

BeefTalk 478: Collaborative Thought Is Better Than Competitive Strategy

Answers to survival in the beef industry will take collaborative thought, not competitive strategy.

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Steer No. 2 was sold for \$84.76 per hundredweight of live weight minus shrink (Oct. 23 six-state average price published by CattleFax). The steer weighed 1,375 pounds. Minus the 4 percent shrink, the steer's pay weight was 1,320 pounds, or \$1,118.83.

Is this a fair price to whoever owns No. 2? The start of this discussion on calf value rests with the fairness. However, the question is complicated and fairness is only one piece of a very large equation.

Regardless, the owner of the steer got a check. To determine if the value is fair, the carcass has to be fabricated, the cuts labeled and appropriate value determined for each part and then added up for the value of the whole.

The value of these cuts can be determined by visiting http://www.ams.usda.gov/mnreports/lm_xb459.txt. This site is the national weekly boxed beef cutout and boxed beef cuts negotiated sales report from the U.S. Department of Agriculture's Agricultural Marketing Service. Other related Web sites can be accessed as well for other market values of the beef products, such as trim, and byproduct drop value.

No. 2 had 420 pounds of forequarter, which was fabricated into 14 products. The most valued cut was 25 pounds of ribeye roll at \$126.78. The 46 pounds of boneless chuck roll brought \$84.37.

There was \$105.47 worth of fresh 50/50 and 90/10 processed trim. The total value of the two forequarters was \$464.87.

No. 2 had 17 retail products from 372 pounds of hindquarter. They were defatted tenderloin, boneless short-cut strip loin, top sirloin butt, bottom sirloin butt/flap, bottom sirloin butt/ ball tip, bottom sirloin butt/tri-tip, knuckle, top inside round, eye of round, bottom round flat, heel of round, flank steak, kidney, 50/50/ trim, 90/10 trim, fat and bone.

The most valued cut was 23 pounds of strip loin at \$94.81. This was followed by 13.3 pounds of defatted tenderloin at \$93.51 and 39 pounds of top inside round at \$65.15. The total value of the two hindquarters was \$533.03.

Now with one bold move, we can add up the value of the 31 retail products fabricated from steer No. 2. The value of the two front quarters was \$464.87 and the two hindquarters brought \$533.03. This gives us a grand total of \$997.90. That number should make beef producers ponder because somebody paid \$1,118.83 for No. 2.

The obvious is not the obvious. For the entity that purchased the steer, the main fabricated cuts do not add up to the purchased value. Consumer willingness to purchase red meat comes up \$120.93 short.

There are other parts of the beef that may seem small but are pretty important. These parts are what are referred to as the drop credit or the total value per hundredweight of byproducts produced from a beef carcass.

The drop credit as of last week was \$8.33 per hundredweight of live steer. That means No. 2 had an additional value of 13.2 hundredweight of live weight, generating an additional \$109.96.

As Eric Berg, North Dakota State University meat scientist, points out, "What most producers don't realize is packing plants rarely make money on the meat. Sure, they have to have that, but the profit margin is often driven by the 'drop credit' or value of products that typically are not utilized domestically but have value in the international market. There is an old saying in the meat industry that 'money is made in the basement of the packing plant.'"

Keep in mind that harvest and fabrication costs need to be added to the equation. The bottom line is that the beef business is tight for all concerned.

Understanding our product is critical to better knowledge of how value is obtained in the industry. The truth is that values of the pieces do not add up. Answers to survival in the beef industry will take collaborative thought, not competitive strategy.

May you find all your ear tags.

Your comments are always welcome at <http://www.BeefTalk.com>.

For more information, contact the NDBCIA Office, 1041 State Ave., Dickinson, ND 58601, or go to <http://www.CHAPS2000.com> on the Internet.