

Survival of the Fittest

A report from Colorado State University's National Conference on Beef Production Efficiency.

by Jerilyn Johnson

In the long run, low cost producers will survive and higher cost producers will exit the business.

This excerpt from "Beef in a Competitive World," the final report of the National Cattlemen's Association (NCA) Concentration Integration Task Force, is one of the most challenging statements made to the beef industry in recent times.

Colorado State University (CSU) animal scientists decided to meet this challenge head on. They created a forum for producers, animal scientists, packers and retailers to thoroughly discuss the subject of efficient beef production.

A national conference held Oct. 5-6 at the University Park Holiday Inn in Ft. Collins was the result. It featured a power-packed lineup of beef industry experts and producers who covered subjects such as Integrated Resource Management (IRM), how to reduce fat production costs, and lowering beef production costs.

Following are highlights of conference speaker's presentations:

Gary Smith, CSU Monfort Professor *Optimum Levels of Fat for Beef.*

"Little did I know in 1948, when my 4-H barrow was sifted at the Tri-County Fair because he wasn't quite fat enough (despite carrying at least two inches of back-fat), that questions of relationships of fatness to animal, carcass and cut, palatability and cutability, would come to so dominate my adult professional life.

"From 1965 to 1982 or so, fat went from cute to plain to downright ugly. Such rapid decline in the glamour of fat was occasioned by medical and scientific evidence, and accompanying claims by medical and health professionals, relating consumption of excess fat to human obesity, breast and colon cancer and coronary heart disease. By 1984 the handwriting was on the wall; nobody loved fat.

"In rapid succession, release of results of the 1986 National Consumer Retail Beef Study, initiation of closer-trim quarter-inch retail programs by Kroger and Safeway, brought the U.S. average external fat thickness to 0.11 inch in the 1988 National Beef Retail Market Basket Study. During that two-year period, beef retailers reduced the average fat content of beef in the retail case by 27 percent for steaks; and 10 percent for ground beef.

"But there we got stuck — mired in

the mud. All that had changed had been effected in the backrooms of grocery stores, meat markets and food-service establishments; nothing had happened to reduce fat in the beef production system.

"My crystal ball tells me the amount of external/seam fat on beef that will be acceptable to retail and food service customers by the year 2000 will be near-zero."

Frank Lusk, Safeway Inc.

How Much Fat for Consumer/Retailers?

"Many ask what a retailer has to do with lowering beef production costs. The answer lies in defining the production/marketing chain. If the beef industry is truly consumer driven, retailers certainly play a key role. We are the last contact between the industry and the end-consumer.

"To get these industry standard cuts down to the quarter-inch trim level, Safeway Inc. has to remove between 12 and 15 million pounds of fat in the backrooms of our stores each year. At industry wages of \$15 to \$20 per hour, the cost to remove fat is extremely high. Hauling excess fat away also translates to about \$80 million of excess trucking costs yearly.

"The cost of correcting the excess fat problem is not only expensive, but takes valuable time away from better merchandising of retail cuts at our meat counters.

"YES, we're willing to pay for value received. Based on current markets and yields, beef cuts with quarter-inch trim are worth from six to 60 cents per pound more."

Rod Bowling, Monfort

How Much Fat for Packers/Retailers?

"Much has been said and written about value-based marketing of cattle. A more appropriate stratagem would be to emphasize value-based production.

"If the end point was unsatisfactory because of inadequate marbling, there is nothing that value-based marketing could have done to add value to the end-product once the process had been initiated. The buyers of the seedstock, the weanling calf the stocker, the feeder and the fed cattle couldn't see the marbling; and so, in no way could a change in marketing have been used to pay more or less for the animal based on its value.

"Only when the packer ribs the carcass and exposes the marbling is the value of the product known. Value-based pro-

duction initiated at the seedstock level to assure deposition of the desired amount of marbling in the end-product would solve the problem.

"On the other hand, if the end-product was unsatisfactory because of excess external/seam fat, a value-based marketing system could recognize the problem at one or more of the production stages. A premium/discount strategy could help rectify the situation. For example, the feeder could shorten time on feed or the packer could hot-fat trim the carcass.

"If and when retailers signal, through price, their desire to receive closely trimmed beef cuts, rather than commodity, a domino effect will occur that will revolutionize beef production."

Bill Mies, Texas A&M University

How Much Fat for Feeders/Packers?

"The producer and feeder argue over what cattle will be. The packer and feeder argue over what cattle are. It's no easy scenario.

"There is a perception among cattle feeders that in the future, the packers will simply dictate the type of cattle they wish to kill. It will be up to the cattle feeders to hit that low-fat target.

"Nothing could be further from the truth. The market will get more complicated, not less complicated. The packing industry will undoubtedly set up a scale of discounts for both quality and yield grades with specified carcass weights.

"It will not always be in the best interest of feeders to exactly hit those targets. Cattle feeders will feed all of the cattle available in the United States. Not all cattle will readily find a home on the packer's specification list. It'll be up to feeders to sort and manage the end point of those cattle as close to the desired target as is economically feasible. Discounts may be a more acceptable alternative as opposed to using extra feed."

Steve Radakovich, Earlham, Iowa

Why Focus on Input Costs?

"We can't eat grass, so we eat beef. The opportunity to lower costs per unit of production are there. We are dealing with, even though we sometimes forget, a ruminant animal that doesn't need to compete with simple stomach animals, including ourselves, for its nutrient requirements.

"The ruminant has great feed flexibility.

ty, making least-cost rations very effective. It can eat grass, corn stalks, silage, even trash feedstuffs.

"It also appears that a cow's very high maintenance requirements, greater than 70 percent of all nutrient inputs, make this an area for significant cost savings. Cow maintenance costs can vary up to 30 percent among biological types. This should allow us to genetically design low-maintenance cattle.

"The old and current belief that a bull with higher milk EPDs is automatically more valuable than one with lower milk EPDs, will change when maintenance costs of those heavier milking daughters is considered."

Randy Blach, Cattle-Fax Potential Cost Reductions

"As the industry continues to change in the years ahead, it will be imperative that producers have a good handle on production costs. History tells us that it's rare that all beef industry segments are profitable during the same period of time.

"It's no secret that cow-calf producers are probably in the best position of any segment going into the next few years. But keep in mind, as cattle numbers expand and beef production increases, the premiums paid for calves and yearlings compared to fed cattle will likely narrow. As this occurs, high-cost producers will likely face unprofitable times once again and be forced out of business.

"According to a recent Cattle-Fax survey conducted on its members (approximately 600 large size cow-calf operations), the average annual cost per cow was \$291.07 during 1989; in 1987 that figure was \$255.84."

Greg Simonds, manager Deseret Land & Livestock, Utah Cost Reduction Practices

"A manager needs to have a basic perspective of the 'whole' to know how to implement cost reduction practices. To define this 'whole' I started with my basic philosophy of land stewardship and then attempted to formulate a goal for my operation. My formula is: maximum long-term net revenue equals product price x total production, minus cost, while enhancing long-term renewable resource health. The simplest measure of this goal is reducing costs while maintaining or increasing production.

"Our ideal goal is to produce hay cheap, but then don't feed it. No two winters are alike; however, we strive to use our non-hay feed alternatives (winter pastures, hay windrows left in pastures, controlled grazing) and reduce protein and mineral supplementation. You have to know your forage growth curve to accomplish this.

"Our cost per pound of weaned calf

produced has reduced from more than 90 cents per pound in 1981 to as low as 54 cents per pound in 1988. This has increased our durability in the very competitive cattle ranching business."

Norman Dalstead, CSU ag economist Identifying Cost Reduction Practices

"Producers need to recognize that any attempt to reduce costs certainly has some impacts. An understanding of those interrelationships and what kind of impact they have if we make changes in our operation is good management.

"The first step is to clearly understand the cost structure of your entire operation and on an enterprise basis—cow-calf, replacement heifer, bulls, field crops, hay, etc. Once we understand our operation clearly, financially and biologically, we can then make better informed decisions. First, you have to be willing to take on the challenge. Be proactive, not reactive.

"The best tools for least-cost production are: detailed financial records; financial statements; enterprise budgets; fence pliers, baling wire and duck tape."

Larry Corah, Kansas State University Nutritional Programs for Low Cost Production

"In states that have developed programs to monitor the costs of maintaining commercial cows, producers in the most profitable group have higher levels of productivity, but they do this at a lower cost. In work compiled in North Dakota, for example, herds in the most profitable 20 percent sold 76 more pounds of calf per cow, had 1.3 percent less death loss, and had 3.6 percent more calves weaned per 100 cows in the herd. Most notably, they accomplished this with an annual feed cost \$79 per cow lower than the average producer.

"The keys to reducing annual cow feed costs are: 1. keep records of production and feed costs; 2. formulate rations based on nutrient needs; 3. utilize alternative cheaper feed sources, such as crop residues; 4. forage test all hay; 5. price ingredients per unit of nutrient needed; 6. do your own supplement formulating; 7. don't cut corners on your health program; 8. consider all options in selling cull cows; 9. stay away from nutritional gimmick; 10. don't cut corners on replacement heifer development."

Garth Boyd, CSU Extension cow-calf specialist Optimal Use of Bull Power

"Reproduction has long been recognized as the most important factor affecting profitability of cow-calf operations. Bull fertility has improved in recent years due to breeders applying selection pressure to reproductive parameters, such as scrotal circumference and semen quality.

"However, for the most part, bull-to-female ratios in the range of 1:15 to 1:30 are still recommended and used. Increasing the efficiency of natural mating offers enormous potential for lowering production costs. A 1:50 ratio could be used if mature bulls are in good condition and checked for reproductive soundness.

"Often, producers run extra bulls and liken these bulls to an insurance policy. Most producers, however, fail to determine the cost of this insurance."

Ken Odde, CSU IRM program Integrating Resources & Disciplines

"We now have seven years of experience with Integrated Resource Management in Colorado. What have we learned? First, every ranch is unique. There is certainly no simple recipe that you can use to ensure high profit on all ranches. Developing a set of production goals without paying close attention to the cost of attaining those goals isn't likely to result in profit maximization.

"Ultimately, the benefit of IRM will be one of education. A strong program in a state will result in a more knowledgeable core of people at the university who are more closely linked with producers.

"It will result in more knowledgeable Extension agents, veterinarians, ag lenders and others who benefit from an opportunity to work in a team approach to problem solving.

"Finally, it will help create more knowledgeable decision-makers at the producer level."

Bruce Bainbridge, CSU Extension marketing specialist

Marketing for Low Input Operations

"Marketing is the application of skills that changes time, form, location or ownership of a commodity. Successful marketing is the careful consideration and implementation of selected alternatives.

"While low-input costs are encouraged in IRM, low-input management and marketing strategies is counterproductive and not recommended.

"Selling cattle to the first order buyer who comes around, or loading up cattle and hauling them to the sale barn is not marketing. That is liquidation. That is not to say that working with management at the local sale barn or a bonded commission agent should not be part of your marketing program.

"Some producers should consider alternatives, such as satellite and computer selling, cooperative marketing, or even lean or organic beef niche marketing. Producers should also consider retained ownership of cattle."

