

Organization for Competitive Markets Briefing Paper

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GIPSA and Value-Based Marketing

The July 1, 2010 issue of Beef Magazine contained an article titled “GIPSA Signals End to Value-Based Marketing” by Contributing Editor Troy Marshall. He asserted that the proposed GIPSA Rules “(are) a complete rejection of value-based marketing and differentiation and legislates us back to a commodity marketplace where everyone must receive the same price.”

Mr. Marshall could not have been more incorrect.

The proposed rules state just the opposite of what Beef Magazine asserts. And the USDA explanation makes this clear. In the USDA’s words, *“If a packer ... believes it can justify disparate treatment of ... livestock producers, it must have a legitimate business reason for that differential treatment. ... Justification need not be extensive but should be enough to identify the benefit cost basis of any pricing differentials received or paid, and may include increased or lower trucking costs; market price of meat; volume; labor, energy, or maintenance costs, etc.”*¹

GIPSA further illuminates support of value-based marketing, *“For example, a packer’s participation in a branded program for a particular type of beef that returns a premium to the packer could be used to justify a higher price paid to producers that sell the type of cattle that meets the specifications of the branded program. In general, the data needed to justify a different treatment would identify those pecuniary costs and benefits associated with the treatment that demonstrate its decreased costs or increased revenues from a standard business practice.”*²

GIPSA’s explanation of the proposed rule states, *“One of the common complaints that GIPSA has received regarding undue and unreasonable preferences or advantages is that packers, swine contractors and live poultry dealers offer considerably better contract terms to select sellers/growers, which impedes other sellers/growers’ ability to compete.”*³

The plain language of the proposed rules reveals that GIPSA signals a beginning, not an end to value-based marketing. Proposed rules intend to bring an end to sweetheart deals the chosen few suppliers have had with the packers.

¹ Federal Register, Vol. 75, No. 119, June 22, 2010, p. 35344 (left column).

² Ibid.

³ Ibid.