvement Task Force (RITF) report from the early 2000's detailed some of the characteristics of the organic beef industry across the U.S. The report stated that producers were generally health-conscious individuals who had been conventional producers before and were complementing a broader organic program with organic beef. There were no major differences between operating systems for these organic beef ranches and the transitions took an average of 1.8 years to complete. Their herds were mostly below 100 head, and ninety percent produced other organic products, predominantly alfalfa, corn, and grains. About half of the respondents were full-time producers that received a majority of their income from their farming operations, 95% were cow/calf producers, and 70% raised finished beef.¹³

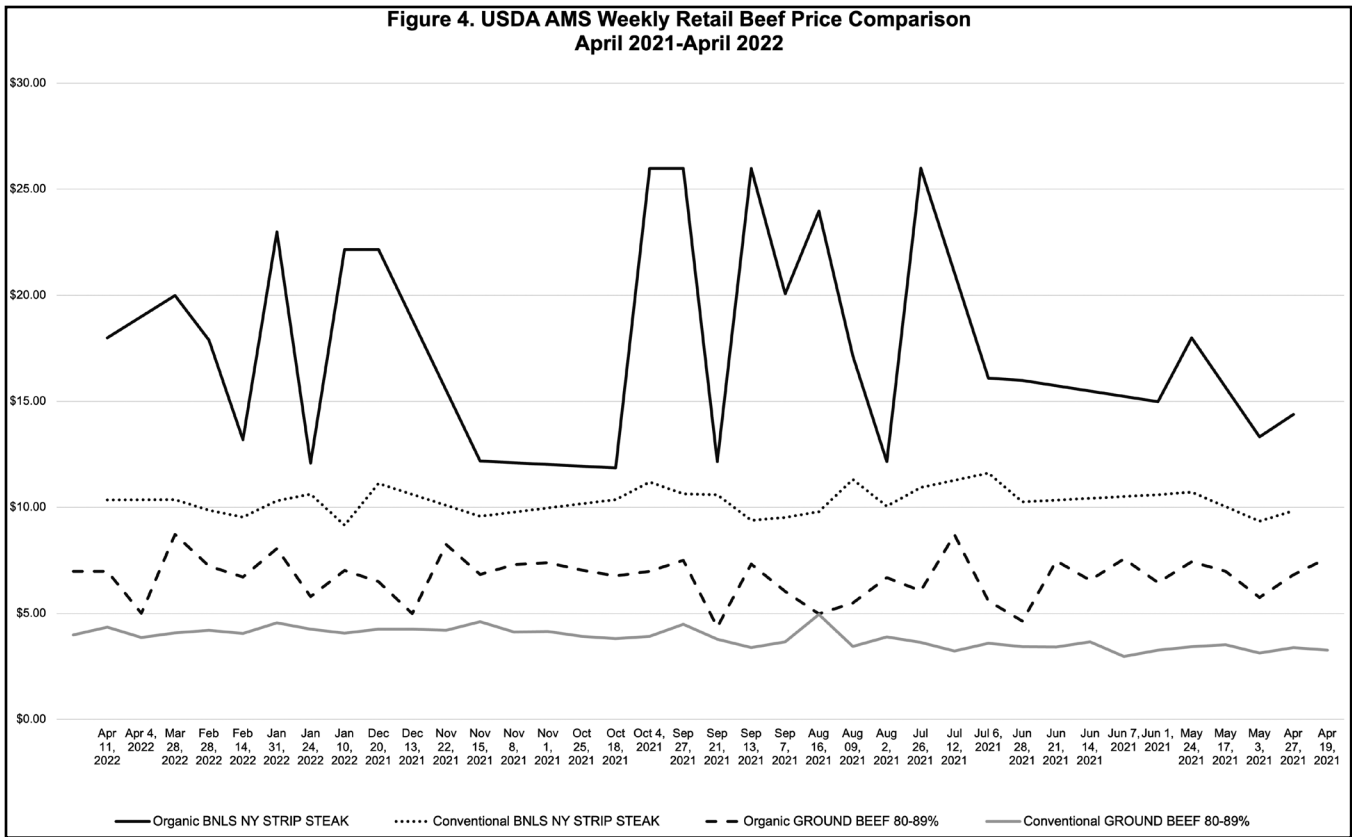


Figure 4. USDA AMS Weekly Retail Beef Price Comparison. April 2021-April 2022²¹

Analyzing the New Mexico organic cattle industry is challenging because some metrics are withheld to avoid disclosing data for individual operations, and three years of censuses (2016, 2019, 2021) have no data for beef cows since there have not been any Organic Beef Cow operations in the state since 2015. Data for Organic Cattle (Excluding Cows) in New Mexico is available for recent surveys and censuses, however, there are just two dairy operations that have slaughter eligible animals that supply organic beef.¹⁶

The number of Organic Cattle (excluding Cows) operations has increased since 2008 on a national level, but the number of operations in New Mexico dropped two-thirds during that time. Those remaining operations have remained steady at 5 since 2016 (Figure 1). A list of all organic operations in the country certified by the USDA NOP is available on the Agricultural Marketing System’s (AMS) website under the Organic Integrity Database. This list is updated annually in January.

A definitive cause for the decline in the number of organic beef cattle operations in New Mexico is unclear, but increased inventory (Figure 2) and sales (Figure 3) in the state and on the national level of Organic Cattle (excl. cows) suggest that specialty markets are strong and growing. The growth of sales and inventory in New Mexico

indicates that the existing operations have established a consumer base and supply chain partnerships that allow for expansion of their enterprises. This core of organic producers have displayed that the development of a stronger and larger organic cattle industry is possible using the strategies that have allowed continuance of their businesses. Increased demand, innovation, and proper management may allow others to join and strengthen this industry cluster.

Strong consumer demand and willingness to pay organic price premiums in the U.S. retail sector have driven the expansion of the organic market and those sales have grown at a faster rate than the overall food market.² Organic products often command a price premium and almost 60% of consumers say that products with a USDA Organic label warrant higher prices.⁹ For many years, the USDA’s Agricultural Marketing Service (AMS) had been publishing retail price comparisons for organic and conventional beef, as well as other agricultural products, but they have discontinued this service as of April 2022. Notably, there is also no data about organic beef or cattle in the Organic Trade Association’s 2011-2016 or 2016-2020 U.S. Organic Trade Data and Trends reports.⁸ Some of the most recent comparisons available for two beef products that have consistently reported prices are provided (Figure 4). From the data, it is

noticeable that prices of organic beef are regularly higher than their conventional counterparts, and that they are much more variable especially for high price cuts.

In April of 2022, organic ground beef was around \$6.99/lb. compared to \$3.99/lb. for conventionally grown ground beef (75% premium), and organic boneless NY Strip steak was \$32.98/lb. compared to \$15.08/lb. for regular retail beef (119% premium). Retail price differences between organic and conventional beef are easy to compare when the data is available, but the difference in prices received is harder to determine for producers.

Growing demand for beef differentiated by production attributes has prompted many smaller-scale beef enterprises to consider direct marketing of their beef products to consumers as an approach to sustaining their operations.¹⁵ The opportunities to sell organic beef to large supermarket chains, and not just small specialty markets, have also grown since USDA organic labeling began. Organic cattle operations can capitalize on the value-added opportunities of USDA NOP certification and increase their operation's income, but the premiums received are not easily discernible. Reports of organic cattle sale prices and aggregate data are not readily available, especially because organic beef production is a program and not a spot market business and it lacks many of the exchange structures that conventional beef producers use. Organic producers "develop long-term supply relationships predominantly using forward contracts to help assure a 12-month supply to meet a 12-month demand".¹⁴ Organic producers can potentially boost revenue and reduce risks by participating in well-structured supply chains. However, the process of converting to organic, along with production protocols, cost structures, and pricing practices, varies significantly across different regions. This variability highlights a knowledge gap in understanding the specific characteristics and economic dynamics of organic beef ranches nationwide. Addressing this gap can help producers make informed decisions and optimize their strategies within the diverse landscape of organic beef production.¹³

The challenges of transitioning a beef cattle operation could seem daunting, and the lack of cost and productivity measures for conventional producers transitioning to organic production is an area that needs more research. Transitioning farms can have a steep learning curve. They don't receive price premiums for organic products immediately but have cost structures similar to certified organic operations during the conversion.⁵ Combined conventional and organic operations are possible and could be a way for producers to adopt organic practices without committing to a full transition. Smaller producers may have the best chance of success with a transition due to their operations being nimbler with production and management adaptations.

Gillespie and Nehring⁵ use a matching samples method to compare the costs and performance measurements of organic, transitioning, and conventional beef cattle operations. Their research describes the costs and benefits of similar sized and structured farms that utilize different production methods and gives examples of the premiums needed to cover the costs of organic production transitions. The significant differences identified in the study were for vet services and medicine, capital recovery costs, taxes and insurance, and overhead. Comparisons in the study are useful for producers and a template to consider for their own operations. The organic beef industry has expanded and matured since their paper was published in 2012, and the differences in costs and returns would have to be recalculated given current market conditions and individual producer attributes.

Producers in New Mexico can use a similar matching method to compare economic differences for transitioning and certified production scenarios. Cattle production figures in New Mexico from 2019, the last year that NMSU beef cattle enterprise budgets were published, can be used to estimate differences in costs and revenues that an organic operation would have. The average beef cow herd size nationwide is about 44 head¹⁸ and organic operations tend to be smaller scale than those for conventional beef. A small cow-calf operation budget would be most useful for estimating costs and returns when some substitutions are utilized for organic production attributes. The feed costs in these Cost and Return Estimates (CARE) include hay, protein supplements, salt and minerals, and pasture costs for both public and private grazing. These inputs can be adjusted based on the price of organic substitutes to have a clearer cost of organic production.

Organic beef consumption is projected to continue growing in the U.S. and abroad. Producers in New Mexico who can satisfy the USDA NOP certification criteria and manage their cattle operations can benefit from this profitable market and have the opportunity to diversify their businesses. This snapshot of producer costs and incomes is not completely reliable as a benchmark for producers and data needs to be collected to create an accurate picture of cash flows for individual operations in this developing market. Producers that think this transition could fit their goals should make a plan that outlines the requirements for certification, identify the options that are available in their area with the available resources, and determine the costs and benefits unique to their operation. There is no standard way to complete a conversion to organic production, but many resources are available for those producers interested in the opportunity.

CONCLUSION

The overall beef market is growing more complex due to “extensive branding efforts and development of niche markets, and demand for production of beef representing grass-fed, non-hormone, non-antibiotic, and organic beef markets is growing steadily.”²⁴ New Mexico ranchers aiming to meet growing consumer demand for organic beef have promising opportunities to build a strong market presence by carefully evaluating marketing and sales options. Successfully entering the organic beef sector requires a well-defined marketing strategy that targets premium markets, including direct-to-consumer sales, partnerships with organic grocery stores, and placements in niche markets that emphasize sustainability and health. Ranchers should closely analyze market trends, potential price premiums for organic certification, and evolving consumer preferences to create a competitive sales approach. A clear, tailored plan that aligns production methods with consumer expectations and maximizes market channels will be essential for tapping into the steady demand for organic products. By balancing production costs with market-driven pricing, New Mexico producers can position themselves for profitability and long-term success in this expanding sector.

To obtain more information on market opportunities or pricing strategies for beef cattle in New Mexico you can reach out to a NMSU extension specialist, or contact the New Mexico Department of Agriculture, the New Mexico Livestock Board, the New Mexico Cattle Growers Association, or the New Mexico Beef Council.

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