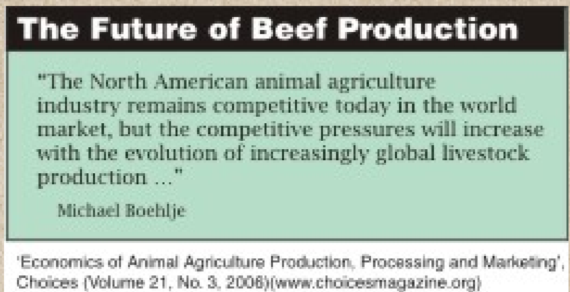
BeefTalk 537: The Future of Beef II - Economics of Production, Processing and Marketing



The future of beef rests in producer creativity.

We must be careful that we do not focus so much on the big in the beef industry that we limit the creativity of the majority because the future of beef rests in producer creativity.

A lot is happening at all levels of the industry.

As those involved gather and discuss the future of beef, it was not that long ago the American Agricultural Economics Association published a discussion in its Choices journal (http://www.choicesmagazine.org/2006-3/2006-3.pdf). The article focused on the future of animal agriculture. Four years later, the topic still remains.

The article titled "Economics of Animal Agriculture Production, Processing and Marketing" (Volume 21, No. 3, 2006), authored by Michael Boehlje, focused on issues we in the beef industry need to understand. Perhaps that understanding is the source of the continued discussion.

The bottom line is that things are getting bigger and more complex, and the associated advantages of operational scale may out-mass the competition. Unfortunately, in the four years since the article was written, the same trends are evident.

Guiding regulatory reform and meeting consumer desires, while assuring open markets and product diversity, were all noted by Boehlje. Current discussions are centered on those four topics, but there is little industry consensus. Consensus or not, economic principles will drive the industry. While consensus is sought, feuding sides lose precious time, ultimately giving way to those who market products that are competitive locally, regionally, nationally and even internationally.

Value-added and process-verified products are evaluated and will sustain themselves through the same economic principles commodity production does. Competitive products within competitive markets will bring new and innovative beef production. Those processes that encumber or add cost reduce competitiveness, while those processes that open borders and markets increase producer opportunities.

Our beef industry is changing. The production of beef cattle is just one part of a very large food industry. As Boehlje

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noted in the article, the industry "continues to undergo major structural change due to rapid evolution in producer characteristics, worldwide production and consumption patterns, technology, size of operation and geographic location."

These changes are not unique and beef cattle producers are not immune. A sampling of National Agricultural Statistics Service Cattle on Feed reports indicates there were 104,072 feedlots in 1999. That dropped to 82,170 feedlots in 2009. Of these feedlots, 2,072 had a capacity for 1,000 or more cattle in 1999. In 2009, there were 2,170 feedlots with that capacity. In 1999, 152 feedlots had a capacity greater than 16,000 head. By 2009, the number had grown to 260 feedlots with similar capacity.

So things change. The lots with a capacity of 16,000 or more cattle marketed almost 60 percent of the available calves in 2009. However, in 1999, similar larger lots were feeding a little more than 58 percent of the available calves. What that means is that sometimes things don't change as much as we think.

There is room for those who know the business. Boehlje noted the "four-firm concentration ratio" for cattle. He defined that as the percentage of the total commercial cattle slaughtered by the four largest firms in an industry. In 1980, the ratio was 28.4. In 2004, the ratio had risen to 70.9. (USDA Packers and Stockyards Statistical Report GIPSA SR-06-01, February 2006). The ratio was at 68.9 in 2006 (GIPSA-SR-08-1).

Because one can relate this ratio to competitiveness, the obvious pondering point would be that there is less competition in the beef industry by those who are purchasing market cattle. However, the same report noted there were 637 federally inspected plants that processed 33.1 million head that are in business.

Opportunity always is present. The same trends are evident in cattle harvesting and feeding. One probably should not be surprised that smaller or midsized operations in all phases of the beef business struggle for competitiveness. However, we must remember that there are more chapters to the beef business than size alone. Efficient networks, more and greater cooperation and significant, meaningful interdependence are the keys.

As a closing thought, we must be careful that we do not focus so much on the big that we limit the creativity of the majority.

May you find all your ear tags.

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