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Jack Maddux
Maddux Cattle Company, Wauneta, Nebraska

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THE FUTURE OF THE BEEF INDUSTRY
HOW CAN WE STAY COMPETITIVE?

Jack Maddux
Maddux Cattle Company
Wauneta, Nebraska

The assigned title of this talk -- "The future of the Beef Industry -- How can we stay competitive?" might imply to you that I have some great insight into the future. Anyone who tells you he can foretell the future is blowing smoke. It was Peter Drucker that nailed it when he said, "Forecasting future trends is a futile exercise. The best we can do is extrapolate trends that are already in place into the future." That is the tact I will take.

I've had the unique opportunity to have served on both the Industry Concentration and Integration and Long Range Planning Task Forces. The experience of being present as the best and brightest of all industry segments present their ideas about the problems and opportunities we face, changed my views considerably. Obviously, this effort was not without controversy which continues today.

First, let's do some hand wringing, look at some of the formidable problems and make some judgments about how they effect the future of the cattle business. As we discuss these issues some of you might say, "This guy is surely a pessimist." Not so. I'm optimistic about our future but a reality check is always in order.

We have had our share of challenges over the last one hundred years. Health problems; including the battles against Ticks, Scabies, IBR, Bangs, Scours and Hoof and Mouth seem to be as the good book says about the poor, "They will be with us always." The macro economic winds of inflation, deflation, debt crisis, the cattle cycle and price controls have bruised us on occasion. More recently, changing life styles, E. coli and diet-health issues have been in the forefront. Our real nemesis over the last century has been drought. Those dry spells of the 1890's, 1930's and 1970's devastated many cattle operations. The bottom line is that we have survived and flourished in spite of these adversities.

We now face, what I believe is by far our greatest challenge, LOSS OF MARKET SHARE. Look at the graph on the following page.

There are some who do not believe the projections out to the Year 2000. It is not necessary to believe them. Just look at what has happened in the 12 years since 1980. The Sheep People had a graph just like this one in the 1950's. The Lamb Feeders said -- "Don't worry, look how profitable we are." Today they barely have a measurable market niche.
Let’s list some of the causes of this dramatic decline in Beef’s share of the consumer meat dollar.

1. **MEGATRENDS** of low fat diets, diet-health concerns and the rise of vegetarianism and the animal rights movement.

2. **QUALITY AND CONSISTENCY** of beef products versus competing pork and poultry. Studies have shown 1 out of 4 or 5 beef eating experiences are less than satisfactory.

3. **BRANDING OF COMPETING PRODUCTS** is one of the benefits of vertical integration enjoyed by our competitors. There is a Tyson or Purdue man at every meat counter.

4. **PRICE DIFFERENTIAL** between beef and the other meats. Consumers readily pay 2.5 times more for beef. Wider spreads lead to substitution. The world class economists hired by the Concentration and Integration Task Force said "by far the largest reason for loss of beef market share was price differential to competing pork and poultry."

The obvious question is how to compete with these integrated giants. I’m aware that many of you have strong feelings about integration. Iowa folks ran the pork integrators to Missouri. Nebraska changed their constitution to prohibit certain types of corporate and
integrated operations. Regardless of opposition to this production approach, the fact remains that they are awesome competitors taking market share from beef.

There is a misconception that integration in the pork and poultry sectors is a result of a conspiracy by big operators to "take over the industry." The fact is that integration is the final economic result of bloody battles to become the low cost producers. Many of the original players in poultry did not survive and exited the business, including some of the giants like Purina. After all of the technologies are adopted and all of the inefficiencies are wrung out, the next competitive step for the survivors is branding of their product to gain advantage at the consumer level. Frank Purdue and Don Tyson are survivors of this war to be both low cost producers and highly successful marketers. The jury is still out on who will be the survivors in the pork sector.

It is important to understand just how we in the beef business stack up in this race for market share. Let me contrast the way we do business with a hypothetical Purdue Salesman in a Win-Dixie store in the southeast. This guy is a top notch marketer with insight into the needs of his retail customers and sees the demand for chicken breasts an inch wider and a one half inch shorter than those he is presenting to his consumers. Theoretically, he can pick up the telephone, talk to the company geneticist, change the specifications and have this consumer desired improvement on the counter in less than six months. Imagine, if you can, how beef might handle this challenge. First of all, we don’t have salesmen at the consumer level, but if we did he would need an 800 number and be relatively young. He could start by contacting 250 showring judges, 69 breed associations and 10,000 seed stock producers. After a few years of conferences and industry wide meetings, he could start calling the 850,000 cow men. The poor guy expires from old age just as the product reaches the counter.

We can never compete on that basis even if we wanted to. The Beef Business can not be integrated because it is so capital intensive. It takes about 7,000,000 dollars to integrate 1,000 head of feed yard capacity. Extending that out to one packing plant brings the investment to about 3.5 billion dollars and on and on. The beauty is, we don’t have to. Beef has the high ground in taste, prestige and consumer preference. Have you ever tried one of those skinless chicken breasts? Most are so dry that it takes 4 or 5 glasses of chardonay to wash it down. Even so, this does not solve the dilemma of a 1% market share loss in each of the last 12 or 15 years.

Here are two critical areas in which cow-calf producers can make a difference in beef’s competitive position:

1. **VIGOROUSLY ATTACK OUR QUALITY AND CONSISTENCY PROBLEMS.** Recent studies have shown that after an initial reduction in injection site lesions, the trend is now up, particularly in the top butt area. There is no room for this sloppy management practice in any sector. We have the technology to treat tough carcasses to gain acceptable product; what we lack is a chain speed method of identifying them. An all out effort to perfect a quick test should be a highest priority for the Check-Off Board. The war on fat must be fought on two fronts, both in genetic and management areas. Can you imagine spending advertising dollars on a product that is inconsistent 25 percent of the time? A value-based marketing system that identifies and measures each carcass is critical to progress here.
2. **INCREASE PRODUCTION EFFICIENCIES TO NARROW THE PRICE SPREAD.**

If we are to stop this hemorrhage of market share, we must continue to bring our production costs down. The great variation in cost per pound of calf weaned across the industry is an indication of opportunity to do this. Costs per calf that vary 200 or 300 dollars between operators mean that there is a great deal of slack in the system. The fact that each of you made the effort to come here to Gering in search of more economic ways to produce beef is encouraging. We must continue to press all of the resources available to reduce production costs.

If progress can be made in solving these major problems, other areas can be brought along. It is only a matter of time before entrepreneurs will find ways of adding value, branding and developing new beef products.

One last but perhaps most important way that you cattlemen can help beef be more competitive is to keep an open mind about change. If we are going to survive, the industry must make major changes in our attitudes and way of doing business. Here are some hot buttons that release torrents of rhetoric and cries of doom -- "contractual arrangements," "captive supplies," "packer concentration," "strategic alliances," "specifications buying," "carcass trace back," "formula pricing," "value-based marketing." Mentioning any one of these items in the right place can get you heaps of scorn. If we are to compete we must build a system that reflects consumer desires back to producers quickly and effectively, rather than buying into conspiracy theories of collusion throughout the system. Let’s start building some alliances and trust that can make us truly competitive.