

Beef Talk **The value of beef**

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A discussion was initiated as to where one should look to find out why the value that the producer receives for beef seems to be questioned. It goes without much discussion that this topic is complicated and difficult.

Recently, the data on a steer that was

utilized in a previous demonstration was reviewed to help find an answer to the question. The 1,375-pound (lb.) steer (steer No. 2) was priced at \$84.76 per hundredweight (cwt.) of live weight minus 4% shrink (Oct. 23 six-state average price published by Cattle-Fax). This set the live

value at \$1,118.83.

After adding up the 31 retail products fabricated from steer No. 2, the total came to \$997.90. The value of the retail cuts came up \$120.93 short, but was supplemented by \$109.96 worth of drop credit, so, in reality, the carcass value was \$10.97 below the purchased price.

So what happened? As Rob Maddock, North Dakota State University (NDSU) associate professor and meat scientist, points out, "Part of the answer is the dressing percentage was poor. Even accounting for cooler shrink of 2% to 4% of hot carcass weight, the animal appeared to dress around 61%."

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When buying cattle live, dressing percentage is a huge factor in determining profitability. Maddock did the math.

"A 1,320-pound steer in average condition and with minimal mud should dress at around 63.5% for an 838-pound hot carcass," he said. "The carcass will lose weight in the cooler. The average weight loss in a large plant is around 2% to 4%, which gives us a cold carcass weight of 805 pounds."

In this case, the total retail product was 792 lb., which is 13 lb. less than the hanging rail weight.

"If the steer was above average and dressed closer to 65%, then the processor made money buying the steer live," Maddock concluded.

Following up on that point, the same steer could have been sold in the meat rather than live. That same week, this carcass on the rail would have brought \$135 per cwt., or \$1,086.75, for the hanging 805-lb. carcass. Now, instead of being \$10.97 short, the value of the retail cuts would be \$21.11 greater than the purchase price. The \$21.11 would be available to help offset the harvest and fabrication costs. This figure is more commonly called gross margin, or the difference between the value of the product (revenue) and the cost of the steer.

One question often asked is what the current harvest and fabrication costs are for beef processors. After considerable searching, the answer was revealed at www.ams.usda.gov/mnreports/nw_ls410.txt. When one says considerable searching, there is little wonder why a producer may become frustrated trying to account for the beef he or she sells. A simple search on the Internet will yield mind-boggling results.

For example, a search of "beef pricing" yielded more than 2.63 million

hits. There is no need to feel frustrated, because most everyone else is. Data overload, a delete key and we are back to just feeding the cows. However, the above site did hit pay dirt, and, as of Monday, Nov. 9, the average processing cost per cwt. of carcass was \$12.

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So, for steer No. 2, the fabrication cost would be estimated at \$96.60. The per-head harvest costs are estimated at \$50.50, for a total harvest and processing cost of \$147.10. The gross margin for steer No. 2 was pretty dismal at \$21.11 and is not close to covering the additional cost above the value of the live steer in producing beef.

The point is, one steer does not indicate the state of the industry, because the industry self-corrects on a daily bases. In other words, in order to stay in business, any logical businessperson will decrease the price paid for beef until the gross margin will cover the costs of harvesting and processing. Of course, when demand goes up and the price starts to move upward, optimism returns to all phases of the business. Both options exist in a free marketplace.

Right now, the best bet is to follow the numbers. The bottom line remains; the beef business is tight for all concerned.



Editor's Note: Addressing the past, present and future state of the beef cattle business, "Beef Talk" is a weekly column distributed by the North Dakota State University (NDSU) Agricultural Communication office. Ringwall is executive secretary of the NDBCIA, director of the Dickinson Research Extension Center and an NDSU Extension beef specialist. An archive of columns can be found at www.beefstalk.com, and your comments are always welcome.

